

Nos. 03-56193, 04-56836

**UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

B. BRAUN MEDICAL, INC.,

*Plaintiff/Counterdefendant and
Appellant/Cross-appellee,*

v.

**BOBBY EUGENE ROGERS AND
ROZI MEDICAL DEVICES LTD.,**

*Defendants/counterclaimants and
Appellees/Cross-appellants.*

On Appeal From The United States District Court
For The Southern District of California (Brewster, J.)
Civil Action No. 98-CV-0250

**ANSWERING AND OPENING BRIEF
OF APPELLEES AND CROSS-APPELLANTS**

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CORPORATE DISCLOSURE STATEMENT

The undersigned counsel for Rozi Medical Devices, Ltd. (“Rozi”) states that Rozi is an Ohio limited liability company, with no parent or subsidiary, and no publicly held company owns 10 percent or more of its stock.

Dated: May ___, 2005

By: _____
Martin N. Buchanan
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INTRODUCTION

After a three-week trial, a jury rendered a special verdict against B. Braun Medical, Inc. (“Braun”). SER0679-82. The jury found by clear and convincing evidence that Braun had willfully and maliciously misappropriated trade secrets belonging to Bobby Rogers and Rob Zimmer (collectively “R&Z”). The jury concluded these trade secrets contributed to the invention of Braun’s highly profitable Ultrasite medical valve and its ‘451 Patent on the valve. SER0680-81. The jury also found Braun had committed intentional and malicious fraud. The jury awarded \$20.75 million damages. SER0681-82; ER0898. The district court awarded \$5 million more in exemplary damages, as authorized by the California Uniform Trade Secrets Act (“UTSA”). SER0685-86.

After a separate bench trial on equitable issues, the court found Braun had “fraudulently concealed their deliberate program of developing a valve from confidential information provided by Rogers” and had undertaken “a course of action that was calculated to eviscerate the property rights of Rogers” ER0821. The court declared R&Z to be the legal and equitable owners of the Ultrasite and reassigned the ‘451 Patent to them, in lieu of the jury’s \$2.5 million future damages award. However, the court compelled R&Z to grant Braun an exclusive license to the patent. ER0833-41. In a post-judgment order, the court granted Braun’s motion for judgment as a matter of law as to \$11 million of the jury’s \$16

million award for past compensatory damages. ER0850-52.

Braun has appealed and R&Z have filed a cross-appeal. Braun leads with an attack on the patent reassignment, claiming it raises “profound issues under *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938), and the Seventh Amendment.” AOB 1. Braun is wrong. The district court plainly understood its obligation to apply California law. Patent reassignment is an accepted remedy, not only in the federal courts, but also under California law and the UTSA. Further, Braun correctly conceded it had no right to jury trial on patent ownership. SER0002.

Braun’s remaining arguments also lack merit. Braun claims R&Z should have discovered the misappropriation in 1993 – but Braun ignores the fact that the misappropriation did not occur until 1994. Braun argues the court’s definition of the trade secret was incorrect – but this definition was in accord with California law and was never mentioned to the jury anyway. Braun contends the award of past compensatory damages was not supported by the record – but Braun omits the evidence supporting the jury’s award.

The only reversible errors were in Braun’s favor. The court erroneously granted Braun’s motion for judgment as a matter of law as to \$11 million of the jury’s \$16 million award for past compensatory damages. In direct violation of crystal clear California law, the court limited R&Z’s damages to actual losses and refused to permit an award of unjust enrichment based on Braun’s unlawfully

obtained profits. This order should be reversed and the jury's award reinstated. Further, the court erred in granting Braun a wholly unauthorized, exclusive license to continue using the wrongfully obtained '451 Patent. This portion of the judgment should also be reversed. In all other respects, the judgment should be affirmed.

STATEMENT OF JURISDICTION

The district court had diversity jurisdiction under 28 U.S.C. § 1332. The court entered final judgment on August 17, 2004 and an order on post-trial motions on September 14, 2004. ER0915. Braun filed an amended notice of appeal on October 5, 2004. ER0917. R&Z filed a timely notice of cross-appeal on October 8, 2004. ER0917. This Court has jurisdiction under 28 U.S.C. § 1291.

ISSUES PRESENTED

1. Whether the remedy of patent reassignment is authorized by California law, is supported by the evidence, and was imposed consistently with any Seventh Amendment right to jury trial not waived by Braun.

2. Whether the district court correctly ruled the misappropriation claim was timely filed as a matter of law.

3. Whether the court properly defined the trade secret, whether it abused its discretion in excluding evidence of other patents, and whether any such error was harmless.

4. Whether the court properly permitted recovery on R&Z's amended fraud claim.

5. Whether the court erred in granting Braun's motion for judgment as a matter of law as to \$11 million of the jury's award for past compensatory damages.

6. Whether the court erred in granting Braun an exclusive license to continue using the '451 Patent and misappropriated trade secrets.

7. Whether the court erred in ruling that R&Z's original fraud claim was preempted by the UTSA.

STATEMENT OF FACTS AND CASE

A. The Rogers Valve

In the 1980's, the AIDS crisis prompted a market demand for needle-free valves for use in intravenous devices. The first generation of needle-free valves required a sterile cap for each use. SER0031-34, 39-40, 97. Because this was costly, there was a market demand for a second generation of needle-free valves without a cap. SER0034, 205-06.

In 1989-1990, Bobby Rogers invented a needle-free "capless back-check valve" that could be swabbed with alcohol, eliminating the need for a cap. This was his first invention. SER0029-42.

Rogers and his friend Rob Zimmer formed a company and wrote a business plan for the Rogers valve. R&Z marketed the valve to various companies and

applied for a patent in 1991. The patent (the '114 Patent) was issued in April 1991. SER0036-37, 42-47, 71.

B. The License Agreement

Braun is a manufacturer of health care products with headquarters in Pennsylvania. In the late 1980's, Braun was marketing a needle-free valve known as the Safsite, which required the use of a sterile cap. Based on its market research, Braun recognized the need for a capless product to replace the Safsite. Braun's engineers attempted to develop several capless valves, but were unsuccessful. Braun eventually ceased development of the in-house valve designs. SER0204-07, 428-35, 484-504, 506.

Eileen Brobst-Lane was Braun's product director for needle-free products. SER0203A. In May 1991, Braun's vice president of engineering, Kenneth Raines, sent a memorandum to Brobst-Lane about the Rogers valve. It stated: "As you know this is the same concept we have been developing and I feel strongly [that] this concept is the wave of the future." SER0211-12, 461.

Brobst-Lane met with R&Z in June 1991. SER0212. She concluded the Rogers valve would be "serious competition" for the Safsite because "it addresses our number-1 issue, recapping." SER0215-16. Based on her market research, Brobst-Lane projected the Rogers valve had a "net present value of \$65 million based on the stream of profits" over the next five years. SER0213-14, 217-18.

R&Z entered into a License Agreement with Braun in January 1992. SER0048-55; ER0182-94. Paragraph 2 of the Agreement granted Braun an exclusive right to practice the claims of the '114 Patent. ER0183.

Paragraph 3 required Braun to pay royalties based on the number of valves sold. It also provided for a non-refundable advance royalty payment of \$350,000 and minimum guaranteed royalties of \$250,000 per year for five years. ER0183-84.

Paragraph 5 required R&Z to provide technical and consulting services to Braun, and required Braun to reimburse R&Z for pre-approved expenses reasonably incurred in providing such services. ER0185.

Paragraph 9 required each party to keep confidential any proprietary information belonging to the other. It also provided that any such confidential information could be used only in furtherance of the Agreement. ER0186.

Paragraph 10 defined the conditions for termination of the Agreement. R&Z were permitted to terminate if sales fell below specified levels. Braun was permitted to terminate if it: (i) paid a penalty, (ii) conveyed title and ownership of all research and development drawings and documents to R&Z; and (iii) gave R&Z the option to purchase all tooling and inventory at book value. ER0187-88.

Paragraph 11 gave Braun a right of first refusal on any other invention by R&Z that performed "similar functions" to the Rogers valve. ER0189.

C. Braun Does Nothing to Develop the Rogers Valve

The parties knew the Rogers valve required considerable refinements to become a marketable product. SER0057-60, 436. However, Braun's engineering department never assigned anyone to work on the valve and made no attempt to develop it. SER0437-38, 505-06. According to Raines, he never "pushed the button" on the Rogers valve. SER0438.

Throughout 1992, Rogers communicated frequently with Brobst-Lane. SER0061-63. In a letter to Zimmer dated July 16, 1992, Brobst-Lane stated: "As I mentioned in our telephone conversation, we have several design modifications and are currently making prototypes." SER0055, 77. In fact, Braun had still done nothing to develop the valve. SER0437-38, 505-06.

D. R&Z Commission ViR

By the end of 1992, R&Z were concerned about Braun's lack of progress. They were worried Braun might decide to terminate the Agreement without having done anything to develop the valve. SER0062-63. They decided to take the initiative by contracting with ViR Engineering, a Santa Barbara company, to develop a marketable valve. Braun had no connection with ViR and had nothing to do with retaining ViR. SER0063, 67-68, 282-90, 300.

In January 1993, ViR made a written proposal for the project. SER0234. R&Z accepted the proposal and provided ViR with the '114 Patent and other

information. R&Z did not give ViR any of Braun's in-house work. SER0064-68, 159-62, 289-92.

The ViR engineers worked on the valve and came up with five different designs for a capless, needle-free valve, in what came to be known as Phase I, the concept generation phase. SER0293-95, 314. ViR developed engineering drawings of the five designs, labeled as Types I-V. SER0078-92.

The work ViR performed for R&Z in Phase I was confidential. SER0099, 102-03, 299-300, 524. The drawings were all original work by ViR. ViR did not copy any outside materials. SER0341-42, 472. Braun's own engineering expert, Dr. Neil Sheehan, testified that each of these five designs was a unique combination of elements never seen before in the prior art. SER0620, 630.

ViR worked exclusively with R&Z on Phase I. SER0324-25. R&Z paid ViR \$15,425 for Phase I. SER0070, 301-02. The Phase I designs belonged solely to R&Z. SER0069-70, 94, 99.

