IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION

MEDTRONIC SOFAMOR DANEK, INC., Plaintiff, v. GARY K. MICHELSON, M.D. and KARLIN TECHNOLOGY, INC., Defendants.	No. 01-2373
GARY K. MICHELSON, M.D. and KARLIN TECHNOLOGY, INC., Counterclaimants, v. MEDTRONIC SOFAMOR DANEK, INC., Counterdefendant.	
GARY K. MICHELSON, M.D., Third Party Plaintiff, v. SOFAMOR DANEK HOLDINGS, INC., Third Party Defendant.	
GARY K. MICHELSON, M.D., and KARLIN TECHNOLOGY, INC., Counterplaintiffs, v. MEDTRONIC SOFAMOR DANEK, INC. and MEDTRONIC, INC., Counterdefendants.	

JURY INSTRUCTIONS

TABLE OF CONTENTS

01-2373
Medtronic v. Michelson, et al.

I. A. (1)

GENERAL INSTRUCTIONS
Legal Principles Governing Consideration of Evidence
Duty of Jury

Ladies and gentleman of the jury, we have now come to the point in the case when it is my duty to instruct you in the law that applies to the case and you must follow the law as I state it to you.

As jurors it is your exclusive duty to decide all questions of fact submitted to you and for that purpose to determine the effect and value of the evidence. You must not be influenced by sympathy, bias, prejudice, or passion.

You are not to single out any particular part of the instructions and ignore the rest, but you are to consider all the instructions as a whole and regard each in the light of all the others.

I. A (2)

Parties' Right to Seek Resolution of Their Disputes Through Litigation

As I instructed you at the outset of this trial, the settlement of disputes between parties through the means of a lawsuit is a long-recognized critical part of our constitutional system. The fact that the parties in this case are here is not something for which they can be criticized. In fact, that is the preferred method for the resolution of disputes in this country. In this case, while there have been a number of assertions by the parties concerning the conduct of each other, any inference that either party's lawsuit is unfounded or filed in bad faith is improper. You must disregard any suggestion along those lines and continue to consider the evidence fairly and impartially.

I. A. (3)

Parties and Nature of Case

This case involves disputes between Medtronic, Inc., Medtronic Sofamor Danek, Inc., Sofamor Danek Holdings, Inc., and SDGI Holdings, Inc. (whom we will collectively refer to as "Medtronic Sofamor Danek" or "Medtronic") on the one hand and Gary K. Michelson, M.D. and Karlin Technology, Inc. (whom we will collectively refer to as "Dr. Michelson") on the other hand. The disputes relate to spinal fusion implants and the instruments and methods used to perform spinal surgery.

Medtronic Sofamor Danek, Inc. is a medical device company that manufactures and markets medical devices used by doctors to treat various conditions including back pain, neck pain, and scoliosis. The particular products involved in this case concern medical devices used for treatment of the human spine by treating back injuries and relieving back pain. Medtronic Sofamor Danek, Inc. is a wholly owned subsidiary of Medtronic, Inc., which is a leading technology company. Sofamor Danek Holdings, Inc. and SDGI Holdings, Inc. are companies started by Medtronic Sofamor Danek.

Dr. Michelson is a spine surgeon who specialized in spine surgery and is also an inventor who has received numerous United States Patents for inventions that are involved in this case. Karlin Technology, Inc. (also known as "KTI") is a company started by Dr. Michelson.

This lawsuit was started by Medtronic Sofamor Danek against Dr. Michelson and Karlin Technology in May 2001, but each side is making claims against the other.

The subject matter of this case involves certain patents and agreements between the parties relating to Dr. Michelson's spinal implant inventions.

The agreements involved in this case include a License Agreement between Medtronic Sofamor Danek, Inc. and Karlin Technology; a Purchase Agreement between Dr. Michelson and Medtronic Sofamor Danek; the TSRH-B Agreement; and a Three-Party Agreement between Sofamor Danek Holdings, Inc., Dr. Michelson, and Wright Medical (a company that is not involved in this case), which relates to cervical plating systems, or technology relating to the neck area of the spine.

The License and Purchase Agreements involve spinal implants that are inserted in the space between vertebrae in the spine.

These are often called "interbody implants." The License Agreement covers "threaded" spinal interbody implants. Threaded implants have threads similar to threads on a screw. The Purchase Agreement relates to interbody spinal implants that do not have threads and are referred to as "non-threaded," "impacted," or "push-in" technology. These Agreements also cover the related methods of implanting or insertion of the threaded and non-threaded devices, and the instruments used in such procedures.

Medtronic Sofamor Danek contends that Dr. Michelson and/or Karlin Technology has breached certain provisions under the agreements. Medtronic Sofamor Danek also contends that Dr. Michelson improperly has sought to take back rights granted to Medtronic Sofamor Danek under the agreements.

Dr. Michelson contends that Medtronic Sofamor Danek claimed rights to technology that Medtronic Sofamor Danek did not receive under four Agreements and interfered with his ability to enter into agreements with other companies to sell or license these other inventions and wrongfully took the value of these

inventions for itself. Dr. Michelson also contends that Medtronic Sofamor Danek has breached those agreements in a number of respects including: failing to make proper payments under the Agreements, failing to use proper efforts to develop his inventions, failing to provide him with appropriate name recognition for his inventions, and failing to provide patent marking.

Each party disputes the claims made by the other party.

I. A. (4)

Corporations Not To Be Prejudiced

In this case, five of the six parties - Karlin Technology, Inc.; Medtronic, Inc.; Medtronic Sofamor Danek, Inc.; Sofamor Danek Holdings, Inc.; and SDGI Holdings, Inc. - are corporations. The fact that some of the parties are corporations must not influence you in your deliberations or in your verdict.

You may not discriminate between corporations and natural individuals, such as Dr. Michelson. Each are persons in the eyes of the law, and each are entitled to the same fair and impartial consideration and to justice by the same legal standards.

This case should be considered and decided by you as an action between persons of equal standing in the community, of equal worth, and holding the same or similar stations of life. Each corporation is entitled to the same fair trial at your hands as a private individual. All persons, including corporations, stand equal before the law, and are to be dealt with as equals in a court of justice.

When a corporation is a party in a case, that does not mean that only one body can be considered by you in determining its claims or its liability in the case. A corporation acts not only through the policies and decisions that it makes, but also through its designated supervisory employees and others designated by the corporation to act on its behalf.

As you apply subsequent portions of these instructions you will have to determine whether or not individual corporate employees were authorized to act on behalf of the corporation when that individual did what he or she did.

I. A. (5)

All Persons Equal Before the Law

You have heard emphasis placed on the fact that certain witnesses live, work, or were raised in Memphis. In deciding this case, however, you should not give weight to such matters.

A party or witness's geographic ties must not affect your decision in any way. All persons stand equal before the law and must be treated as equals. Justice is not different for persons from Memphis than it is for persons from any other part of the country. You must, therefore, apply the law as I give it to you without considering a person's geographic ties.

I. A. (6)

Separate Consideration

Although there is more than one party on each side in this case, it does not follow from the fact alone that if one is liable all are liable. Each party is entitled to fair and separate consideration of the case and is not to be prejudiced by your decision concerning the other party or parties.

The complaints in this case charge all six parties with various allegations of breach of contract, tortious conduct, infringement of patents, and so on. While claims have been made against all the Medtronic parties/plaintiffs and each of the Michelson parties/defendants, in our system of justice, it is your duty to separately consider the evidence as to each party and to return a separate verdict for each one. For each party, you must decide what the evidence establishes as to that particular party.

Your decision as to one party, whatever that decision is, should not influence your decision as to any of the other parties.

Each party is entitled to fair and separate consideration of his or its own case and is not to be prejudiced by your decision concerning the other parties.

I. A. (7)

Burden of Proof and
Consideration of the Evidence

I will now instruct you with regard to where the law places the burden of making out and supporting the facts necessary to prove the legal theories in the case.

When, as in this case, a party denies the material allegations of a complaining party's claim, the law places upon the claiming party the burden of supporting and making out such claim upon every material issue in controversy by the applicable burden of proof.

For most of the claims in this case, the burden of proof will be a preponderance of the evidence.

The preponderance of the evidence means that amount of factual information presented to you in this trial which is sufficient to cause you to believe that an allegation is probably true. In order to preponderate, the evidence must have the greater convincing effect in the formation of your belief. If the evidence on a particular issue appears to be equally balanced, the party having the burden of proving that issue must fail.

