No. 15-1193

In the

United States Court of Appeals for the Federal Circuit

SABATINO BIANCO, MD
Plaintiff-Appellee,

v.

GLOBUS MEDICAL, INC.,
Defendant-Appellant

Appeal from the United States District Court for the Eastern District of Texas Case No. 2:12-CV-00147-WCB

NON-CONFIDENTIAL OPENING BRIEF OF APPELLANT

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February 9, 2015

CERTIFICATE OF INTEREST

Pursuant to Federal Circuit Rules 27(a)(7) and 47.4(a), counsel for Appellant Globus Medical, Inc. certifies the following:

1. The full name of every party or amicus represented by us is:

   Globus Medical, Inc.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by us is:

   Globus Medical, Inc.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of any party represented by us are:

   None

4. The names of all law firms and the partners and associates that appeared for the parties now represented in trial court or are expected to appear in this Court are:

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Confidential information, which was introduced into evidence or filed under seal in the district court, has been omitted from pages 7, 8, 13-15, 17, 32, 44 and 45. The omitted information generally relates to the content of alleged trade secrets and trial proceedings that were conducted under seal.

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INTRODUCTION

The issue in this appeal is whether Texas trade secret law protects a general idea for a new product. The plaintiff, Sabatino Bianco, M.D., communicated the concept of an expandable intervertebral spacer implant to Globus Medical, Inc. in 2007. He did not disclose a workable device or provide any concrete details about how to make his idea a reality. It took Globus years of independent development, with no contribution from Bianco, to develop a functioning product.

A general idea for a new product is not a trade secret under Texas law. The district court upheld the jury verdict against Globus based on the mistaken view that a new product idea is protectable under Texas trade secret law. Because the only trade secret that Bianco contended was actually misappropriated was the general idea of an expandable implant, and any not concrete information on how to implement that concept, Globus cannot be liable for trade secret misappropriation. Globus is entitled to judgment as a matter of law.

Having erroneously upheld the verdict, the district court then erred by upholding the jury's award for past damages and granting an ongoing royalty. Bianco's damages model was fundamentally flawed. As Bianco's damages expert admitted, the model made no attempt to apportion the royalty base to reflect the value of Bianco's contribution. The model also ignored comparable licenses and relied instead on obviously non-comparable ones, with no rational basis for either

choice. Because the damages model was unreliable and should have been excluded, the judgment was excessive and should be vacated.

Before trial, the district court held that Bianco's evidence of future damages was unreliable, and therefore inadmissible. Having failed to present a reliable theory of future damages by trial, Bianco should have been denied relief for future damages. The district court nonetheless permitted Bianco (over Globus's objection) to seek future damages through an ongoing royalty in a post-verdict bench proceeding. The decision to sever improperly gave Bianco "a second bite at the apple" on future damages. Moreover, there is no authority under Texas law for awarding ongoing royalties for misappropriation of trade secrets. The district court erred by providing a remedy not permitted by Texas law.

STATEMENT OF RELATED CASES

Globus is not aware of any cases related to the present appeal.

JURISDICTIONAL STATEMENT

The district court had jurisdiction over this action for correction of inventorship under 28 U.S.C. § 1331 and 28 U.S.C. § 1338(a), and supplemental jurisdiction over Bianco's state law claims under 28 U.S.C. § 1367 and § 1338(b).

The district court entered judgment on July 17, 2014. That judgment was made appealable on October 27, 2014, when the court denied post-judgment motions. Globus filed its notice of appeal on November 20, 2014. This Court has jurisdiction under 28 U.S.C. § 1295(a)(1).

STATEMENT OF THE ISSUES

1. Texas law provides trade secret protection only to concrete information and not to general ideas or new product ideas. Bianco provided only a new product idea to Globus, not concrete information. Can Globus be held liable for trade secret misappropriation under Texas law?

2. If Globus can be held liable for trade secret misappropriation of a new product idea, is the jury's award of a reasonable royalty for past damages supported by sufficient evidence where it was based entirely on a flawed damages model that failed to apportion the royalty to the value of Bianco's contribution and relied on non-comparable licenses?

3. Did the district court err by awarding Bianco an ongoing royalty after he failed to present a reliable model for future damages at trial and no authority under Texas law supports the award of an ongoing royalty for misappropriation of trade secrets as a post-verdict form of equitable relief?

STATEMENT OF THE CASE

I. Background on the Parties

Globus Medical, Inc. is a leading musculoskeletal implant company primarily focused on advancing spinal surgery through technological advancements in orthopedic products. *See* http://www.globusmedical.com/. From its facilities in Pennsylvania, Globus researches, engineers, manufactures, and sells medical devices for patients with debilitating spinal conditions. *Id.* One of Globus's leading product lines includes spinal implants for use in spinal fusion surgery. A107.

"Spinal fusion surgery is used to treat conditions such as degenerative disc disease, in which the space between two vertebrae in the patient's spine become compressed." A107. To correct this condition, a surgeon may implant a device called an intervertebral spacer between the two vertebrae. *Id.*; A6506-07. The spacer replaces the degenerated disc tissue and maintains proper alignment and spacing of the vertebrae, allowing the spine to heal. A107. As the spine heals, the vertebrae on either side of the spacer fuse together, as reflected in the name, "spinal fusion surgery." A108; A6507.

Dr. Sabatino Bianco is a neurosurgeon in Arlington, Texas who regularly performs spinal fusion surgery. A6494-95; A6512-13. Bianco testified that, in March 2007, he was approached by two Globus sales representatives, Gregg Harris

and Steve Anthony, who invited Dr. Bianco to take a tour of Globus's facility and learn more about the company's exciting new products. A6517. Bianco accepted the invitation. *Id.*

Bianco testified that during his visit, he told Globus representatives that he had some ideas for new products that he wanted for them "to potentially consider." A6517-18. He received a very brief explanation that Globus had a protocol for doctors wanting to submit unsolicited new product ideas. A6521.

II. Bianco Provides Globus with an Unworkable Idea for a New Product

According to Bianco, he again mentioned to Gregg Harris that he had an idea for a new product after the trip to Globus's facility. A6522. Harris asked Bianco if his ideas were written down, and Bianco offered some drawings. A6522. Harris, and later Steve Anthony, suggested that Bianco have the drawings notarized, believing it to be a responsible practice. A6522-23; A6534; A10345.

Bianco met with Harris again in June 2007 to discuss Bianco's practice and ideas. A6522-24; A6532. Bianco gave his notarized sketches to Harris at the meeting. A6532. Harris told Bianco that he would pass along the drawings to Globus's new product committee. A6533; A6536. He also had Bianco fill out a "New Idea Submission Form" to attach to his sketches. A10307-13; A10345.

Harris said that he would let Bianco know if the committee decided to use the drawings. A6533; A6536. He also told Bianco that if Globus decided to use the

idea, Bianco would be compensated in an amount "standard for a doctor presenting an idea." A6702.

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Bianco's materials included a sketch entitled "Adjustable Interbody Spacer." A112; A6525; A10316. This drawing depicted a scissor jack element connected to a long shaft with a dial at end. A112. The scissor jack element resembled two crossed arms connected by a pivot, like the letter X. The arms supported two parallel plates, the distance between which could be increased or decreased by rotating the arms about the pivot. Bianco explained that his scissor jack element was expandable and contractible continuously. A6525-28; A7006; A3156-57.

A10316.