R&Z invited two Braun representatives to Santa Barbara for a presentation of Phase I in February 1993. ViR provided copies of their drawings to Braun. SER0078, 219-21, 295-98. Braun understood the drawings were confidential. SER0220-21. Braun was enthusiastic about ViR's work. SER0202-03.

In an internal memorandum, Brobst-Lane stated: “Through their presentation, five design variations were reviewed which could be used individually or in combination to create optimum end-product.” SER0222-23.

In March 1993, Zimmer wrote to Brobst-Lane stating he was “ready to move forward with VIR” into Phase II. With respect to the Phase I designs, Zimmer informed Braun, “VIR will be assigning all patentable subject matter to Bob and myself.” However, Zimmer emphasized, “In that regard, I want to assure you that we will honor our obligation to offer you the right of first refusal as defined in paragraph 11 of our license agreement.” ER0228-29; SER0103.

In March 1993, Brobst-Lane sent R&Z a \$7,500 check for half the cost of Phase I. SER0249. However, R&Z had never agreed to split the cost of Phase I with Braun. R&Z were concerned about the ramifications of cashing the check. SER0110-11. After several unsuccessful attempts to clarify R&Z’s relationship with Braun, SER0265, 676, Rogers returned the check after Zimmer passed away in December 1993.¹ SER0098-105, 117-18.

Braun made arrangements for ViR to give a formal presentation of Phase I and the Phase II project goals in Pennsylvania on May 7, 1993. SER0106, 303. Before the meeting, Rogers wrote another letter to Brobst-Lane. This letter stated

¹ After Zimmer died, his ownership interest in the ‘114 Patent passed to Rozi Medical Devices. SER0154, 351. Rogers and Rozi are also referred to herein as “R&Z.”

that R&Z had “decided to continue with ViR Engineering and directly contract and manage the next phase(s). This decision has been discussed with ViR and together we have agreed to move forward with or without Burron’s participation.” Rogers suggested two options for going forward with Braun: (1) Braun would reimburse R&Z for Phase II, and R&Z would offer Braun a right of first refusal on any valve they developed, as provided in Paragraph 11 of the License Agreement; or (2) the parties could modify the Agreement. SER0169-75, 223-24, 676.

R&Z paid ViR \$3,000 more for the May 7 presentation and for preparation of the Phase II goals. SER0106A-C. ViR prepared a written list of Phase II project goals. These included selection of a design concept, completion of a detailed design, fabrication and testing of prototypes, and detailed drawings. SER0250, 304-05.

At the May 7 meeting, ViR engineers Claude Vidal and Russ Redmund gave a presentation of the five designs to Braun. Rogers and Zimmer attended the meeting. SER0302-03, 439-41. The ViR engineers also discussed the possibility of combining selected features of the designs into a new configuration. SER0163-69, 179-80, 307, 442-43, 517.

E. Braun Funds Phase II

Braun was impressed with two of ViR’s design concepts (Types I and III) and wanted to participate in further development of those designs. SER0166-67,

309-12. In June 1993, ViR presented a proposal to Braun for Phase II. The proposal noted that Phase I had “yielded five basic design concepts, each with several mix & match features which could be applied to more than one configuration.” It also stated that Braun had “requested ViR to pursue the design and prototype development of two of these valve designs, Type I and Type III as shown in ViR presentation material of May 7, 1993.” ER0705-06; SER0310-12.

Braun agreed to fund Phase II and gave ViR a purchase order number for billing purposes. SER0343, 346-47; ER0233. During Phase II, ViR designed and developed prototypes for the Types I and III valves. SER01211-22; ER0253-77.

Braun kept R&Z apprised of the progress during Phase II. R&Z received a copy of a ViR progress report in September 1993. SER0111-13. The relationship between R&Z and Braun during this period of time was harmonious. SER0116, 121, 324-25. Nobody suggested to R&Z that Braun had gone off on a different path from Phase I or was pursuing its own independent valve. SER0122.

F. Unsuccessful Attempts to Amend License Agreement

During Phase II, R&Z were still concerned about the possibility Braun would terminate the License Agreement. On June 2, 1993, Rogers wrote another letter to Brobst-Lane proposing modifications of the Agreement. SER0107, 265.

Braun sent a counter-proposal to Rogers on October 1, 1993. SER0376-77. Braun’s counter-proposal would have resulted in Braun having an ownership

interest in improvements paid for in whole or in part by Braun. ER0247-49; SER0114. R&Z rejected Braun's counter-proposal. SER0114, 177-78. The License Agreement was never amended.

G. Braun Misappropriates the ViR Work Product

Rogers attended ViR's presentation of the final Phase II report at Braun's headquarters in Pennsylvania on January 6, 1994. SER0120, 316-17.

Exactly one week later, Raines asked Braun's patent counsel to "prepare a draft patent application based on the VIR drawings" from Phase II. SER0318-19. In March 1994, Braun's patent counsel filed a patent application for the Types I and III versions of the "capless medical back-check valve" developed by ViR. The application named the ViR engineers as inventors. SER0151, 181-88.

In April 1994, at Braun's request, the ViR engineers signed a legal document assigning all ownership rights in the valve to Braun. SER0184-86, 319-23. Braun submitted this document to the Patent and Trademark Office ("PTO") in support of its patent application. SER0184-85. The PTO issued the patent (the '451 Patent) on August 8, 1995. ER0280-89; SER0191-200.

Nobody informed Rogers that Braun had applied for a patent on ViR's work, or that Braun had obtained an assignment of ownership rights from ViR. SER0127-28, 145. Rogers was in regular contact with Brobst-Lane during this period of time. SER0129-30. Rogers did not learn about the '451 Patent until he

discovered it on his own while doing a patent search on the Internet three years later, in the middle of 1997. SER0149-54, 158.

Brobst-Lane, Raines, and Morrison all testified they had no memory of any discussions about whether to tell Rogers about the patent application. SER0389-90, 413-14, 448.

Rogers continued to make periodic inquiries as to the progress of the project. On May 9, 1994, Rogers requested “a formal update on the current status of the project.” SER0123, 266. Brobst-Lane’s response stated: “We continue to make good progress... As we make progress, we will keep you informed.” SER0126-27, 269. Brobst-Lane did not mention Braun’s patent application or the ViR assignment. SER0127-29.

H. Braun Falsely Claims to Have Abandoned the Project

After completion of Phase II, ViR continued to bill Braun directly for Phase III. SER0313, 343. Braun decided not to pursue the Type III valve and instead focused on the Type I valve. SER0348, 515-16. However, the final product (the Ultrasite) included features from other Phase I designs, such as a piston with a rigid insert similar to Type III. SER0344-45.

Rogers continued to communicate with Braun throughout 1994. SER0129-30. In February 1995, Rogers wrote to Brobst-Lane expressing dissatisfaction with the pace of the project. Rogers stated that he was considering terminating the

License Agreement and marketing the valve to other companies. He proposed a restructuring of the Agreement. SER0131-34, 273.

Braun convened several high-level meetings to discuss how to respond to Rogers. SER0378-82, 392-93, 446-47. Several drafts of a response were circulated internally at Braun. SER0383, 393-94. None would have informed Rogers that Braun had already filed a patent application. SER0396-407.

Brobst-Lane's handwritten notes of these meetings include the following notations: "do not pay add'l penny in royalty"; "No punitive award to receive in litigation other than what he may receive under contract"; "What to lose on litigation? Will only still pay royalty anyway." SER0384-88, 406, 426-27.

Another document in Brobst-Lane's handwriting outlined various scenarios that could occur, including a suit by Rogers for conversion of Phase I. SER0388, 394-95, 424-45.

Braun's CEO, Rich Trechak, made the final decision how to respond to Rogers. SER0393A. On April 13, 1995, Braun sent its final response under Brobst-Lane's signature. The letter stated: "[W]e have run into numerous difficulties in producing a marketable device which can be manufactured in a cost-effective manner. We believe, as of now, that it is not economically feasible to produce a device in accordance with the design, as described in the 114 Patent."

The letter indicated Braun had "expended significant resources, both financial and

personal (including fees and costs for patent filings), to explore the feasibility of this design.” Finally, it stated: “When making your decision on termination, please recognize that Braun is planning to manufacture and sell a capless valve, which is not royalty-bearing under paragraphs 2 and 3 of the 1992 Agreement.” ER0278-79; SER0135-38.

According to Brobst-Lane, she could not recall why she did not tell Rogers about the patent application in this letter. SER0416. Raines admitted at trial that the letter was false. SER0449-53.

Upon receiving Braun’s letter, Rogers assumed Braun had decided to pursue a separate, independently developed valve. Rogers requested clarification from Braun. However, Brobst-Lane would only say “the new product will not be royalty-bearing under the agreement of 1992.” SER0139-44. Brobst-Lane did not tell Rogers the valve was based on ViR’s work. SER0417-18. She admitted she became “less open” with Rogers. SER0415.

In a letter to Braun dated April 18, 1995, Rogers stated: “All designs and improvements resulting from the Phase 1 work with VIR (work initiated and paid for by Rob and I) are wholly owned by Rob’s Estate and by me.” SER0141-43, 277. Braun never disputed Rogers’ claim to ownership of the Phase I work. SER0417, 419-23.

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I. Rogers Terminates the License Agreement

On March 11, 1997, Rogers terminated the License Agreement for failure to make the minimum sales. Rogers informed Braun he would “be pursuing the designs that we own as a result of the engineering work that we commissioned from ViR.” SER0279. Rogers still did not know Braun had patented the ViR work. SER0152-54.

Braun’s general counsel, Hugh Morrison, wrote a response to Rogers. His response did not mention the assignment or the patent application, nor did it state that Braun was pursuing the ViR design. SER0155-57, 280.

J. Phase I Contributed Substantially to the ‘451 Patent

According to both the ViR engineers and plaintiffs’ engineering expert, Professor Eric Antonson, the Ultrasite was developed in one continuous line of development that originated in Phase I and continued all the way through Phase III. This was a standard engineering design progression, beginning with the five conceptual designs in Phase I, which were successively narrowed and refined in subsequent phases. The ViR engineers never veered off in a different direction from Phase I. SER0314, 320, 252-71, 517-23.