I should also tell you that later in these instructions, I will identify some claims that must be established by a higher standard of proof, referred to as "clear and convincing" evidence. I will give you specific instructions regarding which claims must be proven by a preponderance of the evidence and which claims must be proven by clear and convincing evidence, and the clear and convincing standard will be explained later in these instructions.

Be careful to make sure anytime you are considering a particular claim that you apply the correct burden of proof to the question you are answering.

You must consider all the evidence pertaining to every issue, regardless of who presented it.

I. A. (8)

Credibility and Weighing the Evidence

You, members of the jury, are judges of the facts concerning the controversies involved in this lawsuit. In order for you to determine what the true facts are, you are called upon to weigh the testimony of every witness who has appeared before you or whose deposition has been read to you or presented to you by video recording and to give the testimony of the witnesses the weight, faith, credit and value to which you think it is entitled.

You should consider the manner and demeanor of each witness while on the stand. You must consider whether the witness impressed you as one who was telling the truth or one who was telling a falsehood and whether or not the witness was a frank witness. You should consider the reasonableness or unreasonableness of the testimony of the witness; the opportunity or lack of opportunity of the witness to know the facts about which he or she testified; the intelligence or lack of intelligence of the witness; the interest of the witness in the result of the lawsuit, if any; the relationship of the witness to any of the parties to the lawsuit, if any; and whether the witness testified inconsistently while on the witness stand, or

if the witness said or did something or failed to say or do something at any other time that is inconsistent with what the witness said while testifying.

These are the rules that should guide you, along with your common judgment, your common experience and your common observations gained by you in your various walks in life, in weighing the testimony of the witnesses who have appeared before you in this case.

If there is a conflict in the testimony of the witnesses, it is your duty to reconcile that conflict if you can, because the law presumes that every witness has attempted to and has testified to the truth. But if there is a conflict in the testimony of the witnesses which you are not able to reconcile, in accordance with these instructions, then it is with you absolutely to determine which of the witnesses you believe have testified to the truth and which ones you believe have testified to a falsehood.

Immaterial discrepancies do not affect a witness's testimony, but material discrepancies do. In weighing the effect of a discrepancy, always consider whether it pertains to a matter of importance or an unimportant detail, and whether the discrepancy results from innocent error or intentional falsehood.

The preponderance of the evidence in a case is not determined by the number of witnesses testifying to a particular fact or a particular set of facts. Rather, it depends on the weight, credit and value of the total evidence on either side of the issue, and of this you jurors are the exclusive judges.

If in your deliberations you come to a point where the evidence is evenly balanced and you are unable to determine which way the scales should turn on a particular issue, then the jury must find against the party upon whom the burden of proof has been cast in accordance with these instructions.

Remember, you are the sole and exclusive judges of the credibility or believability of the witnesses who have testified in this case. Ultimately, you must decide which witnesses you believe and how important you think their testimony is. You are not required to accept or reject everything a witness says. You are free to believe all, none, or part of any person's testimony.

I. A. (9)

Deposition Testimony
and Rule 30(b)(6) Testimony

Certain testimony has been read into evidence from depositions or previously given testimony or has been presented by video tape recording. A deposition is testimony taken under oath before this trial and preserved in writing or on video tape. Previous testimony is testimony taken under oath in either the same or different proceedings. You are to consider all such testimony as if it had been given in this court.

While most depositions are simply the testimony of an individual regarding what that individual personally knows, certain witnesses in this case have been designated by the corporation to testify on its behalf at a deposition on designated topics. It is not literally possible to take the deposition of a corporation; instead, when a corporation is involved, the testimony must be obtained from natural persons designated by the corporation to speak on its behalf on the designated topics. Testimony given by such a person, designated to speak on behalf of the corporation, is testimony on behalf of the corporation; such testimony is binding upon the corporation on those designated topics as if given by the corporation itself.

I. A. (10)

Impeachment -
Inconsistent Statement or Conduct

A witness may be discredited or impeached by contradictory evidence or by evidence that at some other time the witness has said or done something, or has failed to say or do something that is inconsistent with the witness's present testimony.

If you believe any witness has been impeached and thus discredited, you may give the testimony of that witness such credibility, if any, you think it deserves.

If a witness is shown knowingly to have testified falsely about any material matter, you have a right to distrust such witness's other testimony and you may reject all the testimony of that witness or give it such credibility as you may think it deserves; you may, of course, accept any part you decide is true. This is all for you, the jury, to decide.

An act or omission is "knowing," if committed voluntarily and intentionally, and not because of mistake or accident or other innocent reason.

I. A. (11)

Direct and Circumstantial Evidence

There are two kinds of evidence - direct and circumstantial. Direct evidence is testimony by a witness about what that witness personally saw or heard or did. Circumstantial evidence is indirect evidence, that is, it is proof of one or more facts from which one can find another fact.

You may consider both direct and circumstantial evidence in deciding this case. The law permits you to give equal weight to both, but it is for you to decide how much weight to give to any evidence.

I. A. (12)

Evidence

You are to decide this case only from the evidence that was received, that is, evidence that was presented for your consideration during the trial. The evidence consists of:

1. The sworn testimony of the witnesses who have testified, both in person and by deposition;

2. The exhibits that were received and marked as evidence;

3. Any facts to which the lawyers for both sides have agreed or stipulated; and

4. Any facts as to which the Court has taken judicial notice.

I. A. (13)

"Inferences" Defined

Although you are to consider only the evidence in the case, you are not limited to the statements of the witnesses. In other words, you are not limited to what you see and hear as the witnesses testify. You may draw from the facts that you find have been proved such reasonable inferences as seem justified in light of your experience.

Inferences are deductions or conclusions that reason and common sense lead you to make from facts established by the evidence in the case.

I. A. (14)

Statements of Counsel

You must not consider as evidence any statements of counsel made during the trial. Of course, if counsel for the parties have stipulated to any fact, or any fact has been admitted by counsel, you may regard that fact as being conclusively established.

As to any questions to which an objection was sustained, you must not speculate as to what the answer might have been or as to the reason for the objection, and you must assume that the answer would be of no value to you in your deliberations.

You must not consider for any purpose any offer of evidence that was rejected, or any evidence that was stricken out by the Court. Such matter is to be treated as though you had never known it.

You must never speculate to be true any insinuation suggested by a question asked a witness. A question is not evidence. It may be considered only as it supplies meaning to the answer.

I. A. (15)

Comments by the Court

During the course of a trial on a few occasions, I occasionally asked questions of a witness in order to bring out facts not then fully covered in the testimony. Please do not assume that I hold any opinion on the matters to which my questions may have related. Remember that you, as jurors, are at liberty to disregard all comments of the Court in arriving at your own findings as to the facts.

I. A. (16)

Expert Testimony

You have heard the testimony of expert witnesses Michael Collins; Wayne Coleman; Michael Leetzow; Dr. Barton Sachs; Dr. Gary Michelson; Terry Corbin; John Jarosz; Robert Sheridan; Professor Thomas Oxland; and Dr. James Ogilvie. An expert is allowed to express his or her opinion on those matters about which the expert has special knowledge, training, or experience. Expert testimony is presented to you on the theory that someone who is experienced or knowledgeable in the field can assist you in understanding the evidence or in reaching an independent decision on the facts.

In weighing each expert's testimony, you may consider the expert's qualifications, the expert's opinions, the expert's reasons for testifying, as well as all of the other considerations that ordinarily apply when you are deciding whether or not to believe a witness' testimony. You may give expert testimony whatever weight, if any, you find it deserves in light of all the evidence in this case. You should not, however, accept a witness' testimony merely because he is an expert. Nor should you substitute it for your own reason, judgment, and

common sense. The determination of the facts in this case rests solely with you.

I. A. (17)

Testimony of Michael Burrage

You have heard the testimony of Michael Burrage, Medtronic Sofamor Danek's Vice President of Taxation, including what Mr. Burrage thought regarding which products or inventions were included in the License and Purchase Agreements. This testimony was offered solely on the issue of what Mr. Burrage believed was included in the License Agreement and the Purchase Agreement. What Mr. Burrage thought was included in the License Agreement and the Purchase Agreement is relevant only on the question of Medtronic Sofamor Danek's state of mind - that is, whether Medtronic Sofamor Danek had a good faith belief that it owned Dr. Michelson's improvements under the License Agreement and Purchase Agreement. It is not determinative on the issue of what the company, or any other officer of the company, believed or thought. It has no bearing on the proper interpretation of the parties' contracts, which the Court has already made, and it is not something you can consider in that regard at all. The witness' testimony must be viewed in the full context of not only his position with the company, but also in the context of all the evidence being presented on the issue of the state of mind of Medtronic Sofamor Danek. You, as the triers of the facts will decide the facts.

