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

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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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INTRODUCTION

An abstract idea for a new product is not a trade secret under the common law of Texas or any other state. Bianco points to no authority that suggests otherwise. Every case Bianco cites involves the misappropriation of a new product idea embodied in a concrete, workable product design or prototype. By contrast, Bianco had no workable design or useful information, just the "sparkle" of an idea and a problem that Globus, not Bianco, solved. Bianco had no trade secret.

Bianco seeks to avoid this conclusion by changing his purported trade secret on appeal. He argues that the jury could have viewed his trade secret as encompassing the general idea for an expandable spacer along with some unidentified "key features." But that is not the theory that Bianco presented to the jury. Both before and during trial, Bianco relied on a complete and unique combination of [redacted] that appear nowhere in his brief on appeal. Bianco successfully opposed summary judgment on the grounds that this complete combination of features was not well known, and both he and his expert conceded at trial that his trade secret consisted of the complete combination of features. Bianco cannot claim a new trade secret on appeal based on only some of those features because he specifically disclaimed such an approach at trial.

The district court found that Bianco provided Globus with only "the germ of an idea" for an expandable intervertebral spacer. A43. It held that Bianco's

disclosures "were largely aspirational in nature." A43. According to the court, Bianco's alleged trade secret was the "general idea" or "basic concept" of an adjustable intervertebral spacer. A112; A114; A124. In defining Bianco's trade secret, the district court identified no "key features" that supported the jury's verdict. Nor did it rely on the complete [redacted] combination that Bianco presented at trial. Because a general idea standing alone cannot be a trade secret, Globus is entitled to judgment as a matter of law.

Bianco's responses to Globus's damages arguments are similarly ineffective. His primary response to each argument is to assert waiver. But Bianco's assertions rely on obvious distortions of the record, such as, for example, his specious claim that Globus should have preserved a pretrial objection to the award of an ongoing royalty, even though Bianco did not seek such an award until the middle of trial. Globus has preserved all of its damages arguments.

Bianco's damages arguments fail on the merits as well. He focuses on the "smallest salable unit" test without addressing the precedent that requires apportionment even after the smallest salable unit is determined. On the question whether his damages expert properly relied on other licenses, Bianco fails to acknowledge that none of those licenses involved a completely undeveloped, aspirational idea for a new product. It was unreliable to present expert testimony based on those licenses at trial.

Finally, Bianco still cannot find a single case under Texas law in which a court has awarded an ongoing royalty for a misappropriation of trade secret. There is no authority for such a remedy, and the district court erred by awarding it.

ARGUMENT

I. Bianco Failed as a Matter of Law to Prove He Owns a Trade Secret.

Globus showed in its opening brief that Bianco's general idea cannot be a trade secret under Texas law. Blue Br. 22-32. Bianco makes a two-pronged response. First, he argues that Texas trade secret law in fact protects abstract and undeveloped ideas. In the alternative, he claims that even if Globus is right about the law, Bianco disclosed more than a "mere idea" to Globus. Because Bianco is wrong on both points, Globus is entitled to judgment as a matter of law.

A. The General Idea of an Adjustable Intervertebral Spacer Is Not a Trade Secret Under Texas Common Law.

1. *Gonzales* and *Astro Technology* Dictate that Globus Be Granted Judgment as a Matter of Law.

According to Bianco, Globus is attempting "to introduce a new limitation on the scope of a trade secret under Texas law." Red Br. 30. But the Court of Appeals of Texas left little doubt that it does "not consider the statement that a trade secret may only be an idea to be a correct statement of the law." *Gonzales v. Zamora*, 791

S.W.2d 258, 264 (Tex. App. 1990). The common law of trade secrets has never protected abstract ideas, in Texas or any other jurisdiction.[1]

The decision that best illustrates the principle of Texas law articulated in *Gonzales* is *Astro Technology, Inc. v. Alliant Techsystems, Inc.*, No. H-03-0745, 2005 WL 6061803, 2005 U.S. Dist. LEXIS 46248 (S.D. Tex. Sept. 28, 2005). The facts of this case are also closer to the facts of *Astro Technology* than to any other case cited by either party. Yet, Bianco barely acknowledges the decision.

