** NOT FOR PRINTED PUBLICATION **

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
BEAUMONT DIVISION

MARK BARRY, M.D.,	§	
	§	
Plaintiff,	§	CIVIL ACTION No. 1:14-cv-104
	§	
v.	§	JUDGE RON CLARK
	§	
MEDTRONIC, INC.,	§	PRD
	§	
Defendant.	§	

ORDER ON POST-TRIAL ACCOUNTING AND ESCROW ACCOUNT

At trial, the parties presented no evidence as to the possible future damages, such as a lump sum estimate or evidence of a future royalty rate. At the close of trial, the court, citing *Amado v. Microsoft Corp.*, 517 F.3d 1353 (Fed. Cir. 2008), stated that it would ask the parties to confer regarding a possible agreement on future damages or a future royalty to be applied, depending on the possible determinations that could be made by the appellate courts, and also announced the possibility of using an escrow account arrangement. Tr. at 2296:15–2297:19. After the court issued several post-trial rulings, the court directed the parties to confer regarding future damages, and the parties ultimately reported that they could not agree on various aspects of the future damages calculation. The court then set the May 4, 2017 Status Conference to discuss this outstanding issue.

Due to the number of issues that may be appealed, the fact that the patents asserted were issued three years apart, and the fact that the final damages could be based on sales inside and outside of the United States, a hearing on future damages at this juncture, followed by an order setting out future royalty amounts based on various alternative outcomes that might result after appeal, appears to be a poor use of the parties' and the court's resources. The issues of liability and damages through the date of trial have been fully and finally presented and ruled upon, and are now ripe for appellate review. The outcome of that review will determine whether future damages should be awarded, and if so, the amount. The court finds that there is no reason to delay entry of final judgement on the verdict and on Dr. Barry's claims for damages sustained to the date of trial.

This Order addresses how the court will determine any damages that accrued between the date of the trial and the date of the judgment and any allowable post-judgment damages. The Order also sets out the requirements for the interest-bearing escrow account that was discussed at the May 4, 2017 Status Conference. Finally, the Order addresses prejudgment and post-judgment interest. The court's determination of these issues will be reflected in the court's Final Judgment.

I. POST-VERDICT DAMAGES

A. Pending the outcome of any appeals, Medtronic shall deposit funds for post-verdict damages into an interest-bearing escrow account.

At the May 4, 2017 Status Conference, the court orally ordered Medtronic to set up a federally-insured interest-bearing escrow account, into which Medtronic would quarterly deposit sums of money as security for a future damages award. As discussed, the court will determine at a later date the amount of damages that would compensate Dr. Barry for any infringing activity that occurred between the date of trial and the date of judgment, and for any infringing activity after the date of judgment. The court also ordered Medtronic to provide to the court and Dr. Barry quarterly reports regarding the VCM kits and escrow account balance.

<u>The rate per infringing activity</u>: Prior to the May 4, 2017 Status Conference, the parties contested the amount to be set aside per infringing surgery. The royalty the court has used for the purposes of the escrow account represents only an estimate of the upper end of the range of future damages that could be awarded, if the case is not settled before appeals are final. The parties ultimately agreed that Medtronic shall deposit into the account $1080.00, derived from a base of $900.00 plus a 20% enhancement, for each spine derotation procedure at which a VCM kit, however designated or labeled, is present in the operating room or surgical suite in the United States.

<u>The number of surgeries</u>: At the status hearing, the parties initially disagreed whether Medtronic's ACES database, the means by which Medtronic currently tracks the use or presence of VCM kits during a procedure, was accurate. Medtronic stated that it had begun and was continuing efforts to improve the accuracy and efficiency of the process by which Medtronic employees track VCM kit uses through the ACES database, especially in light of this lawsuit. Dr. Barry ultimately agreed that the ACES database was adequate for tracking the number of procedures for the purpose of the escrow account. By agreeing to use the ACES database for this purpose, neither side waives its right to contest the accuracy and representative nature of the database when the court reaches its analysis of the ultimate royalty for future damages.

This Order does not preclude Medtronic from changing or improving its VCM-kit tracking methods or the ACES database. If changes in policy or procedure are made that may affect the accuracy of the database or the means by which Medtronic intends to track the number of surgeries on a quarterly basis, Medtronic is to inform Dr. Barry and the court in writing within 15 days of any such change.[1]

[1] Evidence was presented at trial concerning the basic workings of the ACES database and how Medtronic generally used the database through the date of trial, November 3, 2016. Any "changes in policy and procedure" refers to only changes that have occurred since that date.

