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A Mirage or An Oasis? Avoided R&D Costs Under The DTSA

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The U.S. Supreme Court recently denied a trade secret owner's petition for certiorari in *Trizetto Group, Inc. v. Syntel Sterling Best Shores Mauritius Limited.*[1] This leaves unresolved a question of when a wrongdoer's avoided R&D costs may be recovered as damages under the Defend Trade Secrets Act ("DTSA").

Damages theories based on a defendant's saved or avoided R&D costs have led to significant awards over the past few years. Under this theory, a trade secret owner asserts that a wrongdoer has been unjustly enriched by its use of protected information while also avoiding the cost of developing that same information. This is a different calculus than seeking to disgorge the wrongdoer's profits, and may in fact dwarf the revenue or profits a wrongdoer ever realizes. Given that the economic outlay in developing a first-in-time proprietary process or platform may be substantial, especially in the life sciences and technology industries, the avoided R&D costs, or even a portion thereof, may be considerable.

In *Trizetto*, the jury awarded $285 million in damages based on Syntel's avoided R&D costs. However, Trizetto's actual lost profits had been $8.5 million, and Syntel had realized "unjust profits" of about $825,000 on revenue of $27 million. The district court permanently enjoined Syntel's use of Trizetto's trade secrets.

The Second Circuit vacated the damages award based on avoided R&D costs, and remanded for further consideration of a royalty award (i.e., 50% of the asserted avoided R&D costs) under New York law. Its decision was admittedly limited to the facts of the case and did not purport to close the door on recovering avoided R&D costs in at least some circumstances. More specifically, the Second Circuit identified the disparity between the avoided R&D costs award and actual loss suffered by Trizetto, the

entry of the permanent injunction against Syntel, and the continued viability of the trade secret information as grounds for vacating the damages award. It further explained that avoided R&D costs may be available in certain "factual scenarios"[2]:

> **To be sure, future cases may present a range of factual scenarios concerning a defendant who has realized only modest profits from its misappropriation of trade secrets but has, nevertheless, been enriched by avoided costs in a larger amount at the expense of the secret holder. This might depend on, for example, the extent to which the defendant has used the secret in developing its own competing product, the extent to which the defendant's misappropriation has destroyed the secret's value for its original owner, or the extent to which the defendant can be stopped from profiting further from its misappropriation into the future. But in this case, perhaps unusually, none of those circumstances supports awarding TriZetto $285 million of the costs it spent in developing the misappropriated secrets. TriZetto's valuable trade secrets are still that—valuable and secret.**

However, the Second Circuit also disagreed with the reasoning of other circuit court decisions to the extent they "endorse a view that avoided costs are available as compensatory damages under the DTSA whenever there is misappropriation of any trade secret relating to an owner's product." It referenced the Seventh Circuit's decision in *Epic Systems Corp. v. Tata Consultancy Services, Ltd*.[3] (applying Wisconsin state law and affirming $140 million award) and the Third Circuit's decision in *PPG Industries, Inc. v. Jiangsu Tie Mao Glass Co., Ltd*.[4] (applying New Jersey state law and affirming $8.8 million award). Notwithstanding a potential tension (and amicus interest from the AIPLA) amongst circuit courts, the Supreme Court has chosen - at least for now - not to take up this issue.

What are the takeaways after *Trizetto*? When, if at all, avoided R&D costs are recoverable under the DTSA is unresolved and may vary between the circuit courts. Litigants should take avoided R&D costs theories into account when preparing their offensive or defensive strategies. Where possible, trade secret owners should also present an alternative damages theory that does not rely solely on avoided R&D costs. Further, a trade secret owner should consider developing and presenting evidence of avoided R&D costs in an assessment of reasonable royalty damages. This approach may

be more palatable to courts concerned about avoiding runaway pie-in-the-sky damages verdicts or awarding an undue economic windfall. Yet, it would also allow a plaintiff to build a compelling theme to support the value of the stolen trade secrets.

In short, if you chase avoided R&D costs under the DTSA, make sure you don't end up eating the sand.

1. https://www.supremecourt.gov/search.aspx?filename=/docket/docketfiles/html/public/23-306.html
2. https://www.supremecourt.gov/DocketPDF/23/23-306/280206/20230922134144569_2023.09.22%20TriZetto%20Cert%20Petition%20Appendix.pdf
3. 980 F.3d 1117 (7th Cir. 2020)
4. 47 F.4th 156 (3d Cir. 2022)

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