The plaintiff in *Astro Technology* "[f]undamentally . . . claim[ed] a trade secret in the concept of using fiber optics to obtain data from inside solid rocket motors." 2005 U.S. Dist. LEXIS 46248 at *45. The alleged trade secret encompassed "the identification of several problems which need to be resolved in order to develop the fiber optics concept" and "suggestions of potential ways to address the identified problems." *Id.* The trade secret also included "a volume entitled 'Application of Fiber Optic Sensors to Solid Rocket Motors.'" *Id.* at *4.

The court granted summary judgment to the defendants, holding as a matter of law that the plaintiff's "undeveloped ideas or plans do not rise to the level of a trade secret." *Id.* at *45. In reaching that conclusion, the district court—like Globus in this case—relied on the Texas Court of Appeals' rejection in *Gonzales* of the

[1] The Texas Uniform Trade Secrets Act took effect on September 1, 2013, and does not apply to a misappropriation of a trade secret made before that date. S. 953 § 3, 83d Reg. Sess. (Tex. 2013). Texas common law therefore applies to this case.

view that "a trade secret may only be an idea." *Id.* at *45-*46 (citing *Gonzales v*, 791 S.W.2d at 264); *see also id.* at *21 (relying on *Gonzales* to exclude expert testimony that included "undeveloped ideas and plans" within the definition of a trade secret).

The Fifth Circuit upheld the district court's grant of summary judgment in *Astro Techonology*. It found "that the district court committed no reversible error" and affirmed "essentially for the reasons stated by the district court." *Astro Tech., Inc. v. Alliant Techsystems, Inc*., 231 F. App'x 344, 345 (5th Cir. 2007).

Bianco mentions *Astro Technology* only once. He argues in a footnote that the case is distinguishable because it involved "a general business plan for using fiber optics in operational rocket motors" and an idea "still in its very early stages." Red Br. 34 n.7. Neither argument distinguishes *Astro Technology* from this case.

The alleged trade secret in *Astro Technology* was not merely a "business plan." Rather, it was an idea for a new technology—just like Bianco's idea for an expandable spacer. The purported trade secret in *Astro Technology*, as in this case, included "possible options to ascertain feasible ways" to develop the proposed technology. 2005 U.S. Dist. LEXIS 46248 at *2. Likewise, the new technologies disclosed by both Bianco and the plaintiff in *Astro Technology* were at least partially captured in writing. *Id.* at *4; A10316. Bianco's proposed trade secret is qualitatively analogous to the trade secret in *Astro Technology*.

Bianco also cannot distinguish *Astro Technology* on the ground that it involved an idea "still in its very early stages." Red Br. 34 n.7. Bianco has never argued—nor could he based on the evidence—that his idea for an expandable spacer was anything other than at the "very early stages" of development. Bianco disclosed a "relatively crude" concept that was not close to being a [redacted] A43; A91; A7066. His drawings reflected none of the details that might have made them useful to a design team. A9185-87; A9207-08. "In particular, 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. Nothing in the record suggests "that an instrument or implant, based on the drawings that [Bianco] gave to Globus, would work." A6599.

Astro Technology provides the clearest picture of how Texas law applies in this case. It adopted the same language from *Gonzales* on which Globus relied in the district court, and then applied that language to grant summary judgment under an analogous set of facts. The Fifth Circuit affirmed. Bianco essentially ignores *Astro Technology*, but its reasoning is directly applicable and dictates that Globus be granted judgment as a matter of law.

2. General Ideas Are Not Trade Secrets Under the Common Law of Every Other Jurisdiction to Address the Issue.

The rule that an abstract idea for a new product is not a trade secret is not unique to Texas common law. Every court to address this issue under the common law of trade secrets has reached the same conclusion.

Globus cited *six* decisions from other jurisdictions that are consistent with Texas's rule that "marketing concepts and new product ideas, business possibilities or goals, and undeveloped ideas and plans . . . are not protected as trade secrets." *Astro Tech.*, 2005 U.S. Dist. LEXIS 46248 at *21 (internal quotations omitted); *see also* Blue Br. 24-25, 27. There are many other cases that support this same result. *See, e.g.*, *Walker v. University Books, Inc.*, 602 F.2d 859, 865 (9th Cir. 1979) (affirming the grant of summary judgment on a misappropriation of trade secrets claim because the design concepts for new I Ching cards were too "vague and obvious" to be trade secrets); *Riordan v. H.J. Heinz Co.*, No. CIV.A. 08-1122, 2009 WL 2485958, at *17, *21 (W.D. Pa. Aug. 12, 2009) (dismissing claims for misappropriation of ideas and trade secret because the concept at issue was not concrete); *Boyle v. Stephens, Inc.*, No. 97CIV.1351(SAS), 1997 WL 529006, at *5 (S.D.N.Y. Aug. 26, 1997) (dismissing claim for misappropriation of trade secrets because "a new marketing technique or a new product concept . . . . cannot be considered a trade secret under New York law"); *cf. Thomas v. R.J. Reynolds*

Tobacco Co., 38 A.2d 61, 63 (Pa. 1944) (rejecting implied contract protection for an idea for a slow burning cigarette that was "both abstract and not original").