At the time Bianco provided Globus with his drawings, Globus sold a variety of spinal fusion spacers, but not an adjustable-height spacer. A111; A6520. Historically, intervertebral spacers for spinal fusion surgeries came in a variety of fixed sizes, and surgeons would select the size appropriate for their patient when performing a surgery. A108; A3156; A6523; A6527-28; A7007-08. Globus had other types of expandable spinal implants, but they were not indicated for spinal fusion surgery, which required a more robust design. A7238; A7249; A7280-81. Adjustable-height spacers were a logical improvement to the traditional product.

Although developing an adjustable-height spacer was a logical goal, Bianco's "relatively crude" idea and sketches did not accomplish it. A91; A115.

[redacted] The drawings reflected an unworkable device and none of the details, specifications, dimensions, or other information that might have made them useful to a design team. A9185-87; A9207-08. Bianco admitted that no one ever told him "that an instrument or implant, based on the drawings that [he] gave to Globus, would work." A6599.

Globus's engineering manager, Bill Rhoda, and its technical fabrication manager, Andy Lee, reviewed Bianco's drawings in August 2007 to determine whether they depicted anything worth pursuing. A36; A10323-28. They thought that the sketches depicted an expansion *instrument*, not an interbody *implant*. A36;

A6562-63; A6767-68; A10328-30. Rhoda and Lee and concluded that the sketches did not disclose any promising designs because a scissor jack could not be made strong enough to push vertebrae apart. A6768. Bianco's own expert agreed that Bianco's design was not strong or robust enough to function as an expansion instrument or a spacer implant. A7070.

Andy Lee posed the alternate idea of a ramp-based expansion instrument, and even built a prototype that was itself determined to be unworkable. A36; A115; A6767-68; A6772-73; A10323-37; A7033-34. Globus shelved the concept of an expansion instrument based on Bianco's drawings and put the sketches aside. A115; A6772-73.

III. After Setting Bianco's Drawings Aside, Globus Independently Develops Caliber, Caliber-L, and Rise

David Paul, Globus's chairman and CEO, testified that Globus began a project to develop expandable cages in 2004. A7238; A7249; A7280-81. The first product Globus developed along those lines was X-Pand®, an expandable corpectomy device commercialized in 2005 that was designed to replace two discs and the vertebral body between them. A36; A7249; A7255; A7280. The patent filed for X-Pand® in 2005 reflected both ramp and scissor-jack mechanisms of expansion for interbody cages. A7250-54.

Once sufficient resources became available, Globus began working on an expandable interbody cage. A7255. In October 2007, engineering manager Bill

Rhoda tasked engineer Ed Dwyer to come up with a few concepts for ways to expand an implant. A37; A7618. Rhoda did not give Dwyer any drawings or suggest any particular mechanisms or features. A7618-19. Dwyer had never seen or heard of Bianco's sketches. A7620-21. Dwyer developed his own sketches "that illustrated several different ways that an implant could be made expandable, including the use of ramps." A37; A7258-59.

The specific project that ultimately led to the development of the Caliber® and Rise® products began in early 2008. A7255. By early 2009, Chad Glerum had begun the Caliber® development project as its lead project engineer. A36; A116; A7071; A7620. Glerum was given the concepts developed during the X-Pand® project and the sketches that Ed Dwyer had developed for an expandable cage. A37; A7257-59. He was not given Bianco's drawings. A37; A7239; A7335-36.

The development of Rise® was independent from Caliber®. A7335. Mark Weiman, another Globus engineer, headed the Rise® project. A37; A7259; A7335. The Rise® product is an endoscopic implant, and is much smaller than the Caliber® products. It is inserted into a patient's body through a tube roughly the diameter of a straw. A6560; A7039; A7335; A7517. The only feature it has in common with the Caliber® products is a ramp-based expansion mechanism activated by a screw. A7039. As with Chad Glerum, there was no evidence that Mark Weiman saw Bianco's drawings. A38; A7239.

The development processes for the Caliber® and Rise® products lasted over two-and-a-half years. It involved many Globus employees and eight surgeons on the Caliber® design team, five on the Caliber-L® team, and five on the Rise® team. These surgeons had licenses with Globus that provided for royalty payments that generally conformed to Globus's standard rate of 0.5% of net sales. A7309-10; A11191-311; A11312-77; A15143-224. The development processes produced nearly 100,000 pages of documents that comprised 50 boxes of paper. A7315. The processes included extensive cadaver labs and required FDA approval. A6550.

Chad Glerum conceived of the idea to use ramps in what ultimately became the Caliber® device. A37; A7071; A7331-32. Mark Weiman conceived of using ramps in the Rise® product. A7530-33. Bianco admits that he did not invent the idea for using sliding ramps in the Caliber® or Rise® line of products, depict them in his sketches, or even discuss the idea with Globus. A6596-98.

While those developments were underway, Bianco met with various other Globus employees on other matters. A6537-38. He provided input on other products, and was compensated pursuant to an agreement. *Id.* Occasionally, he inquired to Harris about the status of the new product committee's review of his drawings. A6536-37. But he took no part in the development and design process of the Caliber® or Rise® products. A6604-05. Bianco's drawings were never shown

to the Globus employees who worked on the Caliber® or Rise® products, nor was his idea ever communicated to them. A6599-602.

The Caliber® and Rise® products both involved very different concepts than the device depicted in Bianco's drawings. As the district court found, "the engineering of the products, including the use of ramp-based expansion mechanism, involved substantial departures from the mechanisms depicted in the relatively crude drawings supplied by Dr. Bianco, which included a scissor-jack expansion mechanism." A91. The district court recognized that the two expansion mechanisms "are quite different." A33. Furthermore, the district court found that "the combination of features that made it possible for the Caliber® and Rise® products to be both small and robust were contributed by Globus's engineers, and were not part of any specific suggestions contributed by Dr. Bianco." A91.

Harris returned Bianco's sketches to him in late 2009 or early 2010. A6540-42. Harris told Bianco that Globus was not interested in pursuing the technology depicted in the drawings. A6541. It was not until early 2011, four years after Bianco's disclosure, that Globus began marketing the Caliber® product. A114.

IV. Proceedings in the Trial Court

Over a year after Globus began marketing Caliber®, Bianco sued Globus in the Eastern District of Texas. A204. He brought claims for (1) misappropriation of trade secrets, (2) breach of contract, (3) correction of inventorship of two of

Globus's patents relating to ramp-based adjustable intervertebral spacers, (4) unfair competition under Texas law, (5) common law fraud, (6) unjust enrichment, (7) misappropriation of confidential information, (8) disgorgement of profits, (9) exemplary damages, and (10) injunctive relief. A1454-59.

Bianco alleged that Globus used his idea to develop and patent the Caliber®, Caliber-L®, and Rise® products. Bianco asserted that he was entitled to ownership of Globus's patents and disgorgement of all of Globus's profits relating to the products. He argued in the alternative that he was entitled to a reasonable royalty, under either a breach of contract or misappropriation of trade secrets theory.

A. Defining Bianco's Trade Secret

Bianco's technical expert, Dr. Carl McMillin, identified [redacted] as constituting Bianco's trade secret. A3155-61; A7006-15. Globus moved for summary judgment on Bianco's trade secret claim on the ground that [redacted] In response, Bianco argued that [redacted]. A6162-63. The district court denied summary judgment on the basis that Bianco's combination of elements may have been a protectable trade secret. A186; A6165. The parties proceeded to trial.