I. A. (18)

Testimony of Shawn McCormick

You will recall that on August 3, 2004, Shawn McCormick, who is the Vice President of Finance of Medtronic Sofamor Danek, testified about a number of things, including his analysis of how much certain categories of Medtronic's expenses could be attributed to or associated with Dr. Michelson's technology and what Medtronic's regulatory and clinical costs were. You will also recall that I told you that Mr. Gibson had reserved the ability to ask a few more questions of Mr. McCormick after review of additional information. You will also recall that, after the Court's review of additional information, the Court struck, under the rules of the Court, all of Mr. McCormick's testimony regarding his analysis of how much of Medtronic's expenses were attributable to or associated with Dr. Michelson's technology and what Medtronic's regulatory and clinical costs were. You are reminded, and again instructed, to disregard Mr. McCormick's testimony in that regard and not consider it. If you made any notes about what Mr. McCormick thought about how much of Medtronic's expenses were attributable to or associated with Dr. Michelson's technology or what Medtronic's regulatory and clinical costs were, you need to cross out those notes and not consider them as well.

I must also remind you, however, that Mr. McCormick also testified that Medtronic Sofamor Danek's Interbody Group spent "a little over $114 million" during 1997 through 2003. The Court did not strike this testimony; therefore, you may consider it for all proper purposes.

I. A. (19)

Limited Admission of Evidence

You will recall that during the course of this trial certain evidence was admitted for a limited purpose only. You must not consider such evidence for any other purpose.

For example, evidence has been admitted for the limited purpose of showing a witness's state of mind, or that the witness had notice of a particular issue. Evidence of a witness's state of mind is relevant only to show what the witness believed. Such evidence cannot be considered for the truth or accurateness of the belief. Likewise, evidence admitted only to show notice cannot be considered for the truth or accurateness of the matter it concerns.

I. A. (20)

Interrogatories

During the course of this trial, you have heard reference made to the word "interrogatory." An interrogatory is a written question that must be answered under oath in writing. You are to consider interrogatories and their answers as if the questions had been asked and answered in court.

I. A. (21)

Request for Admission

The parties have introduced into evidence certain "requests for admissions." If these facts are admitted, you are to consider the facts to be true.

I. A. (22)

Evidentiary Summaries

Certain summaries have been received in evidence in order to help explain the contents of records or other evidence in the case. If the summary does not correctly reflect the facts or figures shown by the evidence in the case, you should disregard the summary and determine the facts from the underlying evidence.

I. A. (23)

Demonstrative Charts and Summaries

Certain demonstrative charts and summaries have been shown to you in order to help explain facts disclosed by books, records, and other documents that are in evidence in the case. These demonstrative charts and summaries are not themselves evidence or proof of any facts. If the demonstrative charts/summaries do not correctly reflect facts or figures shown by the evidence in the case, you should disregard them.

I. A. (24)

Demonstrative Summaries -
Selected Danek Literature and Patent Marking

Defendants have used demonstrative summaries of selected Medtronic Sofamor Danek literature and patent marking as demonstrative exhibit nos. ID 335C, ID 335D, ID 336B, ID 337B, ID 338B, ID 339B, ID 531, ID 532, ID 533 and ID 534. These specific demonstrative summaries are not in and of themselves evidence or proof of any facts. If these summaries do not correctly reflect facts or figures shown by the evidence in the case, the jury should disregard them. In other words, such summaries are used only as a matter of convenience. So, to the extent that you find they are not, in truth, summaries of facts or figures shown by the evidence in the case, you are to disregard them entirely.

I. A. (25)

Tape Recordings

A person who is a party to a telephone conversation has a legal right to record that conversation, with or without the knowledge or permission of any other party to the conversation.

Certain tape recordings of conversations have been admitted into evidence during this trial, as well as certain transcripts of those conversations. The tapes are the evidence. The transcripts are an aid to you in understanding the tapes. But the evidence itself is the tapes and not the transcript. So, if there is any difference between the tapes and the transcripts, you will in all events rely on the tapes themselves.

I. A. (26)

Trial Exhibit No. 94

Exhibit No. 94 entitled "Technology of Dr. Gary K. Michelson Being Offered to Medtronic, Inc." was entered into evidence through Dr. Michelson; he referred to it as the "Galvin document." This document is not to be accepted by you as the position of Medtronic Sofamor Danek or Medtronic, Inc. Instead, it is Dr. Michelson's position in the case. Specifically, Exhibit 94 is the position of Dr. Michelson that he wished to have presented to the Executive Committee of Medtronic, Inc. as to the technology that was being offered to Medtronic or Medtronic Sofamor Danek, with the exception of a desired modification to reflect his position regarding the Flip 90 and the addition of the words "all rights subject to Spine Tech agreement."

I. A. (27)

Evidence Received Over a Hearsay Objection

You, the jury, may consider all evidence admitted in the case. Testimony and documents which the court allowed into evidence over a hearsay objection may be considered by you as evidence, on the same basis as all other evidence, for the purpose for which it was admitted. This, of course, is all for you, the jury, to decide.

II. A.

COURT RULINGS, JUDICIAL NOTICE, STIPULATED FACTS
Court Rulings – Scope of the Agreements

The Court has made certain rulings with respect to the scope of rights Medtronic Sofamor Danek received under the License Agreement and the Purchase Agreement. You must follow these rulings in your deliberations.

1. The License Agreement granted to Medtronic Sofamor Danek only the right to "make, have made, use and sell" those threaded spinal implants (and instruments and methods related thereto) that are Dr. Michelson's invention as disclosed in the single patent and the seven patent applications listed in Disclosure Schedule 3.2 of the License Agreement.

2. The Purchase Agreement granted to Medtronic Sofamor Danek only the right to "make, have made, use and sell" those non-threaded implants (and instruments and methods related thereto) that are Dr. Michelson's invention as disclosed in the specific patent applications listed in Schedules A and B to the Purchase Agreement.

3. "Technology," as defined in the License Agreement and the Purchase Agreement, does not include any of Dr. Michelson's inventions after the dates of the Agreements.

4. Patents "which Michelson may develop, acquire or possess in the future" or "which [Karlin Technology] may develop, acquire or license" are only those that issue from the patent applications listed in the Schedules.

5. Patent applications "which Michelson may develop, acquire or possess in the future" or "which [Karlin Technology] may develop, acquire or license" are only those to-be-filed patent applications identified in the Schedules.

6. Future applications and future patent applications "which Michelson may develop, acquire or possess in the future" or "which [Karlin Technology] may develop, acquire or license" are the amendments, continuations, divisions, reissues, and reexaminations of the patent and patent applications listed in the Schedules, but do not include any rights to continuations-in-part, except for the specific application listed in Paragraph 5 in Disclosure Schedule 3.2.

7. Any know-how that "Michelson may develop, acquire or possess in the future" or "which [Karlin Technology] may develop, acquire or license" in the future must pertain to the Medical Device and does not include any of Dr. Michelson's inventions after the dates of the Agreements.

8. The definition of Technology does not include future inventions or continuations-in-part, except for the one specific continuation-in-part application that is explicitly identified in paragraph 5 of Schedule 3.2 to the License Agreement.

II. B.

Judicial Notice

You are hereby instructed that the Court takes judicial notice of the following facts:

1. 35 U.S.C. § 271(e)(1) provides that "It shall not be an act of infringement to make, use, offer to sell, or sell within the United States or import into the United States a patented invention ... solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs or veterinary biological products." The Supreme Court has ruled that this language covers medical devices.

2. The term of U.S. Patent Nos. 5,782,919 is to expire on March 27, 2015.

3. Chapter 2701 of the U.S. Patent and Trademark Office's Manual of Patent Examining Procedure ("MPEP") sets forth the calculation of patent terms as follows:

> For applications filed on or after June 8, 1995 . . . the term of a patent [issuing from that application] . . . begins on the date the patent issues and ends on the date that is twenty years from the date on which the application for patent was filed in the United States or, if the application contains a specific reference to an earlier filed application or applications . . . twenty years from the filing date of the earliest of such application(s). This patent term provision is referred to as the "twenty year term."
>
> All patents . . . that were in force on June 8, 1995 or that issued on an application that was filed before June 8, 1995, have a term that is the greater of the "twenty year term" or seventeen years from the patent grant.