Bianco dismisses these decisions as irrelevant because they do not apply Texas law. Red Br. 32. But Bianco ignores that these cases applied a common law definition of trade secrets that is indistinguishable from the definition under Texas common law. *See* Blue Br. 27. Bianco cannot simply brush aside this precedent because it is "out-of-Circuit." Red Br. 32. This caselaw is persuasive because it shows that the expression of Texas trade secret law in *Gonzales* and *Astro Technology* is consistent with the common law of every other jurisdiction.

The rule that abstract ideas are not trade secrets has strong doctrinal roots in the common law. The law of ideas was traditionally distinct from the law of trade secrets because of the common law requirement that a trade secret be used in its owner's business. *See* Restatement of Torts § 757 cmt. b ("A trade secret is a process or device for continuous use in the operation of the business."). Because an abstract idea for a new product is not itself used in business, it cannot be a trade secret under the common law definition.

Bianco admits that Texas common law imposes the traditional "use in business" requirement for trade secrets. Red Br. 28; *see also In re Bass*, 113 S.W.3d 735, 739 (Tex. 2003) (requiring that a trade secret be "used in one's business"). The court in *Astro Technologies* expressly applied this requirement in

holding that an undeveloped new product idea was not a trade secret. 2005 U.S. Dist. LEXIS at *46 (holding that the plaintiff had "not presented evidence that it used the alleged trade secret in its business"); *id.* at *21 (excluding expert testimony because the expert did not apply "the requirement that the alleged trade secret must be used in the owner's business").

The Uniform Trade Secrets Act eliminated the "use in business" requirement and, as a result, undermined one rationale for the distinction between the law of ideas and trade secret law. *See* Restatement (Third) of Unfair Competition § 39 cmt. h. But the Uniform Trade Secrets Act does not apply in this case. *See supra* note 1. Accordingly, the traditional division between ideas and trade secrets articulated in *Gonzales*, *Astro Technology*, and the common law of every other jurisdiction governs. In light of that distinction, Globus is entitled to judgment as a matter of law.

The rule that an abstract idea cannot be a trade secret is also dictated by the common law's six-factor test for trade secrets. *See Bass*, 113 S.W.3d at 739. Every element of that test requires the alleged trade secret to be "information" of some sort. An abstract idea that lacks any workable plan for implementation is not "information" in any meaningful sense. Such an idea has no value to either the plaintiff or his competitors, as required by the fourth factor; takes no research or

money to develop, as addressed under the fifth factor; and requires no more than a rudimentary knowledge of the industry, as relevant to the sixth factor. *Id.*

A trade secret must be a concrete, identifiable, and usable piece of information that brings value. A "general idea" or "basic concept" that serves only to motivate, inspire, or "sparkle" someone else's development of a new product is not a trade secret. A112; A115; A136; A7070-71; A7065. Having found that this is all that Bianco provided to Globus, the district court should have entered judgment in Globus's favor.

3. Bianco Cites No Precedent that Protects Only an Abstract Idea as a Trade Secret.

Bianco argues that "the Texas Supreme Court has recognized that new product designs are valuable and entitled to trade secret protection." Red Br. 34 (citing *Hyde v. Huffines*, 314 S.W.2d 763, 776-77 (Tex. 1958)). But "new product designs" are different than abstract ideas. New product designs may be trade secrets because they provide useful information. Abstract ideas that include no workable design or concrete information about a new product are not trade secrets.

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. Had Bianco proved that Globus misappropriated a new product *design*, this might be a different case. But Bianco's

sketches were undeveloped and unworkable. A91; A7061; A7066-68; A6527; A6588-89; A6591; A6593-94. The district court did not uphold the jury's verdict on the grounds that Globus misappropriated a new product design. It was only by defining Bianco's trade secret as a general idea—not a specific product design—that the district court denied Globus's judgment as a matter of law.