The way in which Bianco characterized his trade secret evolved over the course of the trial. As it became clear that his [redacted] combination was never effectively communicated to Globus, A7061; A7066-67; A7068, and that his combination of features bore little resemblance to the accused products, A6527; A6588-89; A6591; A6593-94, Bianco stopped arguing that his trade secret resided in the [redacted] combination that he used to survive summary judgment. A6163-64. Instead, Bianco refocused his attention to the general idea of an adjustable spacer, which he alleged was also his trade secret. A6591; A6496-97.

Bianco's expert, Dr. McMillin, took the same approach at trial. Instead of emphasizing the [redacted] combination, he testified that what Bianco had done was provide Globus with a problem to solve—the creation of an adjustable spacer—and "inspired" Globus to develop the ramp concept to do so. A7070-71; 7065. Bianco had "spark[ed] the idea" behind the final products. A7079.

After the close of arguments, but before submitting the case to the jury, the district court granted judgment as a matter of law in favor of Globus on Bianco's claims for fraud, exemplary damages, and unfair competition. A7228; A7949; A7957. The court denied judgment as a matter of law on Bianco's trade secret claim. Bianco withdrew his claim for misappropriation of confidential information. A7237. The district court severed Bianco's claims for correction of inventorship, unjust enrichment, injunction, and future damages. A24-25; A47. The breach of

contract and trade secret claims were submitted to the jury. A7957. The jury found Globus liable on Bianco's claim for misappropriation of trade secrets but not liable for breach of contract. A6410-11.

In several post-verdict opinions, the district court relied on Bianco's characterization of his trade secret as the general idea of an adjustable spacer, rather than the specific [redacted] combination from the summary judgment stage. For example, in denying Bianco's claims for correction of inventorship and unjust enrichment, the district court held that Bianco's drawing "reflected only a general idea for an expandable spacer," provided only "the germ of an idea," and that his drawings "were largely aspirational in nature." A43.

Likewise, in denying Globus's Rule 50(b) motion for a judgment as a matter of law on Bianco's trade secret claim, the district court characterized Bianco's trade secret as the "general idea," "basic concept," "core concept," and "fundamental concept" of an adjustable intervertebral spacer. A112; A114; A124. According to the district court, Bianco's contribution was to provide "the motivation for Globus to make an adjustable spacer" and to be "the motivating factor behind Globus's decision to begin that project." A114; A115. It was on this basis that the district court upheld the jury's verdict and denied Globus's motion for judgment as a matter of law. A121-24.

B. Bianco's Theory of Damages

Bianco proposed a damages theory based on disgorgement, and, in the alternative, a royalty based on the entire value of the products. A116. With regards to his royalty theory, Bianco's damages expert, Dr. Stephen Becker, conceded that "some apportionment . . . would be appropriate if at least a portion of the Globus products were independently developed." A7208-10. Becker admitted, however, that he did not apportion the royalty base to reflect the value of Globus's independent contribution to the products. A7184; A7186. Bianco's royalty rate was, by design, greater than the combined total of all other royalties that Globus paid to every other contributor of each accused product. A7191-93.

Bianco contended that this royalty rate was justified because he contributed the general idea for the products, rather than any of the details on how to implement it. He contended that the idea for a product was worth more than the sum total of all other kinds of contributions to a product. A117. He therefore calculated his proposed royalty rate by adding up the royalty rates that Globus paid to all of the other contributors to the accused products, and then adding an additional 1% to reflect the commercial success of the products to come up with a royalty of 5% of net sales. A7190-91.

The jury awarded a reasonable royalty of $4,295,760, the equivalent of a 5% royalty rate on net sales of the Caliber® and Rise® products up to trial. A109;

A6411. Globus sought a new trial or remittitur of damages, arguing that Bianco's royalty rate relied on (1) the unreliable methodology of adding up all the royalty rates that Globus paid to other contributors to the products, (2) non-comparable licenses relating to fully developed products from other companies, not new product ideas from individuals, and (3) a 1% "kicker" in the royalty rate that lacked any rational basis. The district court denied the motion. A135-51.

C. The Ongoing Royalty

Becker's expert report included a model for future damages based on [redacted]. Before trial, the district court excluded Becker's model for future damages as unreliable because [redacted]. A22-23. Lacking an evidentiary basis to seek future damages from the jury, Bianco asserted a claim for ongoing royalties as a form of equitable relief. The district court agreed to sever proceedings on a future royalty (over Globus's objection) and conduct a bench trial in a post-verdict proceeding. A7107-10.

The district court denied Bianco's request for a permanent injunction but granted an ongoing royalty of 5% of the net sales on the accused products, "or products that are not colorably different from those products." A2. The district court denied Globus's motion challenging the ongoing royalty. A151-56.

SUMMARY OF THE ARGUMENT

New product ideas, undeveloped ideas, and business goals or plans are not trade secrets under Texas law. Bianco's purported trade secret was a general idea for an adjustable spacer that lacked any specific, workable designs to implement that idea. Because such a general idea for a new product is not, as a matter of law, a trade secret, Globus cannot be liable for trade secret misappropriation. Globus is entitled to judgment as a matter of law.

There is no dispute that Bianco disclosed only a general and completely undeveloped product idea. After trial, the district court repeatedly described the misappropriated trade secret as not being a particular combination of features or a complete design, but rather as a "core idea" or a "fundamental concept." A123-24. Bianco himself described his trade secret as the "sparkle" for Globus's pursuit of an adjustable spacer, not concrete information on how to accomplish that goal.

The district court incorrectly held that Bianco could claim trade secret protection over his general idea based on a flawed interpretation of the relevant case law. In particular, the district court distinguished the primary case on which Globus relied based on an inapposite portion of a treatise. But Texas case law clearly establishes that a trade secret cannot be a mere idea, and that proposition is well supported by authority from other jurisdictions and treatises. The district court did not cite a single case in support of its conclusion that ideas, "whether 'mere' or

otherwise," are eligible for trade secret protection. A123. The relevant case law from Texas and other jurisdictions establishes just the opposite.

Once it is established that the general idea of an adjustable spacer cannot be a trade secret, there is no basis left on which to sustain the jury verdict. There is no evidence that Globus misappropriated any concrete information disclosed by Bianco. None of the developers of the accused products knew anything about Bianco or his ideas or designs. None of the information communicated by Bianco was relayed to anyone involved with the accused products. And the accused products do not resemble the adjustable spacer that Bianco envisioned. The only connection between the accused products and Bianco's concept is that they both relate to the general idea of adjustable spacers. The Court should therefore enter judgment in favor of Globus on Bianco's trade secret claim.

Even if new product ideas, undeveloped ideas, or general ideas are protected under Texas law, the district court abused its discretion by denying Globus's motion for a new trial or remittitur of damages. A jury's award of damages is properly vacated in favor of a remittitur or new trial where the award is consistent with a damages model that is based on non-comparable licenses and fails to properly apportion the royalty.

The district court upheld the damages award based on the flawed reasoning that the value of a trade secret is commensurate with its breadth. But the value of a

trade secret is the value of the information that the trade secret contains. That a general idea can be articulated broadly enough to encompass an entire product does not mean that the information in the idea is worth as much as the combined design, details, engineering, and innovations within the product.