4. U.S. Patent No. 5,782,919 states on its face that the term of U.S. Patent No. 5,782,919 "shall not extend beyond the expiration date of Pat. No. 5,669,909." The expiration of the patent term for U.S. Patent No. 5,782,919 is March 27, 2015.

Since you are the fact-finders in this case, you may, but are not required to, accept these facts as conclusively established.

II. C.

Stipulated Facts

Before the trial of this case, the parties agreed to the truth of certain facts in this action. As a result of this agreement, the plaintiff and the defendant entered into certain stipulations in which they agreed that the stipulated facts could be taken as true without the parties presenting further proof on the matter. This procedure is often followed to save time in establishing facts which are undisputed.

Facts stipulated by the parties in this case include the following:

The Parties

Medtronic Sofamor Danek, Inc.

1. Medtronic Sofamor Danek, Inc. ("Danek" or "Medtronic Sofamor Danek"), formerly known as Sofamor Danek Group, Inc., is a plaintiff in this case with its home office and principal place of business located at 1800 Pyramid Place, Memphis, Tennessee, and is a wholly-owned subsidiary of Medtronic, Inc.

2. Medtronic Sofamor Danek is a medical technology company that manufactures and sells device-based medical therapies principally related to the spine.

Medtronic, Inc.

3. Medtronic, Inc. is a plaintiff in this case with its home office and principal place of business at 710 Medtronic Parkway, Minneapolis, Minnesota and is the parent company of Medtronic Sofamor Danek.

4. Medtronic, Inc. is a medical technology company that manufactures and sells device-based medical therapies.

Sofamor Danek Holdings, Inc.

5. Sofamor Danek Holdings, Inc. is a counter-defendant in this case having its principal place of business at 1800 Pyramid Place, Memphis, Tennessee, and is a wholly owned subsidiary of Medtronic Sofamor Danek.

Sofamor Danek Group, Inc.

6. Sofamor Danek Group, Inc. was a medical technology company primarily involved in developing, manufacturing and marketing spinal devices used to treat spinal disorders.

7. Sofamor Danek Group, Inc. was acquired by Medtronic, Inc. in 1999, after which Sofamor Danek Group, Inc. emerged as Medtronic Sofamor Danek, Inc., a wholly-owned subsidiary of Medtronic, Inc.

Gary K. Michelson, M. D.

8. Dr. Gary K. Michelson ("Dr. Michelson") is a defendant and counterclaim plaintiff in this case. Dr. Michelson is the named inventor, or a named inventor, on more than one hundred forty (140) issued patents in the United States and numerous issued or pending foreign patents or applications.

Karlin Technology, Inc.

9. Karlin Technology, Inc. is a defendant and counter-claim plaintiff in this case. Karlin Technology is a corporation started by Dr. Michelson.

License Agreement

10. On January 11, 1994, Medtronic Sofamor Danek and Karlin Technology entered into a contract called the "License Agreement," relating to certain of Dr. Michelson's threaded spinal implant inventions.

Purchase Agreement

11. On January 11, 1994, Medtronic Sofamor Danek and Dr. Michelson entered into a contract called the "Purchase Agreement," relating to certain of Dr. Michelson's non-threaded spinal implant inventions.

The Three-Party Agreement

12. On January 18, 2001, Dr. Michelson, Wright Medical, and Sofamor Danek Holdings, Inc. ("SDH") (a Medtronic subsidiary) entered into an agreement called the "Three-Party Agreement."

Name Attribution

13. In regard to the name attribution provisions of the contracts, the License Agreement, Purchase Agreement and Three-Party Agreement, the only activities that are at issue in this case are those that occurred before January 1, 2004. Defendants are not making any claim in this case for any name attribution breaches that may have occurred after December 31, 2003.

The TSRH-B Agreement

14. On November 2, 1999, Dr. Michelson and SDGI Holdings, Inc. entered into a contract known as the "TSRH-B Agreement."

The Lawsuit

15. On May 9, 2001, Medtronic Sofamor Danek and Medtronic filed this lawsuit against Dr. Michelson and Karlin Technology in the U.S. District Court for the Western District of Tennessee.

16. On October 15, 2001, Dr. Michelson and Karlin Technology filed their original counterclaim against Medtronic Sofamor Danek and Medtronic, Inc. in the U.S. District Court for the Western District of Tennessee.

Other Agreements

17. On May 19, 1992, Spine-Tech, Karlin Technology, and Dr. Michelson entered into a license agreement relating to certain of Dr. Michelson's threaded spinal implant technology.

Patents

18. United States Patent No. 5,015,247 (the "'247 patent") entitled "Threaded Spinal Implant" was issued on May 14, 1991 to Dr. Michelson as the sole named inventor.

19. United States Patent No. 6,080,155 (the "'155 patent") entitled "Method of Inserting and Preloading Spinal Implants" was issued on June 27, 2000 to Dr. Michelson as the sole named inventor.

20. The patent application that led to the '155 patent is a continuation-in-part application of the application leading to the '437 patent and was filed on February 27, 1995, after the Execution Date of the License Agreement.

21. United States Patent No. 5,797,909 (the "'909 patent") entitled "Apparatus for Inserting Spinal Implants" was issued on August 25, 1998 to Dr. Michelson as the sole named inventor.

22. United States Patent No. 6,149,650 (the "'650 patent") entitled "Threaded Spinal Implant" was issued on November 21, 2000 to Dr. Michelson as the sole named inventor.

23. United States Patent No. 6,159,214 (the "'214 patent") entitled "Milling Instrumentation and Method For Preparing A Space Between Adjacent Vertebral Bodies" was issued on December 12, 2000 to Dr. Michelson as the sole named inventor.

24. United States Patent No. 6,210,412 (the "'412 patent") entitled "Method For Inserting Frusto-Conical Interbody Spinal Fusion Implants" was issued on April 3, 2001 to Dr. Michelson as the sole named inventor.

25. United States Patent No. 6,270,498 (the "'498 patent") entitled "Apparatus for Inserting Spinal Implants" was issued on August 7, 2001 to Dr. Michelson as the sole named inventor.

26. United States Patent No. 6,440,139 (the "'139 patent") entitled "Milling Instrumentation And Method For Preparing A Space Between Adjacent Vertebral Bodies" was issued on August 27, 2002 to Dr. Michelson as the sole named inventor.

III. A.(1)

LAW AS TO SUBJECT MATTER
Contract Law
Defendants' Summary of Contract Issues

You must decide the following contract issues according to the instructions that I will give to you. The issues related to Defendants' contract claims against Medtronic Sofamor Danek are:

1. Has Dr. Michelson proven by a preponderance of the evidence that Medtronic Sofamor Danek breached the Purchase Agreement by one or more of the following:

a. Failing to pay amounts owed to Dr. Michelson, as required under Section 5.2 of the Purchase Agreement;

b. Failing to use its reasonable best efforts as that obligation is described and limited in Section 4.5 of the Purchase Agreement to obtain regulatory approval for and to actively promote the sale of the non-threaded Medical Device;

c. Refusing to return the non-threaded Medical Device and the Technology when Dr. Michelson exercised his option to purchase the non-threaded Medical Device and Technology after Medtronic Sofamor Danek failed to use its reasonable best efforts as that obligation is described and limited in Section 4.5 of the Purchase Agreement;

d. Failing to provide proper patent notice, as required by Section 4.6 of the Purchase Agreement;

e. Failing to engage in dispute resolution, as required by Section 12.15 of the Purchase Agreement;

f. Failing to provide written notice and an opportunity to cure any alleged breach under Sections 12.6 and 12.14 of the Purchase Agreement; and/or by

g. Violating the implied covenant of good faith and fair dealing.