Vidal compared the technical specifications of the ‘451 patent with the Phase I designs. Vidal testified most of the technical specifications had been fully or partially disclosed to Braun in Phase I. SER0327-39.

Vidal also reviewed an Information Disclosure Statement filed by Braun in support of its patent application, in which Braun distinguished the invention from another patent (the Faust patent). SER0195-98, 270. Every one of the distinguishing features listed had been disclosed in Phase I. SER0339-41. Professor Antonnson agreed. SER0372-75.

According to Professor Antonnson, there were 13 separate design concepts embodied in the Phase I designs that survived through to the claims of the '451 patent. SER0370. All elements of claim one of the patent (on which all other claims were dependent) were derived from Phase I. ER0448.

Braun's engineering expert, Dr. Neil Sheehan, admitted that 17 of the 25 elements of the Phase I designs were also in the Ultrasite valve. SER0625-29.

K. Damages Evidence

Braun began marketing the Ultrasite valve based on the '451 Patent in the late 1990's. SER0453A. Sales took off in 2000. SER0454, 470.

Dr. John Buckley testified as a damages expert. Using the most complete of three conflicting sets of data provided by Braun, SER0473-75, Dr. Buckley calculated Braun's past profits on the Ultrasite were \$22.9 million, including prejudgment interest. SER0478-79, 481-82. Dr. Buckley also estimated the present value of future profits on the Ultrasite was \$54 million. SER0479, 482.

Dr. Buckley estimated the fair market value of the Ultrasite as of April 1994 was \$11.6 million. Adding interest, this figure would have grown to \$21.3 million by the time of trial. SER0476-77, 479-80.

Braun's damages expert, Dr. Alan Goedde, testified Braun's past profits on the Ultrasite were approximately \$12 million. SER0655-56. Alternatively, Dr. Goedde calculated damages based on the royalties Braun would have paid to R&Z under a license. At a royalty rate of six cents per valve, Dr. Goedde calculated past royalties would have been \$1,884,580 and the present value of future royalties was \$2,223,980.² SER0657-65; ER0703.

Braun also presented conflicting evidence that its net profits on all Ultrasite products from 1997 through 2002 was \$16.6 million and the valve accounted for 55.8% of the total. ER0694; SER0640-41. These figures did not include pre-judgment interest or profits for the first half of 2003. They were prepared by Braun for litigation, and they used a lower than normal profit margin. SER0642-49.

Braun never paid royalties to R&Z on the Ultrasite or compensated R&Z for the ViR work product.

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²Based on the figures in evidence, the district court calculated the highest possible royalty for past sales at six cents per valve would have been \$2,271,735.51. ER0695-97.

L. The Lawsuit

In December 1997, R&Z filed a petition for arbitration over ownership of the '451 Patent. ER0736. In February 1998, Braun filed a complaint seeking a declaration it was sole owner of the patent. ER0006. In August 1998, R&Z dismissed their demand for arbitration. ER0016. In February 1999, R&Z filed counterclaims against Braun, including fraud. ER0024-25. In June 1999, R&Z amended their counterclaims to include a claim for misappropriation of trade secrets. ER0077-78. R&Z's prayer for relief included reassignment of the '451 Patent and a finding "that Braun holds title to the '451 patent in trust" for R&Z. ER0078.

The case proceeded to jury trial on the fraud and misappropriation counterclaims. The court declared it would decide the equitable issue of ownership after trial based on the evidence presented to the jury and the jury's verdict. Braun did not object. SER0561-63, 600, 600A, 687-88, 741; ER0637; ER0652, ER0655.

In June 2003, the jury returned a special verdict in favor of R&Z on the fraud and misappropriation claims. The jury rejected Braun's claim that it owned half of Phase I. It concluded Braun had willfully and maliciously misappropriated trade secrets from Phase I, which contributed to the Ultrasite valve and the '451 Patent. The jury awarded \$16 million in past compensatory damages and \$2.5

million in future compensatory damages for misappropriation. The jury also concluded Braun had committed intentional and malicious fraud. It awarded \$1 million compensatory damages and \$1.25 million punitive damages on the fraud claim. SER0679-82, ER0898.

Pursuant to California Civil Code § 3426.3(c), the district court awarded an additional \$5 million in exemplary damages based on the jury's finding of willful and malicious misappropriation. The court independently concluded Braun had willfully concealed the assignment and patent application. SER0684-86.

The court announced it intended to enter judgment against Braun on its declaratory relief claim "because the evidence persuades the Court that they are not the sole equitable owner of the patent." However, Braun persuaded the court to dismiss its declaratory relief claim with prejudice instead. SER0687-93.

On June 18, 2003, the court entered judgment against Braun in the amount of \$25.75 million. ER0763-67. Braun filed a notice of appeal. ER0768.

R&Z subsequently filed a motion to amend the judgment for adjudication of their unresolved prayer for ownership of the '451 Patent. SER0700. In November 2003, the court granted the motion pursuant to Fed. R. Civ. P. 60(b), finding it had erroneously forced R&Z to make a premature election between future damages and patent ownership during trial. SER0715-20. The court announced it would hold a further bench trial on the equitable issue of patent ownership. SER0721-

22. At Braun's request, the court permitted the parties to introduce additional evidence common to both the legal and equitable issues. SER0728-48. It also permitted Braun to withdraw the dismissal of its declaratory relief action. SER0723-24; ER0906.

In March 2004, after a four-day bench trial, the court decided R&Z were the legal and equitable owners of the '451 Patent. ER0801-0802, ER0824-0825. The court found R&Z were "entitled to assignment of all right, title, and interest to the '451 Patent" ER0825. However, the court ruled Braun would still be allowed to "continue to exploit the '451 Patent" under a court-imposed license. ER0825-26.

The court ordered R&Z to elect between the jury's future damages award or ownership of the patent. R&Z elected ownership. ER0914; SER0756, 759.

On August 17, 2004, the court entered final judgment in R&Z's favor for \$23.25 million on their counterclaims and against Braun on its declaratory relief claim. The judgment declared R&Z to be the legal and equitable owners of the '451 Patent. However, the court imposed a compulsory exclusive license on the '451 Patent in Braun's favor. The 7-page License was incorporated as part of the judgment. ER0828-41.

On September 14, 2004, the district court granted Braun's motion for judgment as a matter of law as to \$11 million of the \$16 million award for past

compensatory damages. The court also denied R&Z's motion to delete the compulsory license from the judgment. SER0758A-G; ER0859-61.

Braun filed an amended notice of appeal from the judgment and post-judgment order. ER0868. R&Z filed a timely notice of cross-appeal. SER0764.

SUMMARY OF ARGUMENT

Braun's attacks on the judgment are without merit. The only reversible errors were in Braun's favor.

First, the patent reassignment is in accord with California law. Like the federal courts, California recognizes patent reassignment as an appropriate remedy. This remedy is supported by the evidence, and Braun correctly conceded it had no right to jury trial on the equitable issue of patent ownership.

Second, the court properly ruled the misappropriation claim was timely. As a matter of law, the statute of limitations did not begin to run until Rogers discovered the patent application in 1997.

Third, the court properly defined the trade secret and did not abuse its discretion in excluding irrelevant evidence of other patents. Even assuming any error, it was harmless.

Fourth, the court properly permitted recovery on R&Z's amended fraud claim.

Fifth, the court erred in granting Braun's motion for judgment as a matter of law as to \$11 million of the jury's \$16 million award in past compensatory damages. The jury's award was a reasonable approximation of Braun's past profits attributable to the misappropriated trade secrets.

Sixth, the court erred in awarding Braun an unauthorized exclusive license to the '451 Patent. As the wrongdoer, Braun cannot be allowed to continue using the misappropriated trade secrets.

Finally, in the event any portion of the judgment is reversed on other grounds, the court should be ordered to permit R&Z to reinstate its original fraud claim, which the court erroneously ruled to be preempted by the UTSA.

ARGUMENT

I.

(Braun's Appeal)

THE DISTRICT COURT PROPERLY REASSIGNED THE PATENT

Braun contends the court erred in reassigning the patent to R&Z for three reasons: (1) patent reassignment is not authorized as a remedy under California law; (2) there was insufficient evidence to support Finding No. 52; and (3) Braun was deprived of the right to jury trial on its declaratory relief claim. These arguments lack merit.

A. Patent Reassignment is Authorized by California Law

The California UTSA not only authorizes injunctive relief and damages, Cal. Civ. Code §§ 3426.2(a), 3426.3, it also grants broad remedial authority to compel “affirmative acts to protect a trade secret.” Cal. Civ. Code, § 3426.2(c).³ Patent reassignment is such a remedy. California authorizes patent reassignment as an equitable remedy on two related theories: (1) the theory of constructive trust; and (2) as a form of mandatory injunction compelling transfer of wrongfully obtained property.

³See also West's California Legislative Service, Stats. 1984, Ch. 1724 at 531 (1983-1984 Reg. Sess.) (Legislative Counsel's digest states that the California UTSA “provides for injunctive relief, damages, *or other relief*”).

The California UTSA ⁴ displaces the common law only “where it conflicts with California’s version of the UTSA.” *Cacique, Inc. v. Robert Reiser & Co., Inc.*, 169 F.3d 619, 624 (9th Cir. 1999) (citing *American Credit Indemnity Co. v. Sacks*, 213 Cal.App.3d 622, 630 (1989)). The UTSA does not displace common law remedies “not in conflict with those in the Uniform Act.” *Newport News Industrial v. Dynamic Testing, Inc.*, 130 F. Supp. 2d 745, 753, n. 7 (E.D. Va. 2001); *see also* UTSA, Commissioners’ Comment to § 7, 14 Uniform Laws Annotated 463 (West 1990) (“This Act ... is not a comprehensive statement of civil remedies.”).

In a trade secrets case, the remedy of patent reassignment is based on the theory of constructive trust. When a party has acquired a patent based wholly or partially on trade secrets misappropriated from another, “the courts will hold the wrongdoer to be a constructive trustee of the property misappropriated and will order a conveyance by the wrongdoer” *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1249 (Fed. Cir.1989) (citation omitted); *see also Meader v. Norton*, 78 U.S. 442, 458 (1870); *Colgate-Palmolive v. Carter Products, Inc.*, 230 F.2d 855, 865 (4th Cir. 1956); *Saco-Lowell Shops v. Reynolds*, 141 F.2d 587, 598 (4th Cir. 1944).