The district court discounted evidence showing that Bianco's ideas and materials were never communicated to any of the product developers, and that Globus did not learn or derive any information from these materials. The court erroneously concluded that once liability was established, there was no need for Bianco to show an economic nexus between the material he disclosed and the extent to which it was used or the actual usefulness of it. The district court imposed no requirement that Bianco apportion the proposed royalty to reflect the value of the misappropriated information.

Finally, the district court erred by awarding Bianco an ongoing royalty. The award was procedurally improper because Bianco had failed to present a viable theory of future damages at trial. He was not entitled to correct his error after trial. Moreover, there is simply no authority under Texas law for a judge awarding ongoing royalties as a form of equitable relief for misappropriation of trade secrets. In so doing, the district court conflated patent law with trade secret law.

STANDARD OF REVIEW

The district court's denial of Globus's motion for judgment as a matter of law for trade secret misappropriation is reviewed de novo. *Riverwood Int'l Corp. v. R.A. Jones & Co.*, 324 F.3d 1346, 1352 (Fed. Cir. 2003) (stating that the Federal Circuit reviews the denial of a motion for judgment as a matter of law under the law of the regional circuit); *Arsement v. Spinnaker Exploration Co.*, 400 F.3d 238, 248 (5th Cir. 2005) (stating that the Fifth Circuit reviews a motion for judgment as a matter of law denial de novo). This Court must reverse the denial of a motion for judgment as a matter of law "if a reasonable jury could only rule in favor of the movant" under a correct application of the law. *Microstrategy, Inc., v. Business Objects, S.A.*, 429 F.3d 1344, 1349 (Fed. Cir. 2005).

The district court's denial of Globus's motion to order a remittitur or new trial on damages is reviewed for abuse of discretion. *General Electric Co. v. Joiner*, 522 U.S. 136 (1997). A district court abuses its discretion "when its ruling is based on an erroneous view of the law or on a clearly erroneous assessment of the evidence." *Chaves v. M/V Medina Star*, 47 F.3d 153, 156 (5th Cir. 1995).

The district court's legally erroneous conclusion that it has discretion to award ongoing royalties as a form of equitable relief is reviewed de novo. *See Nicholas v. Leavitt*, 242 F.3d 1206, 1209 (10th Cir. 2001) (citing *Firefighters Local Union No. 1784 v. Stotts*, 467 U.S. 561, 577-79 (1984)).

ARGUMENT

I. Globus Is Entitled to Judgment as a Matter of Law on Bianco's Claim for Trade Secret Misappropriation.

The only trade secret that the district court identified as potentially supporting the jury verdict was Bianco's general idea of an adjustable spacer. Such general ideas are not subject to trade secret protection under Texas law. Since there is no evidence that any other alleged trade secret existed or was misappropriated, Globus cannot be liable for trade secret misappropriation as a matter of law.

A. Bianco's Abstract Idea of an Adjustable Spacer Is Not a Trade Secret.

A trade secret may consist of any formula, pattern, device, or compilation of information that is used in one's business, and which gives one an opportunity to obtain an advantage over competitors who do not know or use it. *Computer Assoc. Int'l, Inc. v. Altai, Inc.*, 918 S.W.2d 453, 455 (Tex. 1996). There are two basic categories of information that have been afforded trade secret status: (1) technical information (patentable or not), such as formulas, processes, designs, devices, software, and R&D; and (2) business information, including business methods, strategic plans, customer lists, pricing information, and other empirical facts. *T-N-T Motorsports v. Hennessey Motorsports*, 965 S.W.2d 18, 22 (Tex. App.—Houston [1st Dist.] 1998, pet. dism'd).[1]

[1] The factors relevant to determining whether information is a trade secret are:

A trade secret, by its nature, must be concrete, usable information. *See* Restatement (First) of Torts § 757 cmt. b (1939). The notion of a trade secret having some modicum of concreteness and utility excludes abstract or general ideas from trade secret protection. *See* 1 Roger M. Milgrim, MILGRIM ON TRADE SECRETS § 1.02 (2014) (noting that the use requirement in the First Restatement of Torts definition of a trade secret distinguishes trade secrets from idea submission cases, and acknowledging the difference between submission of a mere idea and the disclosure of information that can be put to productive use). Abstract or general ideas may inspire or motivate the development of a new product, but they do not constitute concrete information that one can actually use in gaining a competitive advantage. *Id.* The Texas common law that governs here reflects these traditional limitations on the definition of a trade secret.

> (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of the measures taken by the business to guard the secrecy of the information; (4) the value of the information to the business and to its competitors; (5) the amount of effort or money expended by the business in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Parker Barber & Beauty Supply, Inc. v. Wella Corp., No. 03-04-00623-CV, 2006 Tex. App. LEXIS 8841, at *52 (Tex. App.—Austin Oct. 11, 2006, no pet.).

The definition of a trade secret under Texas law does *not* include "marketing concepts and new product ideas, business possibilities or goals, and undeveloped ideas and plans." *Astro Technology, Inc., v. Alliant Techsystems, Inc.*, 2005 U.S. Dist. LEXIS 46248 at *21 (S.D. Tex. 2005) (citing *Gonzales v. Zamora*, 791 S.W.2d 258, 264 (Tex. App. 1990)). As such, an undeveloped new product idea, in itself, is not eligible for trade secret protection. *Id.* at *45-*46 (granting summary judgment because plaintiff failed to show it possessed a trade secret).

The Sixth Circuit reached the same conclusion under Ohio's definition of a trade secret, which is indistinguishable from the definition under Texas law. *See Richter v. Westab, Inc.*, 529 F.2d 896, 900 (6th Cir. 1976). The court excluded a new product idea from the definition of a trade secret, observing that:

> [The] act of suggesting should not establish an exclusive right to exploit the idea. Perhaps the [plaintiff] design firm will not be sufficiently competent to produce good designs based upon the concept. A concept is of little use until solidified into a concrete application. The idea of fashion designs is useless unless good designs are obtained. If the design firm is incapable of producing good designs the public should not be denied the benefit of the idea if another designer could produce good designs. Thus the principle denying legal protection to abstract ideas has important social interests behind it.

Id. at 902. *See also HDNET LLC v. North American Boxing Council*, 972 N.E.2d 920, 921, 924 (Ind. Ct. App. 2012) (distinguishing trade secret misappropriation from misappropriations that fall short of trade secret status, such as "idea

misappropriation") (citing *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 235 P.3d 310, 319 (Haw. 2010)).

Bianco's act of suggesting that Globus design a continuous expandable and retractable spacer does not give him the exclusive right to exploit every incarnation of adjustable spacers. While Bianco could conceivably have trade secret rights in his particular design based on that concept—the scissor jack—that design was not appropriated by Globus because it was unworkable. A7066.

Indeed, the mere idea of an adjustable spacer is useless absent a good design. Regardless of whether Bianco's suggestion to design an adjustable spacer motivated Globus to improve upon the spacers already known in the art, that suggestion did not contain any concrete or usable information that actually gave Globus a competitive advantage in developing its ramp-based products. A91; A115; A133; A6599; A7066; A9185-87; A9207-08. Bianco does not dispute that his ideas did not accelerate or assist in Globus's research and development in any way, and that he provided nothing more than a basic product idea. A133.