2. Has Karlin Technology proven by a preponderance of the evidence that Medtronic Sofamor Danek breached the License Agreement by one or more of the following:

a. Failing to pay royalties amounts owed to Karlin Technology, as required under Section 5.2 of the License Agreement;

b. Failing to use its reasonable best efforts as that obligation is described and limited in Section 4.4 of the License Agreement to obtain regulatory approval for and to actively promote the sale of the threaded Medical Device;

c. Refusing to return the threaded Medical Device and the Technology when Karlin Technology exercised its option to purchase the threaded Medical Device and Technology after Medtronic Sofamor Danek failed to use its reasonable best efforts as that obligation is described and limited in Section 4.4 of the License Agreement;

d. Failing to provide proper patent notice, as required Section 4.5 of the License Agreement;

e. Failing to allow inspection, examination, audit, and copying of records, as required under Section 6 of the License Agreement;

f. Failing to engage in dispute resolution, as required by Section 13.15 of the License Agreement;

g. Failing to provide written notice and an opportunity to cure any alleged breach under Sections 13.6 and 13.14 of the License Agreement;

h. Failing to protect patent rights in Dr. Michelson's inventions and extend U.S. Patent No. 6,264,656, as required under Section 7 of the License Agreement; and/or by

i. Granting an improper sublicense to Osteotech, as prohibited under Section 2.2 of the License Agreement;

3. Has Dr. Michelson proven by a preponderance of the evidence that Medtronic Sofamor Danek breached the Three-Party Agreement by one or more of the following:

a. Failing to pay royalties to Dr. Michelson, as required under Section 2.9 and 2.10 of the Three-Party Agreement;

b. Failing to allow inspection, examination, audit, and copying of records, as required under Sections 2.6 of Three-Party Agreement;

c. Failing to provide name attribution to Dr. Michelson on its MultiLock-related products and literature; and/or by

d. Failing to properly patent mark its products.

4. Has Dr. Michelson proven by a preponderance of the evidence that Medtronic Sofamor Danek breached the TSRH-B Agreement by failing to pay royalties to Dr. Michelson.

5. Has Dr. Michelson proven by a preponderance of the evidence that Medtronic Sofamor Danek breached the February 3, 1998 Mutual Confidentiality Agreement as referenced, extended, continued, and/or supplemented by improperly using or disclosing Dr. Michelson's confidential information to others.

III. A.(2)

Plaintiff's Summary of Contract Issues

You must also decide the following additional contract issues according to the instructions that I will give to you. The issues related to Medtronic Sofamor Danek's contract claims against Defendants are:

1. Has Medtronic Sofamor Danek proven by a preponderance of the evidence that Dr. Michelson breached the Purchase Agreement by one or more of the following:

a. Violating the non-competition provisions under the Agreement by attempting to or threatening to license or assign spinal fusion implant technology to Medtronic Sofamor Danek's competitors in violation of Section 3.2 of the Purchase Agreement;

b. Failing to cooperate to ensure Danek's quiet enjoyment of the Technology and Medical Device by attempting to or threatening to license or assign spinal fusion implant technology to Medtronic Sofamor Danek's competitors in violation of Section 3.2 of the Purchase Agreement;

c Failing to provide Danek with written notice of any breaches as required by Sections 12.6 and 12.14 of the Purchase Agreement;

d. Failing, after proper notice, to give Medtronic Sofamor Danek an opportunity to cure any purported breaches alleged by Dr. Michelson as required by Section 12.14 of the Purchase Agreement;

e. Breaching the implied covenant of good faith and fair dealing.

2. Has Medtronic Sofamor Danek proven by a preponderance of the evidence that Karlin Technology breached the License Agreement by one or more of the following:

a. Violating the non-competition provisions under the Agreement by attempting to or threatening to license or assign spinal fusion implant technology to Medtronic Sofamor Danek's competitors in violation of Section 3.2 of the License Agreement;

b. Failing to cooperate to ensure Medtronic Sofamor Danek's quiet enjoyment of the Technology and Medical Device by attempting to or threatening to license or assign spinal fusion implant technology to Danek's competitors in violation of Section 3.2 of the License Agreement;

c. Failing to provide Medtronic Sofamor Danek with written notice of any breaches as required by Sections 13.6 and 13.14 of the License Agreement;

d. Failing, after proper notice, to give Medtronic Sofamor Danek an opportunity to cure any purported breaches alleged by Karlin Technology as required by Section 13.14 of the License Agreement;

e. Violating the implied covenant of good faith and fair dealing.

III. A.(3)

Breach of Contract

If a party does not perform according to contract terms, that party has committed a breach of contract. Any unexcused breach of a contract allows the non-breaching party to recover damages. Insignificant or trivial deviations in performance do not amount to a breach. In order to be a “breach” under these instructions, the action or inaction by the non-performing party (the party “in breach” of the contract) must be material in the overall context of the contract terms you are considering. Factors that you may consider in determining whether a breach is material include the following: (1) the extent to which the injured party will be deprived of the expected benefits under the contract; (2) the extent to which the injured party can be adequately compensated for loss of benefit;(3) the extent to which the non-performing party will suffer forfeiture (i.e., a divestiture of specific property without compensation); (4) the likelihood that the non-performer will cure the failure or has cured the failure, taking into account the circumstances including any reasonable assurances; and (5) the extent to which the behavior of the non-performing party comports to standards of good faith and fair dealing. Although none of the above factors

alone is dispositive on the question of whether a breach is material, they should guide your decision.

The following three elements must be shown to prove a breach of contract:

(1) the existence of the contract;

(2) an unexcused non-performance of an obligation under the contract amounting to a breach of the contract; and

(3) damages caused by the breach.

Once an unexcused breach of contract has been proven, at least nominal damages are presumed to follow. I will instruct you concerning damages elsewhere in these instructions.

III. A.(4)(a)

Name Attribution
License and Purchase Agreements

As I have instructed you, the Court has already ruled that Medtronic Sofamor Danek breached its name attribution obligations under the License Agreement and the Purchase Agreement by publicly disseminating printed materials that identify or describe a product based on one or more of Dr. Michelson's inventions and that:

1) lack a name attribution statement; or

2) use equivocal attribution language (such as the "may" statement), whether or not the materials also contain unequivocal language; or

3) reference only Dr. Michelson's name alone or Dr. Michelson's name and a list of patent numbers, without an unambiguous attribution statement.

The Court has already ordered Medtronic Sofamor Danek to comply with the name attribution obligations. The Court has also

ruled that Dr. Michelson and Karlin Technology are entitled to nominal damages of one dollar for Medtronic Sofamor Danek's breaches of the name attribution obligations.

While the Court has resolved these issues, the Court's ruling on these issues is separate and distinct from the question regarding name attribution under the Three-Party ("MultiLock") Agreement. Remember that, as with each and every claim in this case, your verdict on the name attribution claim under the Three-Party ("MultiLock") Agreement must not be influenced by the Court's rulings on the name attribution issues as to the License Agreement and the Purchase Agreement. Each claim must be decided separately.

III. A.(4)(b)

Name Attribution
Three-Party ("MultiLock") Agreement

Section 2.11 of the Three-Party Agreement (also referred to as the "MultiLock" Agreement) provides as follows:

> In addition to marking MultiLock Products as required by Section 7.1 of the Danek License Agreement, upon notification of the issuance of a MultiLock Patent that claims features incorporated in the MultiLock Products sold by Sofamor Danek Holdings, Sofamor Danek Holdings will include in such patent marking of such products in print no smaller than that of the text of the literature the name "Michelson" in conjunction with the Michelson patent numbers and will include in all literature concerning MultiLock Products the legend "Licensed under one or more of G. Karlin Michelson, M.D., Patent Nos. _____."

Dr. Michelson contends that Sofamor Danek Holdings breached the name attribution obligation of the Three-Party Agreement by:

- failing to include in all literature concerning MultiLock Products the legend "Licensed under one or more of G. Karlin Michelson, M.D., Patent Nos. _____;" or

- by including the legend, "Licensed under one or more of G. Karlin Michelson, M.D., Patent Nos. _____" but without listing all required patents.

In order to find that Sofamor Danek Holdings breached the name attribution provision of the Three-Party Agreement, you must find each of the following to be supported by a preponderance of the evidence:

1. You must find that Sofamor Danek Holdings failed to provide name attribution in the form "Licensed under one or more of G. Karlin Michelson, M.D., Patent Nos. _____" on literature concerning MultiLock Products sold by Sofamor Danek Holdings.

2. You must find that Sofamor Danek Holdings received "notification of the issuance of a MultiLock Patent that claims features incorporated in the MultiLock Products sold by Sofamor Danek Holdings."

3. You must find that any failure by Sofamor Danek Holdings to use name attribution involved a patent that Medtronic had rights to under the Three-Party Agreement as a "Multi-Lock Patent" and that that patent "claims features incorporated in the MultiLock Products sold by Sofamor Danek Holdings."