⁴The California UTSA must be “applied and construed to effectuate its general purpose to make uniform the law” of trade secrets. Cal. Civ. Code § 3426.8. Authorities from other jurisdictions are therefore relevant in construing the law. *See Chasteen v. UNISIA JECS Corp.*, 216 F.3d 1212, 1217 n. 3 (10th Cir. 2000).

California recognizes this type of equitable remedy. “The theory of a constructive trust was adopted by equity as a remedy to compel one to restore property to which he is not justly entitled, to another.” *Bainbridge v. Stoner*, 16 Cal. 2d 423, 428 (1940). “The trust is passive, the only duty being to convey the property.” 11 Witkin, Summary of California Law § 305 at 1138-1139 (9th ed. 1990). Though originally a common law remedy, the doctrine of constructive trust has been codified by the California Legislature. Cal. Civ. Code §§ 2223, 2224. “[A] constructive trust may be imposed in practically any case where there is a wrongful acquisition or detention of property to which another is entitled.” *Weiss v. Marcus*, 51 Cal.App.3d 590, 600 (1975).

California courts have applied the theory of constructive trust as a basis for reassignment of a wrongfully obtained patent. *See Air Purification, Inc. v. Carle*, 99 Cal.App.2d 258, 259-60, 264-65 (1950) (co-developer of patent secretly obtained second patent based on his own improvements to invention; original patent holder held to be true and equitable owner of second patent); *see also Aurecochea v. Sinclair*, 60 Cal. 532, 545 (1882); *Crowder v. Lyle*, 225 Cal.App.2d 439, 446-47 (1964) (“We hold that a state court may determine equities as between a patentee and another with whom he has dealt and upon a proper evidentiary showing adjudicate that the patentee holds the legal title in trust for such other person.”).

California’s common law and statutory doctrine of constructive trust does not conflict with the UTSA. The California UTSA provides: “In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.” Cal. Civ. Code, § 3426.2(c). An order compelling transfer of misappropriated trade secrets to their proper owner under a constructive trust theory is authorized by the plain language of this subsection. It is a court order compelling an affirmative act to protect the owner’s right to exclusive use of trade secrets. Thus, the UTSA authorizes patent reassignment. *See also* Restatement (Third) of Unfair Competition § 44, comment e at 503 (1995) (“If the defendant has obtained a patent covering either the trade secret or an invention derived from the trade secret, a court may ... require the defendant to assign the patent to the owner of the trade secret.”).

Such an order is also equivalent to a mandatory injunction. The UTSA “authorizes mandatory injunctions requiring that a misappropriator return the fruits of misappropriation to an aggrieved person” UTSA, Commissioners’ Comment to § 2, 14 Uniform Laws Annotated 451 (West 1990). Here, the judgment requires Braun to execute any and all documents necessary to transfer ownership of the patent. ER0833. This is a form of mandatory injunction. *See* 6 Witkin, California Procedure § 283 at 225 (4th ed. 1997) (“A typical illustration of a decree mandatory in effect is one that compels the *surrender of property*.”); *see*

also Cubic Corp. v. Marty, 185 Cal.App.3d 438, 446, 456 (1986) (affirming judgment reassigning patent and granting injunction directing defendant to recognize plaintiff's ownership). Thus, patent reassignment is in accord with California law and the UTSA.

B. Finding No. 52 Is Supported by the Evidence and, In Any Event, Is Not Necessary to the Reassignment Remedy

Focusing exclusively on a single isolated finding out of the many made below, Braun contends the patent reassignment should be reversed because there was insufficient evidence to support Finding No. 52, the court's finding that "B. Braun misappropriated everything ViR produced, and Rogers owned everything that ViR produced." ER823. The legal basis for this finding was that ViR was R&Z's agent not only for Phase I, but also for Phases II and III. SER0703-13, 718, 726-27; ER0803-05. This finding is supported by the evidence. Further, any error was harmless because the court articulated an alternative basis for reassignment, not challenged by Braun.

There is ample evidence to support a finding that the agency relationship between R&Z and ViR continued beyond Phase I. Under California law, an agency is terminated by expiration of its term, extinction of its subject, death or incapacity of the agent, or renunciation of the agency. Cal. Civ. Code, § 2355; 2 Witkin, Summary of California Law, Agency § 155 at 148 (9th ed. 1990). An agency ordinarily continues until its purpose has been fulfilled, unless the agent

“has definitely and finally failed in his attempt to accomplish that purpose.” *Otis v. Winter Inv. Co.*, 138 Cal.App. 682, 684 (1934) (citation omitted); *see also* 2 Cal.Jur.3d Agency § 20 at 186 (1997); Restatement (Second) of Agency § 106 at 277 (1958). Whether an agency has been terminated is “a question of fact.” *Preszler v. Dudley*, 153 Cal.App.2d 120, 124 (1957).

The following evidence supports Finding No. 52:

- R&Z independently commissioned ViR as their own agent and paid for Phase I. SER0063, 100-101, 228-29. Braun had nothing to do with retaining ViR. SER0067-68.
- R&Z’s agreement with ViR contemplated that their agency relationship would continue beyond Phase I. The agreement provided that R&Z would select the most promising designs from Phase I and ViR would fabricate and test prototypes and complete detailed engineering drawings. SER0235, 237.
- The result of Phase I was five valve designs belonging solely to R&Z. SER0069-70, 99, 94.
- R&Z presented these designs in confidence to Braun under a License Agreement that required Braun to use them only in furtherance of the Agreement. ER0186; SER0220-21.
- The License Agreement provided that the valve designs were either royalty-bearing “improvements” under Paragraph 2 or were subject to Braun’s right of first refusal under Paragraph 11. ER0183, 189. Either way, R&Z owned the designs and Braun did not.
- R&Z invited Braun to fund Phases II and III pursuant to Paragraph 5 of the License Agreement, which required Braun’s pre-approval for reimbursement of expenses. ER0185; SER0171, 677.
- R&Z informed Braun they had already agreed with ViR to proceed to Phase II with or without Braun’s participation. SER0676, 752-55.

- Braun knew that R&Z owned the ViR designs when it agreed to fund further development and it never contested R&Z's ownership. ER0229; SER0417, 419-23.

On these facts, the court properly concluded the principal-agent relationship between R&Z and ViR continued beyond Phase I. SER0703-13. R&Z's objective of developing a marketable valve had not been achieved. R&Z and ViR intended to go forward in developing the valve, with or without Braun's participation, as their original agreement specified. In the absence of any terminating event, the agency continued. Cal. Civ. Code § 2355.

Braun cites no authority to support its assumption that it became ViR's principal as a matter of law merely by virtue of its agreement to fund Phases II and III. Braun knew ViR was acting as R&Z's agent to develop a valve that would give Braun either a license under Paragraph 2 or a right of first refusal under Paragraph 11. ER0228-29; SER0676-77. The evidence supported a finding that Braun agreed to fund Phases II and III solely because it hoped to obtain rights to use the valve under the Agreement. *See* SER0703-13. Braun's agreement to fund further development of R&Z's property using R&Z's agent did not convert ViR into an agent for Braun as a matter of law.⁵

⁵ViR's subjective belief that Braun was the "client" for Phases II and III simply because Braun paid the bills is irrelevant. ER0301-02. As the court observed: "Just because ViR, a non-lawyer, says we thought that Braun was our ... client, that doesn't change the legal relationship because the law says who's an agent, not a non-lawyer working out in the tulies." SER0712.

In any case, the reassignment remedy does not depend on the validity of Finding No. 52. The court explicitly recognized an alternative basis for this remedy. After finding R&Z owned all three phases, the court stated “even if that were not so,” the jury’s award of \$16 million in past compensatory damages “can be inferred to recognize a very substantial relationship between Phase I and the ‘451 patent.” ER0805. Finding No. 51 stated: “Implicit in the jury’s award of compensatory damages in the amount of \$16,000,000 for past damages based on B. Braun’s misappropriation is a finding of a very substantial contribution of Phase I to the ‘451 Patent.” ER0823. This finding (not challenged by Braun) independently supports the reassignment.

For a reassignment remedy, it was not necessary for plaintiffs to prove ownership of 100 percent of the work product resulting in the ‘451 Patent. *See, e.g., Richardson*, 868 F.2d at 1244, 1249-50; *Air Purification, Inc. v. Carle*, 99 Cal.App.2d at 259-260, 264-265. Because Braun does not challenge Finding No. 51, the reassignment remedy should be affirmed even assuming insufficient evidence to support Finding No. 52. *See United States v. BNS, Inc.*, 858 F.2d 456, 464 (9th Cir. 1988) (erroneous factual finding harmless where other valid findings supported decision).

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C. There Was No Violation of the Seventh Amendment

Finally, Braun contends it was deprived of the right to jury trial on its declaratory relief action for ownership of the patent. According to Braun, the validity of the ViR assignment and the question of ViR's agency during Phases II and III should have been decided by the jury.

Braun has waived this contention. Incredibly, Braun does not even mention its own concession that it had no right to jury trial on its declaratory relief action.

In its pretrial Memorandum of Contentions of Fact and Law, Braun stated:

The jury must determine the legal issues and issues common to law and equity, and the Court must then determine the equitable issues. [Citation.] *B. Braun's cause of action for declaratory relief is an action in equity.* Defendant's claims for an injunction and reassignment of ownership of the '451 Patent are similarly claims in equity. SER0002 (emphasis added.)

Braun was perfectly content to have the court decide its declaratory relief claim as an equitable issue after the jury's verdict. During trial, the court repeatedly stated its intention to decide patent ownership as an equitable issue based on the evidence presented to the jury and the jury's verdict. SER0561-63, 600, 600A, 687-88, 741; ER0637; ER0652, ER0655. Braun raised no Seventh Amendment objection to this procedure until *after* the jury had rendered its verdict and *after* the court had declared its intention to rule against Braun. SER0687-88. By acquiescing to have patent ownership decided as an equitable issue, Braun waived any right to jury trial. *See White v. McGinnis*, 903 F.2d 699, 703 (9th Cir.