Texas trade secret law follows the rule set out in *Richter*, as Globus argued to the district court. *See* A6369, A9607 (citing *Gonzales v. Zamora*, 791 S.W.2d 258 (Tex. App. 1990)). The definition of a trade secret under Texas common law explicitly *excludes* "marketing concepts and new product ideas, business possibilities or goals, and undeveloped ideas and plans" like the basic product idea

of spacer that is somehow adjustable. *Astro Technology, Inc., v. Alliant Techsystems, Inc.*, 2005 U.S. Dist. LEXIS 46248 at *21 (S.D.Tex. 2005) (citing *Gonzales*, 791 S.W.2d at 264) (internal quotes omitted).

The court in *Astro Technology* granted summary judgment because the plaintiff had proposed only a general idea. As the court explained, "[t]he trade secret claimed by Plaintiff is, at best, a statement of the goal of using fiber optics in solid rocket motors and general concepts about how to accomplish that goal. Such undeveloped ideas or plans do not rise to the level of a trade secret. *Id.* at *45. As support for this holding, *Astro Technology* quotes the same language from *Gonzales v. Zamora* that Globus quoted to the district court here: "We do not consider the statement that a trade secret may be only an idea to be a correct statement of the law." *Id.* at *45-46.

Like the plaintiff in *Astro Technology*, the trade secret claimed by Bianco is, at best, a statement of the goal of creating a continuously adjustable intervertebral spacer and general concepts about how to accomplish that goal, such as using a scissor jack and other known features. Even if Bianco's scissor jack drawings had been workable, the "fundamental concept" of an adjustable spacer is still nothing more than an undeveloped idea or plan that does not rise to the level of a trade secret. *See id.* at *45-46; A124.

The articulation of Texas law in *Gonzales* and *Astro Technology* is not unique. There is wide-spread agreement that mere ideas do not fall within the common law definition of a trade secret. *See, e.g.*:

- *Hudson Hotels Corp. v. Choice Hotels Int'l*, 995 F.2d 1173 (2d Cir. 1993) ("It is critical to note, however, that the commonly accepted common law definition of a trade secret 'does not include a marketing concept or new product idea' submitted by one party to another.") (applying New York law) (citing 2 R. Milgrim, MILGRIM ON TRADE SECRETS § 8.03, at 8-31 (1992 & Supp. 1992)).
- *Johnson v. Benjamin Moore & Co.*, 788 A.2d 906 (N.J. Super. 2002) ("[T]he definition of trade secret does not include a marketing concept or a new product idea . . . . Misappropriation of ideas is a separate area of law from both patent law and trade secret law.") (applying pre-UTSA New Jersey common law).
- *Daktronics, Inc. v. McAfee*, 599 N.W.2d 358 (S.D. 1999) ("[S]imply possessing a non-novel idea or concept without more is generally, as a matter of law, insufficient to establish a trade secret.") (applying South Dakota common law).

The Third Restatement of Unfair Competition also distinguishes "idea submission cases," in which "suggestions for new or improved products" are protected from misappropriation under the "law of ideas" through "express or implied-in-fact" promises to pay for such ideas, as opposed to trade secret misappropriation. *See* Restatement (Third) of Unfair Competition § 39 cmt. h. Texas likewise recognizes this dichotomy between trade secret law and the "law of ideas." *See University Computing*, 504 F.2d at 538. "To sustain a claim in tort for the appropriation of an idea, most courts require the submitted idea to be 'novel' in

the sense of not being generally known . . . and sufficiently 'concrete' to permit an assessment of its value and the fact of its use by the recipient . . . ." Restatement (Third) of Unfair Competition § 39 cmt. h.

Bianco's new product idea of an adjustable spacer is precisely the kind of new product idea that is not afforded protection under common law. Bianco's idea disclosure is even more undeveloped than the idea disclosures found not to constitute trade secrets in *Astro Technology* and *Richter*, and was not "concrete," as required under the rubric of the Third Restatement of Unfair Competition. As such, the only protection from misappropriation of new product ideas under Texas law is through express or implied-in-fact agreements. Restatement (Third) of Unfair Competition § 39 cmt. h.

The district court mistakenly held that *Gonzales* does not, in fact, stand for the proposition for which Globus cites it. A121-23. The district court's conclusion is contrary to *Astro Technology* and the extensive authority showing that new product ideas, undeveloped ideas, plans, and goals do not rise to the level of trade secrets. But the district court's analysis also fails on its own terms.

In declining to follow the *Gonzales* court's conclusion that a trade secret may not only be an idea, 791 S.W.2d at 264, the district court relied on Comment a of Section 757 of the First Restatement of Torts. A122. Contrary to the district court's assertion, that comment was *not* cited in *Gonzales*, and addresses an

unrelated controversy about whether the source of the exclusive right to a trade secret is property right in the idea (such as the exclusive right granted by a patent), or a claim created through behavior in using the secret, maintaining its secrecy, and recognizing its competitive advantage. *Compare* A122 *with Gonzales* 791 S.W.2d at 264 (citing Comment b for an unrelated proposition). Comment a does not address whether a particular idea rises to the level of a trade secret. The First Restatement of Torts does not undermine the clear language of *Gonzales* or suggest that secrecy is the only criterion for protecting an idea as a trade secret.

The district court repeatedly recognized that the trade secret Bianco presented at trial was a "general idea," "basic concept," "core concept," or "fundamental concept" for an adjustable intervertebral spacer, along with some unspecified "key features." A112; A114; A124. Bianco's purported trade secret was precisely the type of idea that *Gonzales*, *Astro Technology*, *Richter*, and the other authority discussed above establish is unprotected by Texas trade secret law. The district court cited no authority to include a general idea for a new product within the definition of a trade secret. Bianco's idea of an adjustable spacer is not protected as a trade secret.

Because the new product idea of an adjustable spacer falls outside the definition of a trade secret under Texas law, Globus is entitled to judgment as a matter of law on Bianco's claim for misappropriation of trade secrets.

B. The Appropriate Mechanism to Protect a General Idea Is a Breach of Contract Claim, Which Bianco Asserted and Lost.

That general ideas do not rise to the level of trade secrets does not imply that individuals in Bianco's situation lack any legal recourse. Recovery for misappropriation of the general idea of an improved spacer is appropriately the subject of a breach of contract theory. *See Richter*, 529 F.2d at 901-902 (citing *Brookins v. National Ref. Co.*, 26 Ohio App. 546, 160 N.E. 97 (1927)); Restatement (Third) of Unfair Competition § 39 cmt. h (noting that most jurisdictions require recovery for misappropriation of ideas under breach of express or implied-in-fact promise to pay for the idea).

According to Bianco, the parties had a contract protecting the disclosure of any of Bianco's ideas and prohibiting their use by Globus without compensation. A130. Bianco claimed that Globus breached this contract by developing an adjustable spacer product. That claim was precisely the kind of claim that the Third Restatement of Unfair Competition and the case law detailed above describe as the proper cause of action for misappropriation of an idea. The jury, however, found Globus not liable for breach of contract. Bianco did not appeal that finding.

Bianco has attempted to moot the consequences of his unsuccessful breach of contract claim by characterizing his trade secret so broadly that it preempts all of Globus's future work in the entire field of adjustable intervertebral spacers. This Court should not allow Bianco's defunct scissor jack disclosure to preempt all

development by Globus in the intervertebral spacer industry. Because the district court included within Bianco's trade secret exclusivity the Caliber® and Caliber-L® (despite them being very different from Bianco's sketches), the even more distinguishable Rise® endoscopic implant, and all future products "not colorably different" from the general idea of an adjustable implant, Bianco will control a large portion of Globus' sales and product development for the forseeable future.