If Dr. Michelson has proven each of these three elements by a preponderance of the evidence, then you must return a verdict for Dr. Michelson and answer Question No. 24 of the Verdict Form "Yes." If Dr. Michelson has failed to prove any element by a preponderance of the evidence, you must return a verdict for Sofamor Danek Holdings and answer Question No. 24 of the Verdict Form "No."

III. A.(5)(a)

Royalties
Amount Obligations
License Agreement and Purchase Agreement

As I have instructed you, the Court has already ruled that Medtronic Sofamor Danek breached its royalty obligations under the License Agreement by:

- Deducting commissions paid to Medtronic Sofamor Danek's own employees; and

- Deducting rebates made to customers.

Medtronic Sofamor Danek's obligation to pay royalties and/or amounts due under the License Agreement and the Purchase Agreement is unconditional. A conditional payment, accompanied by a reservation of rights or a claimed right to make adjustments, does not satisfy Medtronic Sofamor Danek's obligation.

You will be asked to decide whether Medtronic Sofamor Danek further breached its royalty obligations under the License Agreement by failing to pay proper royalties due on royalty-bearing products. You will also be asked to decide whether Medtronic Sofamor Danek breached any obligations under

the Purchase Agreement by failing to pay proper amounts due on royalty-bearing products.

If you find that Medtronic Sofamor Danek has cured these breaches by paying royalties to Karlin Technology based on the commissions paid to Medtronic Sofamor Danek’s own employees, and rebates made to customers, and is now in compliance with the License Agreement, including any interest payments due, you may not award any damages and should leave the answer to Question No. 54 of the Verdict Form blank.

If you find that Medtronic Sofamor Danek breached the royalties provisions of the License Agreement and has not properly cured such breaches, you must determine the amount of damages that will compensate Karlin Technology for the harm caused by the breaches and record your determination in response to Verdict Form Question No. 54.

III. A.(5)(b)(1)

Royalties
License Agreement
Obligation to Pay Royalties

Karlin Technology contends that Medtronic Sofamor Danek has failed to pay proper royalties on products and systems that are royalty-bearing under the License Agreement. A product or a system is royalty-bearing under the License Agreement if it is either a "Medical Device" or an "Other Implant."

As defined in Section 1.2 of the License Agreement, a "Medical Device" is (1) "a threaded implant or threaded implants for use in spinal surgical or stabilization procedures and instruments and methods related thereto," that (2) "utilize the Technology" and are (3) Dr. "Michelson's invention as disclosed in the patent and patent applications listed in Disclosure Schedule 3.2, whether claimed or not, or whether issued or not." As used in this instruction, a Michelson invention means something that is new.

As defined in Section 1.3 of the License Agreement, "Other Implants" are (1) "threaded spinal implant[s] sold or leased by Danek" that are not otherwise (2) "within the definition of Medical Device," but that nonetheless require (3) "the use of

covered [Karlin Technology] instruments licensed or assigned to [Medtronic Sofamor Danek] by [Karlin Technology under the License Agreement] for both predistraction and performing the implant procedure through a fixed tubular member."

Each element set out under "Medical Device" or each element set out under "Other Implant" must be proven by a preponderance of the evidence in order for the product or system you are considering to be royalty-bearing.

If for either a “Medical Device” or “Other Implant” you find that Karlin Technology has proven each of the required elements by a preponderance of the evidence, then you must return a verdict for Karlin Technology and answer Verdict Form Question No. 46(1) “Yes” for each product or system that you find is either a “Medical Device” or “Other Implant.” If for either a “Medical Device” or “Other Implant” you find that Karlin Technology has failed to prove any of the required elements by a preponderance of the evidence, you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 46(1) “No” for each product or system that you find is not a “Medical Device” or “Other Implant.”

III. A.(5)(b)(2)

Royalties
License Agreement
Royalty-Bearing Products

Karlin Technology contends that Medtronic Sofamor Danek has failed to pay proper royalties, improperly asserted a reservation of rights, and/or made an improper adjustment on the following products or systems, which Karlin Technology contends are royalty-bearing under the License Agreement:

- BCP
- BMP
- Failure to Include Positive Fees from Osteofil
- Infuse
- Mastergraft
- Osteofil
- Shipping and Handling

You should determine as to each of the products or systems listed above whether each separate product or system is royalty-bearing as that term has been defined in these instructions and, if royalty-bearing, what additional royalties, if any, are owed to Karlin Technology. You should record your separate

determinations as to each product or system in response to Verdict Form Question No. 46.

III. A.(5)(b)(3)

Royalties
License Agreement
Admitted Royalty-Bearing Products

Karlin Technology contends that Medtronic Sofamor Danek has failed to pay proper royalties, improperly asserted a reservation of rights, and/or made an improper adjustment on the following products or systems, which Medtronic Sofamor Danek admits are royalty-bearing under the License Agreement:

- Affinity
- Bone Dowels
- Interfix
- LT Cage

You should determine as to each of the products or systems listed above whether and what additional royalties, if any, are owed to Karlin Technology. You should record your separate determination of what additional royalties, if any, are owed to Karlin Technology as to each product or system in response to Verdict Form Question No. 46.

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III. A.(5)(b)(4)

Royalties
License Agreement
Deductions From Royalty Payments

Karlin Technology contends that Medtronic Sofamor Danek has taken improper deductions on royalty-bearing revenues on the following items:

- Service fees from bone dowels
- Service fees from Osteofil
- Third party commissions

The royalty Medtronic Sofamor Danek owes Karlin Technology under the License Agreement is based on a computation of net sales under the Agreement. Net sales are computed by deducting certain amounts from the overall sales figure. One permissible deduction is sales commissions actually paid or credited to third parties (in other words, sales commissions paid to parties other than Medtronic Sofamor Danek or Karlin Technology). The License Agreement does not require that any particular methodology be used by Medtronic Sofamor Danek to calculate these “actually paid or credited” commissions. You only must consider the accuracy of Medtronic Sofamor Danek’s total royalty payments. The method of calculation is irrelevant as long as the total reflects “actual”

paid or credited commissions. If you conclude that Medtronic Sofamor Danek's deductions for sales commissions accurately reflect commissions actually paid or credited to third parties, you must find for Medtronic Sofamor Danek on this issue.

You should determine as to each of the deductions referenced above whether each deduction was improper under the License Agreement and record your separate determinations in response to Verdict Form Question No. 49.

III. A.(5)(c)(1)

Royalties
Purchase Agreement
Obligation to Pay Royalties

Dr. Michelson contends that Medtronic Sofamor Danek has failed to pay proper royalties on products and systems that are royalty-bearing under the Purchase Agreement. A product or system is royalty-bearing under the Purchase Agreement if it is either a "Medical Device" or an "Other Implant."

As defined in Section 1.1 of the Purchase Agreement, a "Medical Device" is (1) "a non-threaded implant or non-threaded implants for use in spinal surgical or stabilization procedures, and instruments and methods related thereto" that (2) "utilize the Technology" and are (3) Dr. "Michelson's invention as disclosed in the patent applications listed on Michelson Schedules A and B, whether claimed or not, or whether issued or not." As used in this instruction, a Michelson invention means something that is new.

As defined in Section 1.2 of the Purchase Agreement, "Other Implants" are (1) "non-threaded spinal implant[s] sold or leased by [Medtronic Sofamor Danek]" that are (2) not otherwise within the definition of "Medical Device," but that nonetheless require

(3) "the use of covered [Karlin Technology] instruments transferred and assigned to [Medtronic Sofamor Danek] by Michelson [under the Purchase Agreement] for both predistraction and performing the implant procedure through a fixed tubular member."

Each element set out under "Medical Device" or each element set out under "Other Implant" must be proven by a preponderance of the evidence in order for the product or system you are considering to be royalty-bearing.

If for either a “Medical Device” or “Other Implant” you find that Dr. Michelson has proven each of the required elements by a preponderance of the evidence, then you must return a verdict for Dr. Michelson and answer Verdict Form Question No. 45(1) “Yes” for each product or system that you find is either a “Medical Device” or “Other Implant.” If for either a “Medical Device” or “Other Implant” you find that Dr. Michelson has failed to prove any of the required elements by a preponderance of the evidence, you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 45(1) “No” for each product or system that you find is not a “Medical Device” or “Other Implant.”