Bianco fails to cite a single case from Texas or any other jurisdiction where an abstract idea was afforded trade secret protection. Bianco cites *Triple Tee Golf Inc. v. Nike Inc.*, 485 F.3d 253, 266-67 (5th Cir. 2007), but the court in that case protected as a trade secret a "sufficiently realized . . . design" disclosed in sketches that showed a workable device. Likewise, *Taco Cabana Int'l, Inc., v. Two Pesos*, 932 F.2d 1113, 1123 (5th Cir. 1991), merely cited a list of cases providing examples of different kinds of information that constitutes trade secrets, none of which include abstract ideas. *Learning Curve Toys, Inc., v. PlayWood Toys, Inc.*, 342 F.3d 714, 727 & n.6 (7th Cir. 2003), was decided under the Illinois version of the Uniform Trade Secrets Act, which eliminated the "use in business" requirement for trade secrets. It was also not disputed in *Learning Curve* that the plaintiff had identified information sufficiently concrete to be a trade secret.

Bianco relies on the Fifth Circuit's decisions in *Sikes v. McGraw-Edison* to argue that new product ideas are protectable as trade secrets. *See* Red Br. 33-34. But *Sikes*, like the other cases Bianco cites, involved more than an abstract idea for

a new product. The plaintiff in *Sikes* had invented a "functioning grass trimmer" and demonstrated the prototype for the defendant. *Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 734 (5th Cir. 1982). *Sikes* did not hold that abstract ideas can be trade secrets, because that case did not involve an abstract idea.

In fact, the Fifth Circuit expressly distinguished the circumstances before it in *Sikes*, where a plaintiff had actually developed a new product, from one in which the plaintiff has "a mere abstract idea." *Id.* at 733. Unlike "mere paper plans" that "could not and did not show . . . that the exact device disclosed would function," the plaintiff in *Sikes* had a working prototype that embodied the allegedly misappropriated new product and qualified as a trade secret. *Id.* at 735. In denying rehearing, the Fifth Circuit again acknowledged that there is a distinction to be drawn—albeit not "rigid" one—between "new product ideas" and trade secrets. *Sikes v. McGraw-Edison Co.*, 671 F.2d 150, 151 (5th Cir. 1982).

Bianco's reliance on *Hyde Corp. v. Huffines*, 314 S.W.2d 763 (Tex. 1958), is misplaced for the same reason. The plaintiff in *Hyde*, as in *Sikes*, actually constructed his invention, a trash compressor for garbage trucks, and applied for a patent on that invention. *Id.* at 766. The defendant "gained full knowledge of [the plaintiff's] device not only from the application for patent but from scale models, blue prints, and actual construction of the device." *Id.* at 768.

Thus, the trade secret in *Hyde*, like the trade secret in *Sikes*, was far more concrete and valuable than the "crude" and "aspirational" concept that Bianco claimed as his trade secret. A91; A115. Bianco has pointed to no decision under the common law of Texas or any other jurisdiction that supports his argument that an abstract idea for a new product, without more, can qualify as a trade secret.

4. Globus Preserved Its Argument That the Evidence Was Insufficient to Show that Bianco Owned a Trade Secret.

Bianco tries to sidestep his lack of legal authority by pressing the first of several groundless waiver arguments. He claims that Globus waived its challenge to whether Bianco has a trade secret by failing to object to the jury instructions. Red Br. 30. But Globus is not raising an error in the jury instructions. Instead, it argues that Bianco failed to introduce sufficient evidence to establish a trade secret under Texas common law.

Globus preserved this argument in its motions for judgment as a matter of law under Rule 50(a) and Rule 50(b). A6369; A9607. Bianco never suggested in response that these arguments were waived. A9655-59. The district court addressed Globus's argument at length in its post-judgment decision, without once suggesting that it was waived. A121-23.

Furthermore, the jury instructions themselves characterized Bianco's trade secret as a "combination of information." A6402. There was no suggestion in the instructions that Bianco's general idea or basic concept of an expandable spacer—

separate from the specific [redacted] combination that his expert identified—was the trade secret. Globus had no reason to object to that description of Bianco's trade secret in the instructions because it was consistent with the description of his trade secret at trial.

B. Bianco Cannot Rely on Unidentified "Key Features" to Establish that His Trade Secret Was Actually a Specific Product Design.

According to Bianco, Globus's argument relies on an incomplete and inaccurate description of his trade secret. Bianco points out that the district court described his trade secret as the general idea for an expandable spacer along with "several key features." Red Br. 35-36. In Bianco's view, this talismanic language in the district court's post-judgment opinion is sufficient to make his trade secret more than just the concept of an expandable spacer.