Affording Bianco such sweeping relief would be overcompensation even under the "law of ideas" that properly applies to this case. *University Computing*, 504 F.2d at 538. Bianco provided Globus with an undeveloped idea and a drawing that showed an unworkable device. By contrast, Globus spent two-and-a-half years and involved three teams of surgeons and many Globus employees in developing Caliber, Caliber-L, and Rise. Globus's development process included cadaver labs, produced nearly 100,000 pages of documents that comprised 50 boxes of paper, and required FDA approval. A6550; A7315. Bianco contributed nothing to that process. A6604-05.

Texas trade secret protection does not extend so broadly as to preclude a party from independently developing a product based on a general idea. To hold otherwise violates the clear holdings in *Gonzales* and *Astro Technology* and defeats the social interests that *Richter* identified as limiting trade secret protection. This Court should enter judgment as a matter of law in favor of Globus because

undeveloped or new product ideas, like the idea Bianco presented to Globus, are not trade secrets under Texas law, and the jury found Globus not liable for breach of contract.

C. The Evidence Does Not Support Liability for Misappropriation of Trade Secrets on Any Other Basis.

The district court sustained the verdict solely on the basis that the jury could have found that Globus misappropriated Bianco's trade secret in the general idea of an adjustable spacer. A123; A133-35. The district court did not identify any alternative trade secret on which the jury could have found liability for trade secret misappropriation. Indeed, the record supports none.

In the context of summary judgment, Bianco characterized his trade secret as comprising [redacted] features. A6163-64. He admitted that each of those features was in the public domain individually, but that his trade secret resided in the particular combination of those features. The evidence at trial conclusively showed that Bianco never fully communicated his allegedly unique [redacted] combination to Globus, and that Globus did not misappropriate that [redacted] combination. A7061; A7066-67; A7068.

The undisputed evidence of record further establishes that none of Bianco's materials were ever shown to Ed Dwyer, Chad Glerum, or any of the other developers of the accused products, and that his ideas did not assist or accelerate the development of the accused products in any way. A133. The ramp-based

expansion mechanism—the defining feature of the accused products—bears no resemblance to Bianco's scissor-jack. A6527; A6588-89; A6591; A6593-94. The undisputed evidence thus establishes that the accused products were not derived from or inspired by any of the information in Bianco's disclosures. There is therefore no alternate basis in this record to find trade secret misappropriation once the general idea of an adjustable spacer is properly eliminated from the definition of a protectable trade secret.

II. Globus Was Entitled to a Remittitur or New Trial on Damages Because Bianco's Damages Theory Was Unreliable and Legally Flawed.

Even if this Court holds, on *de novo* review, that the mere idea of an adjustable spacer rises to the level of a trade secret under Texas common law, the award of damages must still be vacated and the issue of damages remanded for a remittitur or new trial. Bianco's damages model was legally flawed in two respects and should never have been submitted to the jury for consideration.

First, Bianco's damages calculation was unreliable because it made no attempt to tie the royalty to the value of the information misappropriated using the facts of the case. Instead, his royalty was based on the entire market value of the accused products, with no attempt to apportion the royalty base or rate to reflect the role of the misappropriated trade secret in the development of the products. Second, Bianco's royalty rate relied on non-comparable licenses, and was calculated using flawed methodology.

A. The Royalty Was Not Properly Apportioned to Reflect the Value of the Information Misappropriated.

The need to apportion a royalty to reflect the value of the thing actually misappropriated is well established in trade secret law, and is confirmed by the aspects of patent damages jurisprudence that have been adopted by trade secret law. *See University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 535 (5th Cir. 1974) (applying patent law reasonable royalty principles, including the *Georgia-Pacific* factors, in the context of trade secret misappropriation royalty claims); *see also Vermont Microsystems, Inc. v. Autodesk, Inc.*, 88 F.3d 142, 151-52 (2d Cir. 1996) (noting that "the royalty that the plaintiff and defendant would have agreed to for the use of the trade secret made by the defendant may be one measure of the approximate portion of the defendant's profits attributable to the use"). As such, the same hypothetical negotiation that defines the patent reasonable royalty also defines the trade secret reasonable royalty. *Mid-Michigan Computer Systems, Inc., v. Marc Glassman, Inc.*, 416 F.3d 505, 510-11 (6th Cir. 2005).

A fact-intensive and rational apportionment of a royalty is a strict requirement of all intellectual property damages theories. *See Uniloc USA, Inc. v. Microsoft Corporation*, 632 F.3d 1292, 1318 (Fed. Cir. 2011). Just as in patent cases, the measure of a reasonable royalty in a trade secret case is "the value to the defendant of what he *actually obtained* from the plaintiff." *University Computing*, 504 F.2d at 539 (emphasis added). If the defendant has appropriated a general idea

or fundamental concept, then that general information is the "what" that has been appropriated, and the royalty should be apportioned accordingly. *Id.* at 537 (citing *Vitro Corporation of America v. Hall Chemical Co.*, 292 F.2d 678, 683 (6th Cir. 1961). Although general ideas and fundamental concepts are broad in scope, their value and the role that they play in reducing a product to practice is very small and preliminary. *Cf. Richter*, 529 F.2d at 902 (observing that a general concept that is not solidified into a concrete application is of little use). The fact that a large sector of technological development may fall within the broad scope of a general concept does not mean that the information conveyed by describing the concept is valuable. This is especially true where huge volumes of detailed information separate the general concept from the concrete application.

Bianco's damages expert, Dr. Stephen Becker, conceded at trial in response to questioning by the district court that "some apportionment . . . would be appropriate if at least a portion of the Globus products were independently developed." A7208-10. Nonetheless, Becker admitted that he did not apportion Globus's revenues in arriving at his royalty base. A7184; A7186. As discussed below, his royalty rate did not reflect any rational apportionment either.

One way to arrive at a royalty that is properly apportioned to the value of the thing misappropriated is by recreating a hypothetical negotiation. *See University Computing*, 504 F.2d at 535; *Vermont Microsystems*, 88 F.3d at 151-52; *Mid-*

Michigan, 416 F.3d at 510-11. Here, a reliable starting point for the hypothetical negotiation is readily available because it essentially happened. When Bianco offered to submit his new product ideas for consideration, Gregg Harris explained that all idea submitters needed to sign a new idea submission form and submit notarized documents. A6522-23; A6534; A10345. Harris explained that if Bianco's idea was used, he would be compensated at the standard rate for a doctor submitting a new idea. A6702. After receiving this explanation, Bianco followed Harris's instructions, and submitted his materials accordingly. A10307-13; A10345. There is no evidence that Bianco would have insisted on a compensation amount *ten times higher* than the standard rate he was offered, even if the hypothetical negotiation took place two years after this preliminary offer and acceptance.

Becker rejected this hypothetical negotiation approach, opting instead to try to value Bianco's idea based on its relationship to the accused product. Importantly, Bianco does not dispute that his ideas did not accelerate or assist in Globus's research and development in any way, and that he provided nothing more than a basic product idea. A133. Both the district court and Bianco himself describe his contribution to the accused products as "sparkle" and not substance. A136; A6496-97. Becker estimated that the value of that sparkle was very large, simply because the idea is so broad and vague as to apply to all solutions to the

known problem that existing spacers did not expand like other spinal implants. There is no legal, factual, or logical basis to treat the *breadth* of an idea as denoting its monetary *value*. The subject matter relationship between an idea and a product does not necessarily reflect the contribution to the development of that product that the idea represents.