B. The damages period covered by the escrow account runs from the date of first infringement through entry of Final Judgment.

The parties agree that the damages reflected in the jury verdict account for the period from the first hypothetical negotiation date, which was March 3, 2010, the issuance date of the '358 Patent, through the date of the trial. Dr. Barry also requests "supplemental" damages in the amount of $1,505,181.00 for the period between the last day of trial and entry of the Final Judgment, as well as prejudgment interest and enhancement on that amount. Dkt. # 446, at p. 1. Medtronic objects to this request. Dkt. # 447. After considering the parties' arguments, the court concludes that it would be premature to include a damages award for that period.

The parties submitted short briefs on this issue. The parties have not provided the court with admissible evidence regarding the number of infringing procedures that occurred during that period, nor has the court had an opportunity to review the accuracy or the reliability of either side's methodology in calculating their proposed numbers. Dr. Barry contends that "supplemental damages" are required. But counsel provides no authority for the proposition that the court must award such damages before issuing a final judgment where, as in this case, a procedure for establishing an appropriate post-trial royalty or other post-trial damages is established. Accordingly, any damages award for the period between the trial and entry of final judgment will be determined after appeals are exhausted. Dr. Barry's request for damages over that period is therefore denied as premature.

However, to protect Dr. Barry's interest in a post-trial damages award, while recognizing the possibility that an appellate ruling may reduce such an award, the court will order Medtronic to deposit into an escrow account an amount that will cover damages reasonably expected based on the verdict and judgment.

Medtronic, shall calculate—using the ACES database—the number of surgeries in which a VCM kit was present in an operating room or surgical suite while a spinal derotation procedure was performed between November 1, 2016, and the date of the Final Judgment. For each such occurrence, Medtronic shall deposit the \$900.00 base plus 20% enhancement (for a total of \$1080.00) into the escrow account. This sum should ensure that the amount in escrow will likely be sufficient to cover the final award. This does not imply that damages for that time period will ultimately be awarded or that the full amount in the escrow account will be found necessary to fully compensate Dr. Barry. To determine those issues, as well as the corollary issues of whether the court's enhancement would apply and what royalty amount is supported by the evidence, the court will conduct a post-appeals evidentiary hearing regarding post-trial damages.

C. Establishing an escrow account does not preclude any appeals of the Final Judgment.

Courts routinely order parties to establish interest-bearing escrow accounts to account for a future damages award. *See, e.g.*, *Amado*, 517 F.3d at 1361 (approving use of escrow account but remanding for clear explanation from district court regarding a final royalty amount between the jury verdict royalty amount and the royalty amount used as the base for the escrow account); *Fresenius Med. Care Holdings, Inc. v. Baxter Int'l, Inc.*, Case No. C-03-01431 SBA (N.D. Cal. June 26, 2008).

When there are multiple claims in a case, and a "court expressly determines that there is no just reason for delay" to direct entry of final judgment as to certain claims, final judgment on those claims may be entered and that judgment is considered final and appealable. *See* FED. R. CIV. P. 54(b). Although this Order preserves Dr. Barry's claim for post-trial damages as one claim that is not yet final, the court finds that there is no just reason for delay as to entry of final judgement on the remaining claims in this case. The Final Judgment issued concurrently is therefore final and appealable as to all of claims and defenses in this case except for the claims for post- trial damages, which depend on determinations to be made as cross appeals are exhausted.

II. PREJUDGMENT INTEREST

Upon a finding of patent infringement, "the court shall award the claimant damages . . . together with interest and costs as fixed by the court." 35 U.S.C. § 284. Prejudgment interest should be awarded under Section 284 absent some justification for withholding such an award. *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 656 (1983); *Telcordia Techs., Inc. v. Cisco Sys., Inc.*, 612 F.3d 1365, 1378 (Fed. Cir. 2010). The purpose of prejudgment interest is "to ensure that the patent owner is placed in as good a position as he would have been in had the infringer entered into a reasonable royalty agreement." *Gen. Motors*, 461 U.S. at 655. "An award of interest from the time the royalty payments would have been received merely serves to make the patent owner whole, since his damages consist not only of the value of the royalty payments but also of the foregone use of the money between the time of infringement and the date of judgment." *Id.* at 656.