Globus acknowledged in its opening brief that the district court referenced "some unspecified 'key features'" in describing Bianco's trade secret. Blue Br. 29. But vague references to "key features" add nothing to the legal analysis of Bianco's trade secret. The general idea of an expandable spacer is the only identified potential trade secret on which the jury could have found liability.

It was Bianco's burden to identify his alleged trade secret with particularity. *See StoneEagle Services, Inc. v. Valentine*, 2013 U.S. Dist. LEXIS 188512 at *5 (N.D. Tex. June 5, 2013) (requiring plaintiff to identify all allegedly misappropriated trade secrets with particularity); *United Servs. Auto. Ass'n v.*

Mitek Sys., Inc., 289 F.R.D. 244, 248-49 (W.D. Tex. 2013) (staying discovery responses by defendants until plaintiffs identify with sufficient specificity the trade secrets at issue, on pain of dismissal). Liability cannot be determined without sufficiently detailed information about what was allegedly misappropriated. *See ECT Int'l, Inc. v. Zwerlein*, 597 N.W.2d 479, 482 (Wis. Ct. App. 1999); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 522 (9th Cir. 1993); 4 Roger M. Milgrim, MILGRIM ON TRADE SECRETS § 16.01[5][b] (2005).

Bianco cannot now claim that his trade secret is "a product idea combined with several key features" without having identified those "key features" with particularity. The district court did not identify them in denying Globus's motion for judgment as a matter of law, and Bianco fails to do so in this Court.

Bianco's only attempt to specify the supposed "key features" comes in footnote 8 of his brief. There, he states that "among the key features" are "a contracted height for insertion into the disc space, implant optimization from endplate to endplate when expanded in the disc space, and controlled expansion and distraction." Red Br. 36 n.8. But these so-called features are merely three ways to describe the core concept of an adjustable spacer. They are wordier ways of saying that an expandable spacer is contracted when inserted into the body and then expanded to fit the disc space. In other words, these "key features" are just the general idea of an expandable spacer.

In addition, all three "key features" describe the expandable spacers that existed on the market before Globus developed Caliber® and Rise®. Indeed, every expandable surgical device of any kind would share these so-called key features. *Compare* A3155-61 *and* A7006-15 *with* A2600-03; *see also* Blue Br. 8; A7238; A724; A7280-81. There is nothing secret about these well-known concepts. A2600-03. The presence of surgical buzzwords does not make Bianco's trade secret anything more than the idea to develop an adjustable spacer.

Other than an abstract idea for an adjustable spacer, the only potential trade secret Bianco identified in this case was the combination of [redacted] well-known elements identified by his technical expert, Dr. Carl McMillin. A7005-15. Bianco now suggests that the jury could pick and choose from among these [redacted] to define Bianco's trade secret for itself. Red Br. 37. But both Bianco and McMillin were clear at trial that it was the *complete combination* of these [redacted] that comprised a potential trade secret—not any of the individual elements. *See* A6593 (Bianco) ("A: It's how you put together those nuts and bolts will make the product. That would be my analogy. Q: But it's the combination of all of them? A: Altogether matters, yes, sir."); A6637-38 (Bianco's tesimony adopting McMillin's [redacted] combination as a trade secret); A7016 (McMillin) ("Q: Is it the individual parts that are the trade secret, or is it something else? A: No, it's the combination of them."); A7017-18 (McMillin) ("A: I mean,

it's the combination of putting them altogether to make the spacer that's -- that's the important thing. Q: So it's not any one single feature? A: No. Q: It's how they all come together? A: It's the combination of them.").

Likewise, before trial, Bianco successfully opposed summary judgment on the grounds that there was a factual issue about whether the specific combination of [redacted] A3775-76. Bianco cannot reverse his course now to justify the district court's reasoning. Bianco's trade secret has been "fluid and ever shifting" throughout this litigation. *Astro Tech.*, 2005 U.S. Dist. LEXIS 46248, at *45. This Court should reject Bianco's attempt to continue the shell game on appeal.