Contrary to the district court opinion, the form of the royalty awarded (a reasonable royalty rather than profit disgorgement) is not a substitute for properly apportioning a royalty to the value of the information misappropriated. *Compare* A148 *with* Restatement (Third) of Unfair Competition § 45 (comment f) (explaining that where a disgorgement would be unjust, and a reasonable royalty is appropriate, the royalty should be a measure of the approximate portion of the profits attributable to the use made of the trade secret). That profit disgorgement was an available remedy that the jury found inappropriate is not a license to inflate the royalty beyond an accurate measure of the minimal role of Bianco's idea in the development of the accused products.

There is no factual nexus between the scope of Bianco's basic product idea and the market value that Bianco's expert attributed to that idea. It is very difficult to make a spacer that expands continuously and is retractable and yet is stable and robust enough to function. A6768; A7070. The idea to try to accomplish this difficult task has minimal worth without any concrete or workable proposition of

how to do it. Plaintiff's methodology of adding up all the royalties of all the other doctors that made concrete contributions is flawed, because it is completely divorced from any attempt to value the *information* that Globus "actually obtained from [Bianco]." *University Computing*, 504 F.2d at 539. Instead, it tries to value the sum-total of the technology that falls within the scope of a broad concept. That broad concept does not confer independent economic value commensurate with its scope, because it comprises no concrete or usable information.

The district court rejected these challenges to Bianco's lack of apportionment by noting that the entire products were the "smallest salable units" that embodied the overall spacer idea, and that no further apportionment was necessary under the law. A145-46. That interpretation of damages law misses the point of apportionment as it has been applied in the trade secret context long before the "smallest salable unit" rule was even articulated in the patent context. The purpose of apportionment is to tie the royalty to the value of the information appropriated, and the role that information played in the profits made from the resulting products. It is not to construe the scope of the technology encompassed by the idea, as though the idea were a patent claim.

As *Richter* observed, a concept is of little value without a concrete application. Bianco does not dispute that the information he conveyed to Globus did not assist or accelerate the development of the accused products. There can be

no value in his contribution to the accused products other than the nominal value of the initial motivation to solve a known problem. Bianco is not excused from the requirement of apportionment as a matter of law simply because his idea is broad enough to implicate the entire accused products. The district court's holding otherwise should be reversed and the damages award vacated and remanded.

B. The Licenses Used in Calculating the Royalty Rate Were Not Comparable and Were Manipulated Through a Fundamentally Flawed Methodology.

Just as in patent cases, past licenses are the most persuasive evidence of reasonable royalties in trade secret cases. Where there are no comparable past licenses, courts proceed with great caution in awarding reasonable royalties. *A & H Sportswear Co., Inc. v. Victoria's Secret Stores, Inc.*, 166 F.3d 197, 208-09 (3d Cir. 1999). There were both comparable and non-comparable licenses admitted in this case, and the district court erred in allowing Bianco's expert to present opinions based on non-comparable licenses, and in conflict with much more informative royalty agreements. *See ResQNet.com Inc. v. Lansa, Inc.*, 594 F.3d 860, 873 (Fed. Cir. 2010) (instructing a district court on remand to appropriately weigh the most comparable licenses in the record); *LaserDynamics, Inc., v. Quanta Computer, Inc.*, 694 F.3d 51, 79 (Fed. Cir. 2012) (vacating a damages award and remanding for a retrial where the plaintiff's expert considered non-comparable licenses).

The record in this case contains undisputed evidence of that Globus's standard royalty rate for meaningful contributions to products is 0.5% of net sales. A136-37; A7194; A7877; A11191-311; A11312-77; A15143-224. That rate is also in line with the industry standard royalty rate for consulting relationships like the one between Bianco and Globus. A9248-49. The comparable licenses in the record included royalty agreements between Globus and various individual contributors (surgeons and biomedical engineers) who worked on the development of the accused products. These licenses generally conformed to the standard rate of 0.5% of net sales. A11191-311; A11312-77; A15143-224. These licenses, and the existence of a standard royalty rate, are the most informative and reliable pieces of evidence on which to base a reasonable royalty in this case.

Rather than use the standard royalty or the comparable licenses as a starting point for his royalty calculation, Bianco's damages expert, Becker, speculated that the general idea of an adjustable spacer was worth more than the standard royalty payment. He declared that Bianco's general idea was worth not only more than any other contributor to the accused products, but more than the sum-total of the combined royalties that Globus paid for each of the accused products.

Becker arrived at the starting point for his proposed royalty by adding up the royalty rates from all of the other royalty agreements pertaining to the accused products to reach 4%. The methodology of simply adding up every other royalty

rate for a particular device has no basis in fact or law. There is no evidence that this methodology is generally accepted by licensing experts, nor is it tied to the facts of this case. *See Kuhmo Tire Company, Ltd., v. Carmichael*, 119 S.Ct. 1167, 1175 (1999) (adopting admissibility standards for acceptable expert methodology). The number of contributors on a particular product (and thus the number of times one can add .5% to itself) has no bearing on the value of the general idea for the product or the amount of development needed to take a product from general concept to practice. This method of simply adding up all of the royalties that Globus paid to other contributors is arbitrary, unreliable, and designed to inflate the royalty rate otherwise supported by the evidence.

Becker then added to his flawed royalty starting point an additional 1%, purportedly to account for the commercial success of the products—something that no other royalty agreement in the record or in Globus's history of licensing had ever included. Becker pointed to no empirical evidence or data that justified this upward adjustment of the royalty rate. A7190-91. The resulting royalty rate of 5% was thus a ten-fold increase over the standard royalty for an individual contributor like Bianco; the royalty that Harris mentioned before Bianco submitted his idea.

Becker purported to corroborate this inflated royalty by comparing it with distinguishable licenses for other products. Specifically, Becker cited 5% and 6% royalties that Globus had paid to competing medical device companies for

completed products, in the process of acquiring those companies. These licenses did not pertain to contributions by individuals to Globus's development of new products, but rather involved the purchase of fully developed product lines and accompanying technical know-how for established products in the industry. A7176; A7194; A7875-78. Becker's flawed explanation for his use of these licenses was simply that he felt that the general premise for an undeveloped product was worth as much as a fully-developed product, rather than being an incremental contribution. A137.

It is conceptually backwards to treat broader and more general (and therefore less useful) trade secrets as more valuable than concrete, detailed, substantive (and therefore more useful) trade secrets. Bianco's methodology of repeatedly adding to the royalty rate ignores this Court's mandates of using accepted methodology and relying on the most comparable and reliable licenses available. Becker's faulty royalty rate calculation and his use of non-comparable licenses to fully-developed products should have been excluded from the jury's consideration.

The district court abused its discretion by allowing the jury to consider a damages model that made no attempt to apportion the royalty to the value of the thing misappropriated, manipulated comparable licenses in unprecedented ways, and used non-comparable licenses to justify a royalty that was ten times the standard rate. If the district court's judgment on liability for trade secret

misappropriation is upheld, then the award of damages should be vacated and remanded for remittitur or a new trial.

III. The District Court Abused its Discretion by Granting Bianco an Ongoing Royalty as a Form of Equitable Relief.

A. The District Court Should Have Denied Any Future Damages Because Bianco Failed to Present a Reliable Future Damages Model at Trial.