1990) (acquiescence in bench trial waives right to jury trial); *Lovelace v. Dall*, 820 F.2d 223, 228 (7th Cir. 1987) (“it is unfair to permit a party to have a trial, discover that it has lost, and then raise the jury issue because it is unsatisfied with the result of the trial”).

Braun has also waived any right to jury trial by failing to request jury findings on factual issues other than those specified in the special verdict. *See* Fed. R. Civ. P. 49(a) (right to jury trial waived as to factual issues omitted from special verdict form). Rule 49(a) “puts the burden of securing a verdict on all of the meaningful issues in the case squarely on the parties.” *Wright & Miller*, 9A Fed. Practice & Procedure § 2507 at 185 (West 1995). Otherwise, the court is free to make its own determination of omitted factual issues. *Ibid.*; *Askanase v. Fatjo*, 130 F.3d 657, 669 (5th Cir. 1997). By failing to request that the special verdict include findings on the ViR assignment and agency, Braun waived any right to jury trial it may have had on these issues.

Even if this issue were preserved, however, Braun correctly conceded it had no right to jury trial on its declaratory relief action. As Braun acknowledged, SER0555-60, its declaratory relief action was most closely analogous to an action to quiet title. *See, e.g., Pendleton v. Ferguson*, 15 Cal.2d 319, 320-21 & 326-27 (1940) (equitable action to quiet title to patents). “A suit to quiet title is a purely equitable proceeding” in which there is no right to jury trial. *Humble Oil &*

Refining Co. v. Sun Oil Co., 191 F.2d 705, 717-18 (5th Cir. 1951); *see also U.S. v. McHan*, 345 F.3d 262, 275-76 (4th Cir. 2003) (citing cases).

Braun received a jury trial on the legal issues and a subsequent court decision on the equitable issues. The court clearly understood it was bound by the jury's verdict and could not make any contrary findings in deciding equitable issues. ER0854-56; SER0726A-D. That is all the Seventh Amendment demands. *See Dairy Queen, Inc. v. Wood*, 369 U.S. 469, 479 (1962); *Danjaq LLC v. Sony Corp.*, 263 F.3d 942, 962 (9th Cir. 2001); *Los Angeles Police Protective League v. Gates*, 995 F.2d 1469, 1473 (9th Cir. 1993).

Even assuming any violation of the right to jury trial, it would be harmless in light of the alternative ground for reassignment. Finding No. 51 was based on *the jury's* conclusion that Phase I substantially contributed to the '451 patent. ER0823. Because the jury's verdict provided an alternative basis for reassignment, it makes no difference whether Finding No. 52 should have been tried to the jury.

II.

(Braun's Appeal)

THE DISTRICT COURT PROPERLY RULED THAT THE MISAPPROPRIATION CLAIM WAS TIMELY AS A MATTER OF LAW

“An action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.” Cal. Civ. Code § 3426.6. Before trial, the court ruled that “the triggering date for when [R&Z] knew or should have known was June 1997” when Rogers discovered the existence of the ‘451 Patent. SER0022. Because R&Z’s counterclaims were filed in 1999, the court found them timely as a matter of law, without equitable tolling. SER0021-23. During trial, the court also applied equitable tolling in removing the statute of limitations from the jury. ER0733-51. Both of these rulings were correct.

A. The Misappropriation Claim Was Timely

Braun claims the court erred in ruling R&Z’s misappropriation claim was filed within the three-year statute of limitations. According to Braun, R&Z had constructive knowledge of Braun’s misappropriation in 1993, over three years before R&Z filed its petition for arbitration and counterclaims.

This claim is ludicrous. Braun’s argument presupposes that R&Z should have discovered the misappropriation before it even occurred. The case was tried

solely on the theory that Braun's misappropriation occurred *in 1994*, when Braun secretly obtained the assignment of rights from ViR and filed its patent application. SER0009-20, 508-09, 601.

Under California's discovery rule, "the limitations period does not begin to run until a plaintiff discovers or could have discovered through the exercise of reasonable diligence *all facts essential to her cause of action.*" *Sylve v. Riley*, 15 Cal.App.4th 23, 26 (1993) (emphasis added). This rule "assumes that *all conditions for accrual of the action exist*, but postpones commencement of the limitation period until the plaintiff discovers or should have discovered the facts essential to his cause of action." *Wilshire Westwood Associates v. Atlantic Richfield Co.*, 20 Cal.App.4th 732, 740 (1994) (emphasis added). The limitations period commences when there is "a *suspicion* of wrongdoing, coupled with a knowledge of the harm and its cause" *Jolly v. Eli Lilly & Co.*, 44 Cal.3d 1103, 1112 (1988).

R&Z could not possibly have "discovered" Braun's misappropriation in 1993 before it had occurred and before R&Z had suffered any harm. The discovery rule does not require prescience. According to the undisputed evidence, R&Z did not learn of Braun's patent application until 1997. SER0149-54. Braun fails to explain how R&Z reasonably could have learned of the misappropriation any earlier, especially in light of Braun's deliberate efforts to conceal it.

Further, nothing that occurred in 1993 would have alerted a reasonable person to the possibility of misappropriation. The returned check does not support any such inference. Rogers returned the check to Braun because he was concerned Braun might become a joint owner of Phase I by paying for half after the fact. SER0098-100. Braun's attempt to *pay* for an ownership interest did not give rise to a reasonable suspicion that Braun intended to misappropriate R&Z's trade secrets *without* paying.

Likewise, Braun's attempt to amend the license agreement in October 1993 would not have led a reasonable person to suspect misappropriation. If R&Z had agreed to Braun's amendment, it would have given Braun an ownership interest in the valve. ER0249. This was an attempt by Braun to obtain an ownership interest *by legitimate means*. An unconcealed attempt to obtain property by legitimate means cannot put the owner on notice of a concealed intent to steal the property.

There is nothing in the record to support a finding that a reasonable person would have suspected Braun of misappropriating trade secrets prior to 1997. Throughout 1993 and 1994, Braun kept Rogers informed on the progress of the valve and led him to believe they were still proceeding together in a joint development. SER0116, 123-30, 249, 269; ER0792A-B.

In April 1995, Braun informed Rogers the project had been abandoned and claimed it was developing its own independent valve. SER0135-39. Rogers had

no reason to suspect Braun was lying and had patented the ViR device behind his back. Rogers believed Braun's representations that it was pursuing a separate, independently developed valve. SER0147. Rogers did not discover the truth until 1997. SER0149-50. Braun presented no contrary evidence.

The issue of constructive notice may be decided as a matter of law if there is only one reasonable inference from the evidence. *Jolly v. Eli Lilly & Co.*, 44 Cal.3d at 1112; *Saliter v. Pierce Bros. Mortuaries*, 81 Cal.App.3d 292, 300 (1978); *see also Estate of Fincher*, 119 Cal.App.3d 343, 351 (1981). Here, the only reasonable inference is that Rogers had no reason to suspect misappropriation until he discovered the '451 Patent in 1997.

In the alternative, the earliest anyone in Roger's position could have had the slightest inkling of any questionable conduct (though not misappropriation) was in April 1995, when Braun said it was abandoning the project to pursue its own valve. Both R&Z's petition for arbitration and Braun's declaratory relief complaint were filed within three years of this date. ER0005; ER0736. As implicitly acknowledged by Braun, AOB 35, n. 7, its complaint tolled the statute of limitations for any of R&Z's unbarred counterclaims arising out of the same subject. *See Trotter v. International Longshoremen's and Warehousemen's Union*, 704 F.2d 1141, 1143 (9th Cir. 1983) (applying California law); *Sidney v. Superior Court*, 198 Cal.App.3d 710, 714-715 (1988); *Electronic Equipment*

Express, Inc. v. Donald Seiler & Co., 122 Cal.App.3d 834, 844 (1981). Thus, the misappropriation claim was timely.

B. The Court Properly Applied the Doctrine of Equitable Tolling

For the reasons stated above, the misappropriation claim was timely as a matter of law, even without equitable tolling. Braun’s only argument on the equitable tolling issue is that the doctrine does not apply to “voluntarily dismissed lawsuits or demands for arbitration.” AOB 35, n. 7.

The doctrine does apply to voluntary dismissals. *Appalachian Insurance Co. v. McDonnell Douglas Corp.*, 214 Cal.App.3d 1, 40-41 (1989). It also applies to arbitration petitions. *National R.R. Passenger Corp. v. Notter*, 677 F. Supp. 1, 5 (D.D.C. 1987) (citing *A. Techert & Son, Inc. v. State*, 238 Cal.App.2d 736, 746-747 (1965) (“when contractual disputes are submitted to arbitration or some other form of reference, the statute of limitations is usually tolled”), *disapproved on other grounds in E.H. Morrill Co. v. State*, 65 Cal.2d 787 (1967)).

III.

(Braun's Appeal)

THE DISTRICT COURT PROPERLY DEFINED THE TRADE SECRET

A. The Definition Complied With California Law

Outside the presence of the jury, the court defined the trade secret at issue as “the phase one report and any attributes traceable to that phase one report which appear in the 451 patent or any of its claims.” ER0112. Braun does not dispute that each of the five designs from Phase I satisfied all the statutory elements of a trade secret. Cal. Civ. Code, § 3426.1(d). However, Braun complains the court erred in defining the trade secret to include *other* possible combinations of these designs.

There was no reversible error. In the first place, Braun fails to explain how this definition could have affected the verdict. The court never told *the jury* the trade secret included the concept of mixing and matching. In its instructions to the jury, the court gave the statutory definition of a trade secret, SER0025-27, 667, which Braun does not challenge. Further, R&Z never argued to the jury that the trade secret included the concept of mixing and matching. SER0028, 670-73. Thus, the definition Braun complains about had no conceivable impact on the verdict.

Second, there was nothing improper about the court's definition. Under California law, a trade secret need only be defined with "reasonable particularity." Cal. Code Civ. Proc. § 2019(d); *Vermont Microsystems, Inc. v. Autodesk, Inc.*, 88 F.3d 142, 147 (2d Cir. 1996); *Whyte v. Schlage Lock Co.*, 101 Cal.App.4th 1443, 1453 (2002). This is primarily a rule of discovery. *See Computer Economics, Inc. v. Gartner Group, Inc.*, 50 F. Supp. 2d 980, 988-89 (S.D. Cal. 1999).