Bianco defeated summary judgment and went to trial on the theory that his trade secret was a specific combination of [redacted]. At trial, Bianco first introduced the argument that his trade secret was the general idea of an adjustable spacer. A6591; A6496-97. His expert, Dr. McMillin, took the same approach, testifying that, in addition to the [redacted] combination, Bianco simply inspired Globus to develop the ramp concept. A7070-71; 7065; A7079. The district court upheld the jury's verdict only because it defined Bianco's trade secret as the "general idea" or "basic concept" of an adjustable intervertebral spacer. A112; A114; A124. Bianco cannot shift his trade secret again on appeal by pointing to individual elements of the complete combination on which he relied at trial.

The general idea for an expandable intervertebral spacer was the only alleged trade secret arguably supported by the evidence. The jury was presented with a specific [redacted] combination that Bianco and McMillan testified must be treated as a *complete* combination to be a trade secret. But neither the district court nor Bianco have relied on the complete [redacted] combination to justify the jury's verdict. Because a general idea is not a trade secret, and because the jury was presented no evidence of individual "key features" relating to that idea, Globus is entitled to judgment as a matter of law.

II. Bianco's Past Damages Theory Was Legally Flawed.

Even if Bianco were to successfully persuade this Court that he had a valid trade secret, Globus would still be entitled to a vacatur and remand of the damages verdict. Bianco undisputedly made no attempt to apportion the royalty base or rate to reflect the value of any particular "key features." He instead based his damages model solely on the broadest possible concept of adjustable spacers. In addition, his damages model depended on non-comparable licenses that made it unreliable. Globus is entitled to a vacatur and a remittitur or new trial on past damages.

A. Dr. Becker's Failure to Apportion the Royalty Rendered His Opinion Inadmissible.

Bianco's primary response to every legal error that Globus identifies with the opinion of his damages expert, Dr. Stephen Becker, is that the argument is waived. Bianco is wrong each time.

First, Bianco suggests that Globus proposed the royalty base used by Dr. Becker. Red Br. 39. That assertion is simply false. In pointing out one of the many flaws in Dr. Becker's methodology, Globus argued that Dr. Becker could not pick royalty rates from some licenses and apply them to royalty bases from others. A6212-6216. Globus argued that if Dr. Becker was going to use the 0.5% rates from the royalty agreements for the Caliber® and Rise® contributors, then he had to use the same royalty base (net sales instead of gross) as those agreements to keep the rate in context. A6215. That argument was not a proposal that net sales are per se the proper royalty base, and it was not the only flaw that Globus identified in Dr. Becker's opinion. A6209-19. Dr. Becker also failed to do a proper apportionment analysis, even if using net sales as the royalty base was a proper starting point. A6210-11. Dr. Becker's opinion was unreliable because it included no apportionment analysis, while simultaneously manipulating the rates and bases of past licenses in order to inflate the royalty. The district court abused its discretion by allowing Bianco to present Dr. Becker's opinion to the jury.

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 to past damages calculations for trade secret misappropriation).

The "smallest salable unit" test is not a substitute for an apportionment analysis, and thus is not the beginning and end of the plaintiff's obligation to tie the royalty to the facts of the case. *Compare* Red Br. 39-41 *with Personalized Media Communs., LLC v. Zynga, Inc.*, 2013 U.S. Dist. LEXIS 160247 (E.D. Tex. Nov. 8, 2013) (explaining that a proper damages analysis does not begin and end with a determination of the smallest saleable unit). *See also AVM Techs., LLC v. Intel Corp.*, 2013 U.S. Dist. LEXIS 1165 (D. Del. Jan. 4, 2013) (applying the "entire market value rule" to a smallest saleable patent practicing unit when the smallest saleable patent practicing unit is itself made up of multiple components and explaining that the use of the smallest saleable unit that is greater than the patented feature is still going to introduce "Uniloc error."); *Rembrandt Soc. Media, LP v. Facebook, Inc.*, 2013 U.S. Dist. LEXIS 171127 (E.D. Va. Dec. 3, 2013) (citing *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1337 (Fed. Cir. 2009), for the proposition that a royalty must be limited to the value of the plaintiff's contribution, and extending the royalty to other features overcompensates the plaintiff); *Dynetix Design Solutions, Inc. v. Synopsys, Inc.*, 2013 U.S. Dist. LEXIS 120403, 2013 WL 4538210 (N.D. Cal. 2013) ("Of course, the smallest salable infringing unit must be the starting point for the royalty base, but the Federal

Circuit has not held that no further apportionment is ever necessary once the smallest salable unit is determined.").