III. A.(5)(c)(2)

Royalties
Purchase Agreement
Royalty-Bearing Products

Dr. Michelson contends that Medtronic Sofamor Danek has failed to pay proper royalties, improperly asserted a reservation of rights, and/or made an improper adjustment on the following products and systems, which Dr. Michelson contends are royalty-bearing under the Purchase Agreement:

- Bryan Cervical Disc
- Boomerang
- Cement Restrictor
- Cornerstone Bone
- Cornerstone Carbon
- Cornerstone PEEK/HSR
- Failure to Include Positive Fees from Cornerstone Bone
- Failure to Include Positive Fees from Tangent
- Hydrosorb Mesh
- Infuse
- Inter Fix RP
- LT Cage
- MetRx
- Pyramesh

- Pyrametrix Plus
- Shipping and Handling
- Tangent
- Telamon
- Verte-Stack

You should determine as to each of the products or systems listed above whether each separate product or system is royalty-bearing as that term has been defined in these instructions and, if royalty-bearing, what additional royalties, if any, are owed to Dr. Michelson. You should record your separate determinations as to each product or system in response to Verdict Form Question No. 45.

III. A.(5)(c)(3)

Royalties
Purchase Agreement
Deductions From Royalty Payments

Dr. Michelson contends that Medtronic Sofamor Danek has taken improper deductions on royalty-bearing revenues on the following items:

- Service fees from Cornerstone bone
- Service fees from Precision
- Service Fees from Tangent
- Third party commissions

The royalty Medtronic Sofamor Danek owes Dr. Michelson under the Purchase Agreement is based on a computation of net sales under the Agreement. Net sales are computed by deducting certain amounts from the overall sales figure. One permissible deduction is sales commissions actually paid or credited to third parties (in other words, sales commissions paid to parties other than Medtronic Sofamor Danek or Dr. Michelson). The Purchase Agreement does not require that any particular methodology be used by Medtronic Sofamor Danek to calculate these “actually paid or credited” commissions. You only must consider the accuracy of Medtronic Sofamor Danek’s total royalty payments. The method of calculation is irrelevant as long as the total reflect “actual”

paid or credited commissions. If you conclude that Medtronic Sofamor Danek's deductions for sales commissions accurately reflect commissions actually paid or credited to third parties, you must find for Medtronic Sofamor Danek on this issue.

You should determine as to each of the deductions referenced above whether each deduction was improper under the Purchase Agreement and record your separate determinations in response to Verdict Form Question No. 49.

III. A.(5)(d)(1)

Royalties
Three Party Agreement
Dr. Michelson's Claim Regarding
Breach of Three-Party Agreement

Using the instructions I have and am giving you, you must determine whether Sofamor Danek Holdings breached the Three-Party Agreement.

Dr. Michelson claims that Sofamor Danek Holdings breached the Three-Party Agreement by failing to:

a. pay Dr. Michelson all of the royalties due on net sales of MultiLock products.

b. make its books of account available for inspection by an independent accountant designated by Dr. Michelson and reasonably acceptable to Danek.

c. mark MultiLock products and literature with appropriate patent numbers.

d. give, pursuant to Section 2.11 of the Three-Party Agreement, Dr. Michelson appropriate name recognition.

A "Multi-Lock Product" is an anterior cervical plating system or component which would infringe or contribute to the infringement of a pending or issued claim of the MultiLock Patents, as defined under the Three-Party Agreement. The Three-Party Agreement also defines Atlantis, Zephir and Premier anterior cervical plating systems as marketed by Medtronic Sofamor Danek as of January 18, 2001 as MultiLock Products without resolving any question of infringement of the MultiLock Products.

III. A.(5)(d)(2)

Royalties
Three-Party Agreement
Obligation to Pay Royalties

To determine if Sofamor Danek Holdings has paid Dr. Michelson all of the royalties due on net sales of MultiLock products you must first determine (1) what Medtronic Sofamor Danek products are royalty bearing, and (2) what the appropriate royalty rate is for those products.

For a Medtronic Sofamor Danek product to be royalty bearing it must be a "Multi-Lock Product."

As defined in Section 1.5 of the MultiLock Agreement, a MultiLock Products is 1) any anterior cervical plating system or components thereof 2) the manufacture, use, sale, offer for sale or import of which infringes or contributes to the infringement of, or which would infringe or contribute to the infringement of, a pending or issued claim of the MultiLock Patents.

The royalty rate for anterior cervical products as marketed by Medtronic Sofamor Danek on January 18, 2001 as the “ATLANTIS,” is 3% if covered by an issued claim of a MultiLock Patent, if not

covered by an issued claim the royalty rate is 1.5%. The royalty rate for all other MultiLock Products is 3%.

If Dr. Michelson has proven each required element by a preponderance of the evidence, then you must return a verdict for Dr. Michelson and answer Verdict Form Question No. 47 “Yes” as to each product or system that you find is royalty bearing to Dr. Michelson. If Dr. Michelson has failed to prove any required element by a preponderance of the evidence, then you must return a verdict for Sofamor Danek Holdings and answer Verdict Form Question No. 47 “No” as to each product or system that you find is not royalty bearing to Dr. Michelson.

III. A.(5)(d)(3)

Royalties
Three-Party Agreement
Royalty-Bearing Products

Dr. Michelson contends that Sofamor Danek Holdings has failed to pay proper royalties on the following products or systems, and/or made an improper adjustment on the following products or systems, which Dr. Michelson contends are royalty-bearing under the Three-Party Agreement, also known as the MultiLock Agreement.

a. Additional MultiLock Items
b. Cornerstone MultiLock
c. Failure to Include Positive Fees from Cornerstone MultiLock
d. Shipping and Handling

You should determine as to each of the products or systems listed above whether each separate product or system is royalty-bearing as that term has been defined in these instructions and record your separate determinations in response to Verdict Question No. 47.

III. A.(5)(d)(4)

Royalties
Three-Party Agreement
Deductions From Payments

Dr. Michelson contends that Sofamor Danek Holdings has taken improper deductions on royalty-bearing revenues on the following items:

- Service fees from Cornerstone MultiLock
- Third party commissions

The royalty Sofamor Danek Holdings owes Dr. Michelson under the Three-Party Agreement is based on a computation of net sales under the agreement. Net sales are computed by deducting certain amounts from the overall sales figure. One permissible deduction is sales commissions actually given. The Three-Party Agreement does not require that any particular methodology be used by Sofamor Danek Holdings to calculate these "actually given" commissions. You only must consider the accuracy of Sofamor Danek Holdings' total royalty payments. The method of calculation is irrelevant as long as the totals reflect "actual" commissions given. If you conclude that Sofamor Danek Holdings' deductions for sales commissions accurately reflect commissions

actually given, you must find for Sofamor Danek Holdings on this issue.

Your should determine as to each of the deductions referenced above whether each deduction was improper under the Three-Party Agreement and record your separate determinations in response to Verdict Form Question No. 49.

III. A.(5)(d)(5)

Royalties
Three-Party Agreement
Breach of Audit Provision

Dr. Michelson contends that Sofamor Danek Holdings did not comply with the Three-Party Agreement by failing to allow Dr. Michelson to inspect its records. In order to find that Sofamor Danek Holdings breached its obligations to allow Dr. Michelson to inspect its records you must find by a preponderance of the evidence that:

Sofamor Danek Holdings failed to keep good and accurate books of account sufficient to permit determination of the royalties due and that Sofamor Danek Holdings failed to make such books of account available for inspection by an independent accountant designated by Dr. Michelson and reasonably acceptable by Sofamor Danek Holdings.

If Dr. Michelson has proven by a preponderance of the evidence that Sofamor Danek Holdings has breached the Three-Party Agreement by failing to allow inspection of records (in accordance with Section 2.6 of the Three-Party Agreement and Section 4.6 of the Danek License Agreement), then you must return a verdict for Dr. Michelson and answer Verdict Form Question No.

23 “Yes.” If Dr. Michelson has failed to prove by a preponderance of the evidence that Sofamor Danek Holdings has breached the Three-Party Agreement by failing to allow inspection of records (in accordance with Section 2.6 of the Three-Party Agreement and Section 4.6 of the Danek License Agreement), then you must return a verdict for Sofamor Danek Holdings and answer Verdict Form Question No. 23 “No.”

III. A.(5)(e)(1)

TSRH-B Agreement
Breach

You will be asked to decide whether Medtronic Sofamor Danek has breached its obligations under the "TSRH-B Agreement" (also known as the "Revision Agreement").