Here, the court properly defined the trade secret as the results of Phase I, including any elements of the designs used to develop the Ultrasite. The Phase I designs were embodied in engineering drawings and a written report containing a product development plan, SER0078-92, SER0250-64, which were confidential trade secrets. *See Richardson*, 868 F.2d at 1232-33 & 1242-46 (drawings and blueprints of design modifications for patented suspension system); *Forro Precision, Inc. v. Intern. Business Machines*, 673 F.2d 1045, 1057 (9th Cir. 1982) (engineering drawings and blueprints); *Vacco Industries, Inc. v. Van Den Berg*, 5 Cal.App.4th 34, 41-42 & 49-50 (1992) (product plans and designs including drawings). Because the court's definition referred to an easily identifiable report and drawings, it was sufficiently specific "to permit the defendant to ascertain at least the boundaries within which the secret lies." *Diodes, Inc. v. Franzen*, 260 Cal.App.2d 244, 253 (1968).

There was nothing wrong with including the concept of mixing and

matching as part of the trade secret. A trade secret may be based on the interrelationship between component parts of a broader technology. *Thermodyne Food Service Products, Inc. v. McDonald's Corp.*, 940 F. Supp. 1300, 1304-05, 1308 (N.D. Ill. 1996). The basic purpose of Phase I was to lay the groundwork for further development. An essential feature of ViR's proposal was that elements of the five designs could be combined to form another unique configuration. As the court recognized, a product development plan is itself a trade secret. ER0804. The concept of combining elements was an integral part of ViR's suggested "formula" or "method" for developing the valve. Cal. Civ. Code, 3426.1(d). Thus, it was a proper component of the trade secret.

This definition did not run afoul of *Imax Corp. v. Cinema Technologies, Inc.*, 152 F.3d 1161 (9th Cir. 1998). In *Imax*, the plaintiff had patents on a projector, but the patents did not disclose all its features. *Id.* at 1163. The plaintiff claimed a trade secret in *undisclosed* features, and attempted to define them to include every "dimension and tolerance" of the projector's design. The court held this definition was too vague to distinguish the "tangible trade secret material" from the "patented projected system" because it failed to indicate precisely "which of the projector's many 'dimensions and tolerances' were trade secrets." *Id.* at 1167.

Here, none of the Phase I designs was already in the public domain. Unlike

Imax, the precise elements of each of these designs were easily identifiable from the engineering drawings and the Phase 1 report. Braun's expert had no trouble identifying the 25 elements contained in the five designs. SER0598. There was only a limited universe of variations on these designs, because they already shared many of the same elements.⁶ SER0619. Thus, the district court's definition was sufficiently specific to comply with California law.⁷

Even assuming any error, it was harmless. Whether information constitutes a trade secret is a question of fact for the jury. *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 723 (7th Cir. 2003); *Thompson v. Impaxx, Inc.*, 113 Cal.App.4th 1425, 1430 (2003). Braun does not claim the jury was improperly instructed on the statutory definition of a trade secret. Based on its instructions, the jury concluded the "Phase I report contained one or more trade secrets." SER0679. Braun also does not dispute that the five Phase I designs were trade secrets. Thus, the court's definition outside the presence of the jury had no

⁶Braun's expert identified 25 elements (A-Y) contained in the Phase I designs. Eight elements (L, N, O, R, S, T, V, W) were contained in all five designs; five elements (A, F, M, Q, Y) were contained in four of the designs; one element (B) was contained in three of the designs; three elements (I, J, P) were contained in two of the designs; and the rest were contained in only one of the designs. SER0586-98.

⁷Braun's complaint that R&Z was allowed to amend its definition of the trade secret before trial is without substance. California permits such an amendment. *Vacco Industries, Inc. v. Van Den Berg*, 5 Cal.App.4th at 51, n. 16; *Neothermia Corp. v. Rubicor Medical, Inc.*, 345 F. Supp. 2d 1042, 1044 (N.D. Cal. 2004).

possible effect on the jury's verdict.

Braun could not have escaped liability merely by showing it combined selected features of the designs, rather than copying one of them exactly. As the court instructed, SER0667, a defendant is liable for using another's trade secret as a basis for developing its own product, even if the defendant through its own efforts modifies or improves upon the trade secret and does not use all of its elements. *Penalty Kick Management Ltd. v. Coca Cola Co.*, 318 F.3d 1284, 1292-93 (11th Cir. 2003); *Mangren Research & Dev. v. National Chem. Co.*, 87 F.3d 937, 944 (7th Cir. 1996); *Vermont Microsystems*, 88 F.3d at p. 147-49; *Reingold v. Swiftships, Inc.*, 126 F.3d 645, 651 (5th Cir. 1997); *Thermodyne*, 940 F. Supp. at 1308; *see also* Restatement (Third) of Unfair Competition § 40, comment c at 455-56 (1995); Roger M. Milgrim, 4 Milgrim on Trade Secrets § 15.01[1][d][vi] at 15-89 (2004) ("a plaintiff may prevail on a trade secret claim by establishing that defendant used plaintiff's trade secret as the helpful starting point for defendant's own development efforts").

For the reasons fully stated in the Statement of Facts, the evidence overwhelmingly established Phase I was the starting point in development of the Ultrasite and contributed substantially to the '451 Patent. There is no likelihood the jury would have reached a different verdict if the trade secret had been defined to exclude mixing and matching. Even if the trade secret were strictly limited to

the five designs, Braun was still liable for misappropriation because the ‘451 Patent was substantially derived from those designs. Thus, any error in the court’s definition could not have affected the jury’s verdict.

B. The Court Properly Excluded the Leason and Faust Patents

In a related argument, Braun asserts the court erred in excluding the Leason and Faust patents. Braun is wrong. The court properly found these patents to be irrelevant. SER0527, 651.

“A trial court has great latitude in the admissibility of evidence.” *U.S. v. Giley*, 836 F.2d 1206, 1213 (9th Cir. 1988). Evidentiary rulings are reviewed under the deferential abuse of discretion standard. *Janes v. Wal-Mart Stores Inc.*, 279 F.3d 883, 886 (9th Cir. 2002).

The Leason and Faust patents were irrelevant for two reasons. First, both were issued *after* Braun had misappropriated R&Z’s trade secrets by obtaining the assignment from ViR and applying for the ‘451 Patent.⁸ Braun had no knowledge of these patents before the misappropriation, and they played no role in development of the Ultrasite. Braun cites no authority to support its claim that the issuance of these patents retroactively validated its misappropriation of R&Z’s trade secrets.

Second, Braun conceded that neither of these patents disclosed the same

⁸The Leason patent was issued on November 1, 1994. The Faust patent was issued on October 11, 1994. SER0649.

combinations of elements as any of the Phase I designs. SER0005-7, 471, 507.

As a result, these patents did not destroy the trade secret status of the Phase I designs. A trade secret may consist of a unique combination of elements, each of which, by itself, is in the public domain. *Vermont Microsystems*, 88 F.3d at 147. “The fact that some or all of the components of the trade secret are well-known does not preclude protection for a secret combination, compilation, or integration of the individual elements.” Restatement (Third) of Unfair Competition § 39, comment f at 432 (1995).

It is irrelevant that Braun theoretically could have created the Ultrasite on its own by piecing it together from other patents in the public domain. *See Monovis, Inc. v. Aquino*, 905 F. Supp. 1205, 1227-28 (W.D.N.Y. 1994) (rejecting argument that defendants theoretically could have reconstructed trade secrets from two existing patents); *Franke v. Wiltschek*, 209 F.2d 493, 495-96 (2d Cir. 1953) (rejecting similar claim); *see also Clark v. Bunker*, 453 F.2d 1006, 1010 (9th Cir. 1972) (trade secrecy “is not negated because defendant by an expenditure of effort might have collected the same information from sources available to the public”); Restatement (Third) of Unfair Competition § 39, comment f at 432 (1995).

In any event, any error in excluding the Leason and Faust patents was harmless. Braun presented testimony that all the components of the Phase I designs were already known in the prior art. SER0585. Braun also presented

extensive testimony and documentary evidence of numerous other patents that, according to Braun, disclosed elements used in the Phase I designs, including the Mackal patent, the Safsite patent, the Lopez patent, the Herlitz patent, the Sunnavader patent, the Raines '333 patent, the Raines '916 patent, and the Peppel patent. SER0349, 432-33, 444-45, 455-58, 460, 463-69, 483-84, 565-72, 576-84, 603-18, 621-22, 632-638; ER0462. Braun fails to explain how the jury's verdict could have been altered by the admission of two more patents that were not even issued until after the misappropriation occurred.

IV.

(Braun's Appeal)

THE DISTRICT COURT PROPERLY PERMITTED RECOVERY ON THE AMENDED FRAUD CLAIM

Braun contends the court should not have permitted R&Z to amend their fraud claim during trial. Braun also claims there was insufficient evidence to support the elements of reliance and damages as to the amended fraud claim. These arguments should be rejected.

A decision allowing a party to amend its pleading is subject to review under the abuse of discretion standard. *Galindo v. Stoodly Co.*, 793 F.2d 1502, 1512-13 (9th Cir. 1986). An amendment to conform to proof at trial is proper under Fed. R. Civ. P. 15(b), unless it results in prejudice to the opposing party. *Id.* at 1513. The party opposing the amendment bears the burden of establishing prejudice. *DCD Programs, Ltd. v. Leighton*, 833 F.2d 183, 187 (9th Cir. 1987).

The court did not abuse its discretion in finding Braun suffered no prejudice from the amendment. As the court concluded, all the facts to support the amended fraud claim had been in Braun's possession for over three years. SER0538-43, 546-47. Braun was still in the middle of its case and had plenty of opportunity to submit evidence on the amended fraud claim. SER0544-56, 548. Fraud had been pled in the original complaint, and the amendment merely altered the factual basis

for the claim to conform to the proof, rather than adding a whole new claim.

SER0549-53.