Dr. Becker admitted that some apportionment would have been appropriate if at least a portion of the Globus products were independently developed. A7208-10. There is no question 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 . . . contributed by Dr. Bianco." A91; *see also* A33. Even under Bianco's theory of this case, Globus spent years to develop and implement the abstract idea of an expandable spacer. Nonetheless, as Becker admitted at trial, his damages model failed apportion Bianco's damages. A7184; A7186. The district court, in its gatekeeping function, should have excluded Dr. Becker's opinion at trial.

B. Dr. Becker's Use of the Licenses of Record Was Unreliable

Bianco's responsive brief does not even attempt to defend his expert's flawed methodology of adding up all the royalties of the other licenses for the accused products and then adding a 1% commercial success kicker to reach the 5% starting point rate. *See* Blue Br. 40-42. There is no support in law or in the licensing field for this methodology, and Bianco provides none. Bianco merely states that adding up all of the other royalties was not "arbitrary" because the expert nominally gave a reason for doing so. Red Br. 47. That is insufficient.

Rather than attempting to show why Becker's damages model was reliable, Bianco instead argues that the fully developed product licenses—which were offered merely as a "check" on the royalty rate at trial—rescue Dr. Becker's opinion on appeal. Red Br. 42-47. Bianco argues that it was the province of the jury to determine whether the royalties were comparable. *Id.*

Of course, Bianco first alleges waiver. Red. Br. 43-44. Bianco contends that Globus never objected to Dr. Becker's reliance on the royalty agreements with 5% rates. A43. To the contrary, Dr. Becker's use of those outlier licenses as a check on his royalty was part of a larger methodology, the entirety of which was unreliable, and was the subject of an extensive *Daubert* motion to exclude Dr. Becker's opinion and testimony. *See* A1946-47. The district court erroneously denied the *Daubert* motion. At that point, Globus could not object to the admission of the all of the licenses, since there would be no other way to illustrate to the jury how incomparable the outliers were. *Cf.* Red Br. 44. Nonetheless, those licenses skewed the damages horizon by introducing numbers that were 10 times higher than a reasonable royalty should have been. The problem was therefore not the admission of the 5% and 6% rate licenses per se, but rather the admission of those licenses for the purpose for which Dr. Becker was using them: as an unapportioned, non-comparable check on an unreliable opinion.

This Court has held that an expert opinion that relies on non-comparable licenses may not be admitted to a jury, and that a damages award based on an expert's use of such licenses is properly vacated on appeal. *See 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 a non-comparable license along with comparable ones). The district court should have excluded Dr. Becker's use of those licenses under its gatekeeping function.

Bianco's brief runs through the details of each of the non-comparable licenses and tries to compare them to Bianco's contribution, but each time he falls flat. In none of these licenses did Globus pay anything close to a 5% royalty for an undeveloped, "relatively crude," "largely aspirational," "germ of a" new product idea. A43, A91, A115. Every license that was over 1% was made under circumstances vastly different from the present case. A7176; A7194; A7875-78. These are not small differences that a jury could accept or reject. The nature of the contribution and the size of the royalty rate are an order of magnitude away from the way in which Dr. Becker considered them. Dr. Becker's use of these licenses as a check, without any apportionment or comparability analysis, skewed the damages horizon for the jury, and allowed Bianco's expert to make his completely unfounded methodology of adding up all of the other royalty rates on the accused products seem reasonable.

III. Bianco's Ongoing Royalties Cannot Stand.

Bianco's responsive brief does not cite a single Texas case in which ongoing royalties were awarded for a misappropriation of trade secret. There is none to cite, because there is no legal authority for such an award. Instead, Bianco again fabricates outlandish waiver arguments that are clearly contradicted by the record. Bianco first suggests that Globus proposed the approach to future damages that it now challenges, and that Globus never objected to the *Paice* proceedings. Red Br. 48, 50. Nothing could be farther from the truth. *See* A7107-A7110. Globus objected *several times* to the *Paice* proceedings *that Bianco proposed*, and explained to the district court why severing future damages in the middle of trial, especially as a way of giving Bianco a second bite at the apple, was entirely inappropriate:

> THE COURT: . . . Do you have an objection to proceeding by essentially severing the future from the present, as [Bianco] has suggested?
>
> [Counsel for Globus]: Your Honor, we do. . . . the only expert report we have ties 6 percent to 15 years. There's nothing, no notice that we've been given in his expert report of just a 6 percent rate. . . .
>
> THE COURT: . . . what I understand [Bianco] to have proposed as an alternative, . . . [is] effectively severing future proceedings from past damages so that [] if there's a verdict in favor of Dr. Bianco, there will be some future opportunity to assess damages [] that have not yet occurred. Do you object to the latter course?
>
> [Counsel for Globus]: We would object to either it being done 6 percent to this jury or it being severed –