Generally, prejudgment interest should be awarded from the date of infringement to the date of judgment. Nickson *Indus., Inc. v. Rol Mfg. Co.*, 847 F.2d 795, 800 (Fed. Cir. 1988). The court may award prejudgment interest only on compensatory damages and not on enhanced damages. *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389 (Fed. Cir. 1983), *overruled on other grounds by Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004).

A district court has substantial discretion to determine both the interest rate and the frequency of compounding. *See Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 556–57 (Fed. Cir. 1984); *Allen Archery, Inc. v. Browning Mfg. Co.*, 898 F.2d 787, 791 (Fed. Cir. 1990). There is ample case law supporting use of both the U.S. Treasury Bill rate and the prime rate, as well as both annual and quarterly compounding. *See, e.g., Laitram Corp. v. NEC Corp.*, 115 F.3d 947, 955 (Fed. Cir. 1997) (U.S. Treasury Bill rate compounded annually); *Allen Archery, Inc. v. Browning Mfg. Co.*, 898 F.2d 787, 789, 791 (Fed. Cir. 1990) (U.S. Treasury Bill rate compounded quarterly); *DataTreasury Corp. v. Wells Fargo & Co.*, No. 2:06-CV-72 DF, 2010 WL 5140718, at *6 (E.D. Tex. Sept. 27, 2010) (prime rate compounded annually); *Studiengesellschaft Kohle, m.b.H. v. Dart Indus., Inc.*, 862 F.2d 1564, 1579–80 (Fed. Cir. 1988) (prime rate compounded quarterly).

The parties agree that the date of first infringement would have been the first hypothetical negotiation date, which was March 3, 2010, the issuance date of the '358 Patent. Dr. Barry's damages expert Ms. Kimberly Schenk opined that the hypothetical negotiation would have taken place around the time the '358 Patent issued, on March 3, 2010. Tr. at 1094:7–13. Medtronic's rebuttal damages expert, Mr. Hosfield, also opined that the hypothetical negotiation would have occurred in March 2010. Tr. at 1868:1–16. The parties also agree that prejudgment interest should be awarded at the prime rate compounded quarterly.

As to the principal amount on which prejudgment interest is calculated, Dr. Barry offers a rolling prejudgment interest calculation. *See* Dkt. # 446-2. He uses estimates of the instances of infringement in the United States for each month after the date of first infringement, multiplied by the royalty base for each such instance. Mathematically, this comports with theamount of the jury's award of damages. Interest is compounded quarterly by applying the then current prime rate to total accrued damages plus accrued interest as of that date. Dr. Barry provides a detailed table in which he tabulates quarterly running damages and compounds prejudgment interest quarterly. *See* Dkt. # 446-2. Except for the last month, Medtronic did not object to

Dr. Barry's methods of calculating the principal amount or compounding interest. And, Medtronic provided no alternate calculation.

The court concludes that Dr. Barry's calculations through the third quarter of 2016 are fair and accurate. For the period between the first instance of infringement through the end of the third quarter of 2016, the prejudgment interest amount to be awarded is **$1,909,917.00**. *See also* Dkt. # 446-2 (column labeled "PJI," at row beginning Year "2016" and Quarter "Q3").

For the month of October 2016, which falls in Q4 of 2016, Dr. Barry's table applies a rate of 1.18% for that single month, when the prime rate was actually 3.50%. *See* Dkt. # 446-2 (at last row—Year 2016). This results in interest for that month of $230,344.00. This appears to be based on an attempt to average in a change in the prime rate that occurred in that quarter; the prime rate was increased to 3.75% on December 15, 2016. In calculating prejudgment interest, the court is attempting to fairly compensate Dr. Barry for the loss of the use of money, but finds that the complications involved in attempting to calculate an "average quarterly rate" based on a change in the prime rate that occurred after the date in question (October 31, 2016) outweigh the benefit of such calculations.

The court finds that for the last month before trial, ending on October 31, 2016, application of the then applicable prime rate of 3.50% is appropriate. The court will award prejudgment interest in the amount of **$56,618.00** for the month of October 2016, which is based on the sum found by the jury for damages for infringing uses in the United States accruing to the date of trial ($17,721,180.00) plus accrued prejudgment interest.[2]

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[2] The jury was instructed to "assess the amount of damages . . . for infringement that has already occurred." Jury Instructions (Dkt. # 414), at p. 32. The jury was also instructed not to "consider or award any amount for future damages." *Id*.