There was also sufficient evidence to support the amended fraud claim. As the court found, the evidence easily supported a finding that Braun lulled R&Z into a false belief it was proceeding with their joint development of the Rogers valve under the License Agreement, when in fact it never “pushed the button” on the project. SER0438, 533-37.

Based on the totality of evidence, it was reasonable for the jury to infer R&Z would have terminated the License Agreement and marketed the ‘114 Patent to other companies if they had known Braun was making no effort to develop it. R&Z were not content to stand on the sidelines and collect only the minimum royalties while Braun allowed the ‘114 Patent to die on the vine. That is precisely why they took the initiative to hire ViR. R&Z’s goal was to manufacture a marketable valve as soon as possible – with or without Braun’s participation – and they were prepared to re-market the valve to other companies if necessary. *See, e.g.*, ER0228-29; SER0676-77.

The evidence also supported a finding R&Z could have sold the ‘114 Patent for far more than the \$1.6 million they received from Braun in minimum royalty payments. In 1991, Braun itself projected a net present value of *\$65 million* in profits on the Rogers valve over a five-year period. SER0218. Braun believed the

Rogers valve, if owned by another company, “would be serious competition” for its Safsite valve. SER0215-16.

The market for Luer-activated valves was crowded with many competing companies during the relevant time period. SER0574-75. Every company in the industry “had to have one.” SER0573. Braun’s competitors included the “800-pound gorilla[s]” of the industry, Abbott and Baxter. SER0574, 631.

Significantly, it was routine practice for bigger companies to buy patents they did not practice, as a “fence” to keep competitors out of the market. SER0459-60.

The jury could reasonably have inferred another company would have paid at least \$1 million more to *purchase* the ‘114 Patent outright than Braun paid to *license* it.

“It is well-established under California law that while the *fact* of damages must be clearly shown, the *amount* need not be proved with the same degree of certainty, so long as the court makes a reasonable approximation.” *Robi v. Five Platters, Inc.*, 918 F.2d 1439, 1443 (9th Cir. 1990). On this record, the jury’s award of \$1 million on the fraud claim was a conservative estimate of the damages. The award should be affirmed.

V.

(Braun's Appeal & R&Z's Cross-Appeal)

THE DISTRICT COURT ERRED IN GRANTING BRAUN'S MOTION FOR JUDGMENT AS A MATTER OF LAW AS TO \$11 MILLION OF THE JURY'S COMPENSATORY DAMAGES AWARD

Braun contends the jury's award of \$16 million in past compensatory damages is not supported by the evidence, and the court should have granted its motion for new trial, rather than reducing the award to \$5 million. Based on the evidence at trial, however, the jury's award of \$16 million was a reasonable approximation of Braun's past profits attributable to the misappropriated trade secret. Thus, the court's error was not in denying Braun's motion for new trial, but in *granting* Braun's motion for judgment as a matter of law as to \$11 million of the \$16 million award.

A. Standard of Review

A district court's order granting judgment as a matter of law as to the amount of damages for trade secret misappropriation is subject to de novo review. *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 569 (7th Cir. 2003). The evidence must be viewed in the light most favorable to the nonmoving party, and all reasonable inferences must be drawn in favor of the verdict. *Hosphag Research Ltd. v. Pellegrini*, 337 F.3d 1036, 1040 (9th Cir. 2003). Judgment as a

matter of law may be granted only when “there is no legally sufficient evidentiary basis” for the jury’s verdict. Fed. R. Civ. P. 50(a)(1).

B. The Proper Measure of Unjust Enrichment Under the UTSA is the Amount of the Defendant’s Profits Attributable to the Misappropriated Trade Secret

The California UTSA provides in relevant part:

A complainant may recover damages for the actual loss caused by misappropriation. A complainant may also recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss. Cal. Civ. Code § 3426.3(a).

This provision authorizes recovery of *both* the plaintiff’s actual loss and the defendant’s unjust enrichment.⁹ “As long as there is no double counting, [the UTSA] adopts the principle of the recent cases allowing recovery of both a complainant’s actual losses and a misappropriator’s unjust benefit that are caused by misappropriation.” UTSA, Commissioners’ Comment to § 3, 14 Uniform Laws Annotated 456 (West 1990) (citing *Tri-Tron International v. Velto*, 525 F.2d 432, 437 (9th Cir. 1975)); *see also Vermont Microsystems*, 138 F.3d at 452 (applying California law and holding “a victim of misappropriation may recover for both his actual loss and the wrongdoer’s unjust enrichment but only to the extent that the

⁹California limits the use of a reasonable royalty as a measure of damages to cases in which neither actual loss nor unjust enrichment is “provable.” Cal. Civ. Code, § 3426.3(b); *Cacique*, 169 F.3d at 623 (citing *Morlife v. Perry*, 56 Cal.App.4th 1514, 1529 (1997)).

latter is not taken into account in computing the former”).¹⁰

Unjust enrichment is measured by the profits the defendant obtained from using the trade secret. *Cacique*, 169 F.3d at 623 (applying California law). “One liable for the use of trade secrets may be held liable for any gains made by the use of that information. The defendant may thus be liable to disgorge any profits made from its use.” Dan B. Dobbs, *Law of Remedies* § 10.5(3) at 690 (2d ed. 1997).

Even “if the plaintiff cannot establish *its* damages, plaintiff is always at liberty under the California version of the UTSA to identify defendant’s gain and recover it as unjust enrichment.” 1 Milgrim § 1.01[3] at 1-71 to 1-72; *see also Clark*, 453 F.2d at 1011 (trade secrets plaintiff “entitled to recover [defendants’] profits whether or not they represented losses to” plaintiff); *Purple Onion Foods, Inc. v. Blue Moose of Boulder, Inc.*, 45 F. Supp.2d 1255, 1261 (D.N.M. 1999) (damages “are not limited to lost profits” and “may also include disgorgement of any profits earned from the use of the misappropriated secrets”).

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¹⁰Other authorities state the plaintiff may recover the *greater* of his own actual loss or the defendant’s unjust enrichment. *See Pioneer Hi-Bred Intern. v. Holden Foundation Seeds, Inc.*, 35 F.3d 1226, 1244 (8th Cir. 1994); 4 Milgrim § 15.02[3][c][I] at 15-195; Restatement (Third) of Unfair Competition § 45(1) at 512 (1995).

C. The Jury's Award of \$16 Million Was a Reasonable Approximation of the Amount of Braun's Past Profits Attributable to the Misappropriated Trade Secrets

Viewing the evidence in the light most favorable to the verdict, the jury's \$16 million award of compensatory damages was a reasonable approximation of Braun's past profits attributable to the misappropriated trade secrets. Thus, the court erred in granting Braun's motion for judgment as a matter of law as to \$11 million of the award.

The court properly instructed the jury it could award both "actual damages" and "the amount, if any, by which B. Braun was or will be unjustly enriched as a result of B. Braun's misappropriation of the trade secret, to the extent that any unjust enrichment was not taken into account in computing the actual damages, past or future." SER0668. The court further instructed that any award of damages had to reflect the extent of the trade secret's contribution to Braun's profits. Instruction No. 16 stated: "Your resulting award of damages, if any, should reflect your determination of the extent and value of such contribution. If it is slight or none, your damages award should reflect that determination; if, on the other hand, it is substantial or total, your damage award should reflect that determination accordingly." SER0668-69.

In closing arguments, plaintiffs' counsel argued it was for the jury to determine how much of Braun's past profits of \$22.9 million was unjustly

obtained as a result of the misappropriation. SER0674-75. The jury ultimately found the Phase I trade secrets had “contributed to the invention of the Ultra Site Valve and the ‘451 Patent” and it awarded \$16 million in past compensatory damages. ER0764-65.

The jury’s award of \$16 million unjust enrichment is supported by the evidence presented at trial. Dr. Buckley testified Braun’s past profits on the Ultrasite were approximately \$22.9 million. SER0478-79. The jury’s award was approximately 70 percent of this figure. As discussed in the Statement of Facts, R&Z presented extensive evidence that the ‘451 Patent and the Ultrasite were substantially derived from the misappropriated Phase I designs. The totality of this evidence supported the jury’s finding that at least 70 percent of Braun’s \$22.9 million in past profits on Ultrasite products was attributable to the misappropriated trade secret.

In assessing the relative value of Phase I, it is especially significant that Braun was unsuccessful in its own in-house attempts to invent a capless valve, despite the fact that Braun had identified this as a priority. SER0204-04, 211-12, 429-35, 483-84, 503-04, 506, 461. The Phase I work done by ViR provided Braun with creative new concepts and set Braun in the right direction to accomplish goals its own engineers had failed to accomplish after several years of trying. In these circumstances, the jury could reasonably have concluded that the relative

value of Phase I was exponentially greater than its cost in dollars.

The plaintiff in a trade secrets case is not required to prove the amount of damages with mathematical precision. *C&F Packing Co., Inc. v. IPB, Inc.*, 224 F.3d 1296, 1304 (Fed. Cir. 2000). The general rule prohibiting evidence of speculative profits does not apply to uncertainty as to the *amount* of profits. *Tri-Tron Intern.*, 525 F.2d at 437. All that is required is a “reasonable approximation” of the profits made by the defendant as a result of the misappropriation. *Morlife*, 56 Cal.App.4th at 1528.

It was the jury’s function to resolve factual conflicts and determine the extent to which Phase I contributed to the Ultrasite. *C&F Packing Co.*, 224 F.3d at 1304. During trial, the court itself repeatedly ruled that this was a factual issue for the jury to determine. SER0511-14, 528-31, 623-24, 652-53.

In fact, the court’s statements after trial reveal it would have sustained the jury’s award, if only it had applied correct legal principles. The court stated: “[I]f I find that unjust enrichment is the maxim ... that anyone who does wrong should not profit by that wrong, if that’s the maxim that applies to this case, I don’t find the damage numbers of \$16,000,000 out of line at all.” SER0698. The court elaborated: “[I]f it’s true that unjust enrichment as a matter of law is any profit made from wrongful conduct, ... then it seems to me the verdict on the compensatory damages portion is supported by substantial evidence.” SER0699.