> [Counsel for Globus]: . . . They have a damage model that is now inappropriate. For him to say: Well, to save myself, I'll just sever it and put it off into the future, and we'll re-do our mistake. . . .
>
> THE COURT: Well, and, you know, I mean, it was my order that had the effect of unhorsing them with respect to future damages. . . .
>
> [Counsel for Globus]: Well, you had to undo it because their report was unreliable.
>
> THE COURT: All right. Let's go with . . . the second suggestion of [Bianco] that if there is a verdict, then whatever happens with respect to the future will be the subject of another proceeding.
> . . .
>
> [Counsel for Globus]: Your Honor, your order is clear, and we accept it, and I just want to make sure on the record that it is over Globus' objection to doing that.
>
> THE COURT: All right. I understand.

A7107-A7109. The seemingly contrary quotes in Bianco's brief are taken out of context, from a different stage of the case, *before* Bianco lost on his first bite at the apple on future damages. *Compare* Red Br. 49 *with* A6210-A6218. In those quotes, Globus's counsel was observing differences between patent and trade secret cases, and was not proposing a particular course of action. A6215.

Next Bianco suggests that Globus never argued "before trial" that ongoing royalties were unavailable as a remedy, as though that constituted a waiver. Red Br. 50. But Bianco never *sought* ongoing royalties until *after* his inadmissible future damages case was severed—he sought only a lump sum future damages

award before trial. Globus cannot be expected to clairvoyantly object to a form of damages that Bianco had not sought.

When it severed the future damages proceedings, the district court expressly left open the opportunity for Globus to present a legal argument against whatever Bianco's future damages model became. *See* A7111-A7113 ("The fact that I am excluding future damages evidence in this case will not itself bar the Plaintiff from seeking future damages in the future. . . . if there is some other legal principle that comes into play here that would get in the way of an award of future damages, I'm not sweeping that aside.") Accordingly, Globus timely argued in its initial response to Bianco's application for future damages in the form of ongoing royalties, and again in its renewed motion for JMOL, that Texas law did not provide for ongoing royalties in a trade secret case. *See* A9571-78; A9624-26. Globus argued that Bianco was therefore entitled to no award of future damages because he failed to produce reliable evidence of future damages as a remedy at law at trial. *Id.* The district court rejected these arguments, but failed to cite any authority in support of its decision. A151-54.

Bianco cannot defend the award of ongoing royalties on the merits. A Texas court can only award an injunction limited to the amount of time that it would have taken the defendant to obtain the misappropriated information by permissible means, in order to cure the "head start" advantage conferred by the

misappropriation. *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 778-79 (Tex. 1958); *Bryan v. Kershaw*, 366 F.2d 497, 501 (5th Cir. 1966). But the district court here did not limit the royalty period to any alleged head start. Instead, the royalty awarded extended for 15 years, a period of time unrelated to the actual tort of misappropriation. It is therefore Bianco (and the district court), and not Globus, who is conflating the concepts of a continuing tort and a continuing injury by compensating a continuing injury as though it were a continuing tort. Red Br. 51.

Any continuing damages for prospective injury that Bianco may have incurred would have been available as a remedy at law, to the extent that Bianco could prove them. Bianco's future damages evidence was, however, [redacted] A22-23. Having failed to present any reliable evidence of future damages, Bianco should have been denied future damages.

The district court nonetheless awarded ongoing royalties *not* based on the merits of Bianco's claim, but because it seemed unfair to deny an injunction under *eBay* on the basis that monetary damages were adequate to compensate Bianco, and then not give Bianco a corresponding monetary award. A153. The district court's sympathy for a damages catch-22 that was of Bianco's own making is not the basis to create a remedy that does not exist under Texas law.

CONCLUSION

For all of the reasons stated in Globus's Opening Brief, 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 the calculation of a reasonable royalty for past damages and to deny any award of future damages.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

1. This brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7) because this brief contains 6,790 words.

2. This brief complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6) because it has been prepared in 14 pt. Times New Roman, a proportionally spaced typeface, using Microsoft Office Word 2010.

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May 26, 2015

CERTIFICATE OF SERVICE

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 May 26, 2015, and served a copy by email to all registered participants.

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