Even if this Court were to hold that Globus can be liable for trade secret misappropriation of a general new product idea as a matter of Texas law, and even if this Court were to find no error in allowing Becker to devise an unapportioned royalty that was ten times higher than the standard rate, this Court would still have to vacate the district court's award of future damages in the form of ongoing royalties, on de novo review.

Unlike patent infringement, which is a continuing tort, trade secret misappropriation is a one-time tort. *See* Tex. Civ. Prac. & Rem. Code § 16.010. Although a one-time tort may result in continuing damages, the cause of action (and therefore a court's power to address that cause of action) is not perpetuated by continued use of a past-misappropriated trade secret or continued profits from a past use. *See Gen. Universal Sys., Inc. v. HAL, Inc.*, 500 F.3d 444, 452 (5th Cir. 2007); *Daboub v. Gibbons*, 42 F.3d 285, 291 & n.9 (5th Cir. 1995).

Bianco presented a future damages model through Dr. Becker's expert report. [redacted]

[redacted] He lacked a reliable methodology on which to conclude that his royalty period was reasonable for the products or to project Globus's likely revenue for that period. *Id.* The district court found that Becker's entire projection of future revenues was "simply too unreliable to be admissible at trial" and excluded [redacted] A22-23. Becker had proposed no alternative method of calculating future damages.

It was Bianco's burden to present a reliable model for future damages at trial. *MGE UPS Sys. Inc. v. GE Consumer & Indus., Inc.*, 622 F.3d 361, 369-70 (5th Cir. 2010); *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 872 (Fed. Cir. 2010). Bianco's failure to do so ended his opportunity to recover future damages as a matter of law.

Notwithstanding the exclusion of his future damages theory, Bianco proposed a new methodology for calculating future damages in the middle of trial. Bianco requested that the court sever the issue of future damages from the trial and direct the parties to follow the procedure set forth in *Paice v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007), to determine an ongoing royalty rate as an equitable, rather than legal remedy. A7106-07. Up to that point, Bianco had relied

solely on Becker's lump-sum calculation of future damages ([redacted]) and had never suggested that the issue be severed. Globus objected to Bianco's mid-stream shift in damages methodology, A7107-08, and argued that ongoing royalties pursuant to *Paice* were not even available as a form of relief. A151.

The district court legally erred in agreeing to sever the issue of future damages from the jury trial. The district court thereby relieved Bianco of his burden to prove future damages as a remedy at law and gave him a second bite at the apple.

B. There Is No Authority Under Texas Law for Awarding Ongoing Royalties for a Misappropriation of Trade Secrets.

There is no authority for the district court's award of ongoing royalties as a form of equitable relief. The district court's decision to hold a post-verdict hearing to determine ongoing royalties was based on an erroneous application of patent law principles to a non-analogous aspect of trade secret law. *See Paice LLC v. Toyota Motor Corp*., 504 F.3d 1293, 1314 n.13, 1315 (Fed. Cir. 2007) (holding that the award of ongoing royalties as an equitable remedy is justified by ongoing infringement). A patentee's right to exclude is violated anew each time an infringer sells a product found to infringe, and a court has equitable authority to enjoin or condition payment for each subsequent violation. *See id.* at 1314-15. A trade secret holder's right is violated only once, by the acquisition of the trade secret in breach

of confidence or by improper means. *K & G Oil Tool & Service Co. v. G & G Fishing Tool Service*, 314 S.W.2d 782, 787 (Tex. 1958). Where the acquisition and use of the trade secret is an isolated past event, there is nothing to enjoin. This difference distinguishes from the trade secret context both the rationale and the equitable authority articulated in *Paice*.

Importantly, neither Bianco nor the district court cited any decision under Texas law in which a plaintiff was granted ongoing royalties for misappropriation of trade secrets, as an equitable remedy *or* a remedy at law. Instead, the district court relied on *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 778-79 (Tex. 1958), and *Bryan v. Kershaw*, 366 F.2d 497 (5th Cir. 1966), to hold more generally that that it had equitable authority to enjoin ongoing sales of accused products. A152-53. Those cases dealt with injunctions, not ongoing royalties, and the equitable authority for awarding injunctions articulated in those cases does not translate to the reasonable royalty context. The district court's reliance on those cases was legal error.

Hyde and *Bryan* both dealt with the limited use of an injunction to offset the "head start" to the marketplace that the defendant enjoyed due to trade secret misappropriation prior to the trade secret being disclosed by the plaintiff in a patent application. *Hyde*, 314 S.W.2d at 777-778; *Bryan* 366 F.2d at 501. Both cases noted that the continuing behavior that could be enjoined was the use of the trade

secret, and that the court's equitable authority to enjoin the defendant's ability to benefit from knowing the trade secret ended at the point that the defendants would have legitimately developed the product on their own. *Id.* Under the specific facts of that case, which dealt with product development timing rather than sales volumes, a remedy at law was not available and the equitable remedy of a limited injunction was justified.

Bianco contends that Globus used his trade secret as inspiration to develop the accused products. The inspiration to take a course of action is a finite event. Once Globus decided to pursue its own adjustable spacer, its "use" of Bianco's trade secret ended.[2] There is no continuing use to enjoin, and Bianco did not provide any of the head start analysis on which the Texas Supreme Court and Fifth Circuit relied to justify the equitable relief of an injunction. There is absolutely no evidence of how long it would have taken Globus—a company whose research and development is entirely focused on spinal fusion surgery devices—to come up with the idea of improving upon known expandable spacers. *Hyde* and *Bryan* simply

[2] The Uniform Trade Secrets Act provides statutory authority for injunctive relief, § 2(a), and ongoing royalties, § 2(b), independently. That act is not controlling here, but it is noteworthy that reasonable royalty payments under the UTSA cannot extend beyond the time that it would have taken the defendant to have come up with the idea on its own. *See* U.T.S.A. § 2(b). Thus, the district court's award here of ongoing royalties for 15 years—a duration that is unrelated to the time it would have taken Globus to develop the product on its own—would be inappropriate even under the authority granted by the UTSA—an authority that courts do not inherently have under Texas common law.

provide no authority for fashioning any equitable relief untethered from a fact-based head start analysis, much less authority for perpetual royalty payments as the form of equitable relief.

The district court rejected Globus's argument because it did not want to limit Bianco to past damages that "depend arbitrarily on the date of the jury's verdict," A152, and because it would be "perverse" for the court to deny an injunction on the basis that monetary damages were adequate to compensate Bianco, and then not give Bianco a corresponding monetary award. A153. Both of these reasons are at odds with Texas law and the procedural history of this case. Future damages *were* available to Bianco as a remedy at law, but his future damages evidence was "simply too unreliable to be admissible at trial." A22-23. Bianco's failure to prove future damages at trial does not justify an award of ongoing royalties as a form of post-trial equitable relief, especially where no such award has ever been sanctioned by a Texas court.

CONCLUSION

For the foregoing reasons, the Court should reverse the judgment and enter judgment of no liability as a matter of law in favor of Globus. In the alternative, this court should vacate the award of damages and remand the case with instructions to conduct a new trial on damages excluding from consideration Bianco's unreliable royalty calculation, and to confine any future damages to that which can be proven as a remedy at law.

Respectfully submitted,

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I certify that I filed the foregoing document with the Clerk of the United States Court of Appeals for the Federal Circuit via the CM/ECF system on February 9, 2015, and thereby served a copy by email to all registered participants.

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