Dr. Barry is also entitled to prejudgment interest from the date of trial through the date of the Final Judgment.[3] *See General Mot.*, 461 U.S. at 656. Since neither party provided a calculation for this amount, the court will use as the prejudgment interest for that period the prime rate as of the date of the entry of the Final Judgment, which is 4.0%. Accordingly, the court awards **$391,314.00** in prejudgment interest from the date of trial through the date of the Final Judgment, May 16, 2017.[4] Having failed to agree on a calculation or to provide alternative calculations without "supplemental" damages included, the parties will not be heard to complain that a different formula could have been applied or that a difference in rounding would have made a difference one way or the other. The court's method ultimately advances the purpose of prejudgment interest, which is to promote equity and fairness by putting the plaintiff in approximately the position he would have been prior to infringement. *See U.S. v. American Home Assur. Co.*, 789 F.3d 1313, 1329 (Fed. Cir. 2015) ("[T]he Supreme Court has cautioned against an overly mechanical application of equitable prejudgment interest."), quoting *Blau v. Lehman*, 368 U.S. 403, 414 (1962) ("[I]nterest is not recovered according to a rigid theory of compensation for money withheld, but is given in response to consideration of fairness.").

In total, the court awards **$2,357,849.00** in prejudgment interest on the jury award of damages for Medtronic's infringement of the '358 and '121 Patents within the United States from

[3] The court is not awarding Dr. Barry what he refers to as prejudgment interest on the "supplemental damages" for the period between verdict and final judgment. Dr. Barry provided the court with a second table one in which he calculated prejudgment interest including supplemental damages. Dkt. # 446-1 (Exh. A, with supplemental damages). Neither of his tables provided a calculation of prejudgment interest for October 31, 2016, through the entry of Final Judgment.

[4] This amount may appear at first glance to be high compared to the interest quarterly prejudgment interest total shown of Dkt. # 446-2. However, this is a total for six months and the prime interest rate had risen to 4%.

the agreed date of first infringement through the entry of Final Judgment. This amount will be reflected in the concurrent Final Judgment.

III. POST-JUDGMENT INTEREST

Pursuant to 28 U.S.C. § 1961, Dr. Barry is entitled to post-judgment interest "from the date of the entry of the judgment, at a rate equal to the coupon issue yield equivalent (as determined by the Secretary of the Treasury) of the average accepted auction price for the last auction of fifty-two week United States Treasury bills settled immediately prior to the date of the judgment." In other words, Dr. Barry is entitled to post-judgment interest based on the treasury rate from the week prior to entry of Final Judgment, over the entire sum of the court's award at the time of Final Judgment. Neither side contested this at the status hearing, nor did either side address it through their post-hearing letter briefs.

IV. CONCLUSION

To establish and effectively maintain the interest-bearing escrow account, it is therefore **ORDERED** that Medtronic shall accurately track and record every occasion in which a VCM kit, regardless of model name or number, or any other kit that is equivalent to a VCM kit but referred to by some other name, is present in an operating room or surgical suite when a spinal derotation procedure is performed in the United States. Medtronic shall track and record such occasions through its sales reps and the ACES database, or some equivalent reliable tracking method.

It is further **ORDERED** that, for every such occasion, Medtronic shall deposit the sum of One-thousand and Eighty Dollars ($1,080) into a federally-insured, interest-bearing escrow account. Deposits shall be made into the account quarterly. The first deposit of the amount due, based on all such occasions identified has having occurred from the date of trial (November 6,

2016) through March 31, 2017, shall take place within 30 calendar days after the date of this order. Subsequent deposits shall be made within 30 calendar days following the end of each successive calendar quarter, that is 30 calendar days after the quarter ending June 30, 2017, thirty (30) calendar days after the quarter ending September 30, 2017, etc. Payments not made by the due date shall accrue interest at the prime rate plus 2% compounded monthly.

It is further **ORDERED** that Medtronic shall provide Dr. Barry and the court with (1) a copy of the report from the ACES database that sets out the numbers of VCM kits present at derotation surgeries, or whatever other tracking report or database Medtronic uses to track the presence of VCM kits at derotation surgeries; and (2) a copy of the bank statement showing the deposits and the balance in the escrow account. The first report and bank statement shall be provided within 40 days after the date of this Order. The reports and bank statements for subsequent quarters are due 40 days after the end of each subsequent calendar quarter, that is 40 days after the quarter ending June 30, 2017, 40 days after the quarter ending September 30, 2017, etc.

It is further **ORDERED** that the terms of this interest-bearing escrow account arrangement shall remain in effect until further court order.

Nothing in this Order shall preclude the Final Judgment entered concurrently with this Order from being a final and appealable judgment.