Unfortunately, the court failed to apply these principles in its final ruling. Instead, it limited R&Z's recovery to their "actual loss" of "\$5,000,000 for lost royalties and lost professional opportunities." ER0852. As explained above, the California UTSA expressly permits recovery of actual loss *and* unjust enrichment based on the defendant's illegally obtained profits. Cal. Civ. Code § 3426.3(a). Because the evidence supported the jury's finding that Braun earned \$16 million in profits attributable to the misappropriation, the court erred in limiting R&Z's recovery to their actual loss.¹¹

The court seems to have concluded Braun was not "unjustly" enriched by these profits because, if it had acted lawfully, it would have exercised its right of first refusal for a license to the valve under the License Agreement. ER0851-0852. However, the goal of an unjust enrichment remedy is not to put the wrongdoer in the same position as if it had acted lawfully – it is to deprive the wrongdoer of profits it obtained by acting unlawfully. *See Taylor v. Meirik*, 712 F.2d 1112, 1120 (7th Cir. 1983).

¹¹There was no inconsistency in the jury's use of Braun's profits as a measure of past damages and royalties as a measure of future damages. The jury instructions stated it was the jury's "sole province" to choose which method to use for calculating damages. SER0669. Nothing in the instructions required the jury to use the same method for past and future damages. The jury may have believed any projection of future profits was too speculative, especially in light of Braun's evidence that the Ultrasite had only a limited remaining life span. SER0575A-B, 656A-D. There was no irreconcilable inconsistency. *See Zhang v. American Gem Seafoods, Inc.*, 339 F.3d 1020, 1038 (9th Cir. 2003).

Disgorgement of *all* profits attributable to illegal conduct “eliminate[s] a major incentive” for a wrongdoer to steal intellectual property “instead of fairly negotiating for its use with the owner.” *McRoberts Software*, 329 F.3d at pp. 568-69 (construing provision of Copyright Act authorizing remedies identical to UTSA). An award that only requires the wrongdoer to pay royalties it would have paid if it had acted lawfully does not accomplish this purpose. On the contrary, it encourages exactly the type of reasoning employed by Braun. *See* SER0406 (“What to lose on litigation? Will only still pay royalty anyway.”).

Further, Braun was not entitled to the benefit of the court’s speculation that it would have matched the best offer made by its many competitors if it had acted lawfully. Another company might have been willing to pay more for a license or even to purchase the valve. “The most elementary conceptions of justice and public policy require that the wrongdoer shall bear the risk of the uncertainty which his own wrong has created.” *Bigelow v. RKO Radio Pictures, Inc.*, 327 U.S. 251, 265 (1946). “[T]o hold otherwise would give the windfall to the wrongdoer.” *Mishawaka Rubber & Woolen Mfg. Co.*, 316 U.S. 203, 207 (1942).

For all the foregoing reasons, the court erred in granting Braun’s motion for judgment as a matter of law as to \$11 million of the \$16 million award, and it did not abuse its discretion in denying Braun’s motion for new trial.

VI.

(R&Z's Cross-Appeal)

THE DISTRICT COURT ERRED IN AWARDING BRAUN A LICENSE TO CONTINUE USING THE WRONGFULLY OBTAINED PATENT

Over R&Z's objections, the court required R&Z to grant Braun an exclusive license to continue using the '451 Patent. The court dictated its terms in a detailed 7-page License drafted by the judge and incorporated as part of the judgment. ER0834-41. However, the imposition of a compulsory license in favor of the wrongdoer was unauthorized as a matter of law. Further, even if such a judicially crafted license could ever be imposed, the court abused its discretion in doing so on this record.

The court properly concluded R&Z were "the legal and equitable owners" of the '451 Patent and were "entitled to assignment of all right, title, and interest" to the patent. ER0824-25. It is axiomatic that the right to exclude is "one of the most essential sticks in the bundle of rights that are commonly characterized as property" *Kaiser Aetna v. United States*, 444 U.S. 164, 176 (1979). "With respect to a trade secret, the right to exclude others is central to the very definition of the property interest." *Ruckelshaus v. Monsanto Company*, 467 U.S. 986, 1011 (1984); *see also* Restatement (Third) of Unfair Competition § 44, comment b at 500 (1995) ("In trade secret cases, the primary interest of the plaintiff is in the

secrecy *and exclusive use* of the appropriated information”) (emphasis added).

By mandating a compulsory exclusive license to Braun, the court deprived R&Z of one of the most essential attributes of ownership. Instead of fashioning a remedy to protect R&Z’s right to exclude others, the compulsory license by its very terms *defeated* that right. Most remarkably, the compulsory license even prevents R&Z from using their own trade secrets.

There is no authority for imposition of a compulsory license in favor of a wrongdoer who has misappropriated the trade secrets of another. This remedy is not authorized by the UTSA or any other provision of law. “[A] misappropriator of trade secrets has no authorization of right to continue to reap the benefits of its wrongful acts.” *Richardson*, 868 F.2d at 1247. A court-imposed license in favor of the wrongdoer flies in the face of the familiar “maxims that equity will not aid a wrongdoer and that a party seeking equity must have clean hands” *Mainland Industries, Inc. v. Timberland Machines & Engineering Corp.*, 649 P.2d 613, 618-19 (Ore. App. 1982) (holding court erred in awarding license to defendant after assigning patent to plaintiff).

A court of equity does not have unbridled authority to impose whatever remedy it deems to be fair. Using “each equity chancellor’s conscience as a measure of equity ... would be as arbitrary and uncertain as measuring distance by the length of each chancellor’s foot.” *Lonchar v. Thomas*, 517 U.S. 314, 323

(1996). “[C]ourts of equity must be governed by rules and precedents no less than the courts of law.” *Missouri v. Jenkins*, 515 U.S. 70, 127 (1995). A court of equity may not “create a remedy in violation of law, or even without the authority of law.” *Rees v. City of Watertown*, 86 U.S. 107, 122 (1873). Thus, the district court’s equitable powers did not permit it to concoct a remedy wholly unrecognized in the law.

Even assuming such a remedy could ever be imposed, the court abused its discretion in doing so here. The basis for the court’s decision was its assumption that Braun would have exercised a right of first refusal to license the valve if it had acted lawfully. ER0805-06, ER0859-60. As noted in Argument IV, however, other companies might have offered R&Z better terms to license or even purchase the valve. As the wrongdoer, Braun is not entitled to the benefit of the court’s speculation that it would have matched the best offer made by its competitors. *See Bigelow*, 327 U.S. at 265.

Further, the propriety and terms of such a license were never put in issue in any of the pleadings or litigated in either the jury trial or the bench trial. The court on its own initiative imposed the license and made up its terms after the bench trial, without giving the parties an opportunity to present evidence on the matter. Thus, even assuming the court had authority to impose a compulsory license in favor of the wrongdoer, it abused its discretion in doing so.

VII.

(R&Z's Cross-Appeal)

THE DISTRICT COURT ERRED IN RULING THAT THE ORIGINAL FRAUD CLAIM WAS PREEMPTED BY THE UTSA

R&Z's original fraud claim alleged that Braun fraudulently concealed the ViR assignment and the '451 Patent application. ER0024. The district court ruled that this claim was preempted by the UTSA. ER0638-40. This ruling was incorrect. Thus, *if and only if any portion of the judgment is reversed or remanded on other grounds*, the court should be directed to grant R&Z leave to reinstate its original fraud claim.

The California UTSA provides that it “does not affect ... other civil remedies that are not based upon misappropriation of a trade secret” Cal. Civ. Code § 3426.7(b). Although the UTSA preempts other causes of action that are “based entirely” on misappropriation of trade secrets, *Glasstech, Inc. v. TGL Tempering Sys., Inc.*, 50 F. Supp.2d 722, 730 (N.D. Ohio 1999), it “does not preempt all causes of action that have to do with trade secrets. If ... the plaintiff demonstrates a further factual basis for fraud or deceit that has as an element the use of trade secrets, those causes of action are not necessarily preempted.” *Auto Channel, Inc. v. Speedvision Network, LLC*, 144 F. Supp. 2d 784, 789 (W.D. Ky. 2001).

The original fraud claim was based on facts beyond misappropriation. After misappropriating R&Z's property in 1994, Braun spent a whole year actively misleading R&Z into believing they were still pursuing a joint development of the valve. In 1995, Braun sent a letter to R&Z falsely stating it had abandoned the project. These misrepresentations were designed to conceal the true facts from R&Z. Braun's acts of fraudulent concealment and misrepresentation constituted an additional factual basis for the fraud claim independent of misappropriation. Thus, the court erred in ruling the original fraud claim was preempted by the California UTSA.

CONCLUSION

For all the foregoing reasons, the order granting Braun's motion for judgment as a matter of law as to \$11 million of the past compensatory damages should be reversed, and the portion of the judgment awarding Braun an exclusive license should be vacated. In all other respects, the judgment should be affirmed.

Dated: May ____, 2005

By: _____
Martin N. Buchanan
Attorney for Appellees and
Cross-Appellants

CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(c) and Ninth Circuit Rule 32-1, I certify that the attached brief is proportionately spaced, has a typeface of 14 points and contains 13,998 words.

Dated: May ____, 2005

By: _____
Martin N. Buchanan
Attorney for Appellees and
Cross-Appellants

STATEMENT OF RELATED CASES

On April 19, 2005, Braun filed another notice of appeal from the district court's order of March 21, 2005 awarding attorneys' fees to R&Z in this matter.

Appellees are aware of no other related cases pending before the court.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that he is a member in good standing of the bar of this Court and counsel of record for appellees/cross-appellants. On May 2, 2005, the undersigned caused two copies of the **ANSWERING AND OPENING BRIEF OF APPELLEES AND CROSS-APPELLANTS** and one copy of the **SUPPLEMENTAL EXCERPTS OF RECORD** to be served upon the parties in this action by overnight Federal Express addressed as follows:

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The original and filing copies of these documents were dispatched to Federal Express on May 2, 2005 for overnight delivery to the Ninth Circuit Court of Appeal, in accordance with Rule 25(a)(2)(B)(ii) of the Federal Rules of Appellate Procedure.

I declare under penalty of perjury that the foregoing is true and correct, and that this Certificate was executed in San Diego, California, on May 2, 2005.

Martin N. Buchanan