Dr. Michelson contends that Medtronic Sofamor Danek has breached its obligations under the TSRH-B Agreement by failing to pay to Dr. Michelson proper royalties on Cage Removal Instruments, which Dr. Michelson contends are royalty-bearing under the TSRH-B Agreement, as required by section 6.1 of the Agreement.

III. A.(5)(e)(2)

TSRH-B Agreement
Royalty Provision

In determining whether SDGI Holdings, Inc. has breached the TSRH-B Agreement by failing to pay Dr. Michelson royalties due for cage removal systems, you must consider provision 6.2 of the TSRH-B Agreement, which states:

> "Only one royalty shall be payable on each Royalty Product. Thus, no royalty shall be payable pursuant to this Agreement if SDGI or an Affiliate has paid or is obligated to pay a royalty to Michelson for the sale of such Royalty Product pursuant to another agreement. In the event Royalty Products are sold together in a kit or combination and one or more such Royalty Products are subject to payment to Michelson pursuant to another agreement, the Net Sales of the kit or combination minus the Net Sales price of those Royalty Products subject to another agreement as sold individually."

Thus, if you determine that Medtronic Sofamor Danek has already paid a royalty on the cage removal systems under the License or Purchase Agreements, then SDGI Holdings, Inc. cannot

be liable for payment of further royalties under the TSRH-B Agreement.

If Dr. Michelson has proven by a preponderance of the evidence that SDGI Holdings, Inc. has breached its obligation to pay royalties under the TSRH-B Agreement, then you must return a verdict for Dr. Michelson and record your determinations in response to Verdict Form Question No. 48. If Dr. Michelson has failed to prove by a preponderance of the evidence that Medtronic Sofamor Danek has breached its obligation to pay royalties under the TSRH-B Agreement, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 48 "No."

III. A.(6)(a)(1)

Patent Notice - Introduction
License Agreement and Purchase Agreement

Dr. Michelson, Karlin Technology and Medtronic Sofamor Danek dispute the meaning of the following term contained in Section 4.5 of the License Agreement and Section 4.6 of the Purchase Agreement: "Proper patent notices shall be used by Danek." You, the Jury, must decide the meaning of this term.

Dr. Michelson and Karlin Technology contend that the term requires Medtronic Sofamor Danek to mark on each of its products covered by Dr. Michelson's patents, or its product's packaging, the word "patent" or "pat.," followed by each applicable Michelson patent number.

Medtronic Sofamor Danek contends that the term requires Medtronic Sofamor Danek to comply with Section 287(a) of the Patent Act, which permits Medtronic Sofamor Danek to choose either (1) to mark products covered by Dr. Michelson's patents, or (2) to alert potential infringers by filing lawsuits or by sending a letter regarding the existence of Dr. Michelson's patent once Medtronic Sofamor Danek becomes aware of a potentially infringing product.

Both parties agree that the term "proper" is interpreted by reference to Section 287(a) of the Patent Act. Section 287(a) of the Patent Act provides:

> "Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them, or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice."

III. A.(6)(a)(2)

Patent Notice - Interpretation
License Agreement and Purchase Agreement

In deciding what the "proper patent notice" provisions of the License Agreement and the Purchase Agreement mean, you must decide what the parties intended at the time the contract was created using the evidence presented at trial to aid your interpretation.

To decide what the parties intended, you should first examine the language of the provisions themselves. You may also consider the circumstances under which the parties made the contract, and what the parties themselves believed the term meant as shown by the evidence. You may consider the usual and ordinary meaning of the language used in the contract as well as the circumstances surrounding the making of the contract. The following instructions may help you interpret the terms of the contract.

You may consider what would be fair and reasonable and apply limitations if you consider such limitations fair and reasonable in the circumstances.

If the parties use technical words, they should be interpreted in the way that they are usually understood by persons in the business in which they are used, unless clearly used in a different sense.

The express language of a contract and any applicable course of performance should be interpreted to be consistent with each other if such an interpretation is reasonable.

III. A.(6)(a)(3)

Patent Notice – Breach
License Agreement and Purchase Agreement

After interpreting the meaning of the contract provision, "[p]roper patent notices shall be used by Danek," you will be asked to decide whether Medtronic Sofamor Danek breached the License Agreement and the Purchase Agreement.

If you find that Dr. Michelson's and Karlin Technology's interpretation of the patent notice term is correct, you should find that Medtronic Sofamor Danek breached the License Agreement or Purchase Agreement each time it sold a product covered by at least one of Dr. Michelson's patents but failed to mark the product, or its packaging, with the word "patent" or "pat.," followed by each applicable Michelson patent number.

If you find that Medtronic Sofamor Danek's interpretation is correct, you should find that Medtronic Sofamor Danek breached the License Agreement or Purchase Agreement each time it failed to alert a potential infringer of Dr. Michelson's patents by either not marking its products, by not filing a lawsuit, or by not sending a letter.

In order to find that Medtronic Sofamor Danek breached the patent notice provision of the License Agreement or Purchase Agreement, you must find that each of the following elements have been proven by Dr. Michelson and Karlin Technology by preponderance of evidence:

1. That, in regard to the marking of products, Medtronic Sofamor Danek failed to use patent notices for products that were publicly distributed and covered by a claim of a patent that Medtronic Sofamor Danek has rights to under the License Agreement or Purchase Agreement. You may not find breach because of a failure to mark products with the following patents: U.S. Patent Nos. 5,484,437; 5,552,899, 5,741,253; 5,772,661; 6,080,155; 6,139,551; 6,210,412; or 6,224,595. These patents are method patents and marking is not required as to method patents.

2. That Medtronic Sofamor Danek's use of patent notice pursuant to the License Agreement or Purchase Agreement was not substantially consistent and continuous.

If Dr. Michelson has proven by a preponderance of the evidence, using the patent notice you find is required by the contracts that Medtronic Sofamor Danek has breached the patent notice provision of the Purchase Agreement, then you must return a verdict for Dr. Michelson and answer Verdict Form Question No. 4 “Yes.” If Dr. Michelson has failed to prove by a preponderance of the evidence, using the patent notice you find is required by the contract, that Medtronic Sofamor Danek has breached the patent notice provision of the Purchase Agreement, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 4 “No.”

If Karlin Technology has proven by a preponderance of the evidence, using the patent notice you find is required by the contract, that Medtronic Sofamor Danek has breached the patent notice provision of the License Agreement, then you must return a verdict for Karlin Technology and answer Verdict Form Question No. 14 “Yes.” If Karlin Technology has failed to prove by a preponderance of the evidence, using the patent notice you find is required by the contract, that Medtronic Sofamor Danek has breached the patent notice provision of the License Agreement, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 14 “No.”

III. A.(6)(b)

Patent Notice – Breach
Three-party Agreement

You will be asked to decide whether Sofamor Danek Holdings breached the patent marking provision of the Three Party Agreement.

Section 2.11 of the Three-Party Agreement requires Sofamor Danek Holdings to mark MultiLock Products as required by Section 7.1 of the Danek License Agreement, which in turn requires that:

> "[Sofamor Danek Holdings] shall mark all Licensed Products, on a visible surface thereof or, if impractical, on tags, labels, manuals, and other materials with which Licensed Products are sold, with the appropriate numbers of the Licensed Patents."

The patent notice provision of the Three-Party Agreement is clear and unambiguous and does not require proof as to its meaning. You, the jury, must determine whether Sofamor Danek Holdings breached that provision as written. Dr. Michelson has the burden of proving breach by a preponderance of the evidence.

In order to find that Sofamor Danek Holdings breached the patent notice provision of the Three-Party Agreement, you must find each of the following elements to be supported by a preponderance of the evidence:

1. That Sofamor Danek Holdings failed to use patent notice for cervical plate products that were publicly distributed and covered by a claim of a patent that Sofamor Danek Holdings had rights to under the Three-Party Agreement as a "MultiLock Patent."

2. That Sofamor Danek Holdings' use of patent notice pursuant to the Three-Party Agreement was not substantially consistent and continuous.

If Dr. Michelson has proven each of these elements by a preponderance of the evidence, then you must return a verdict for Dr. Michelson and answer Verdict Form Question No. 25 "Yes." If Dr. Michelson has failed to prove any of these elements by a preponderance of the evidence, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 25 "No."

III. A.(7)

Obligation to Mediate
License Agreement and Purchase Agreement

You will be asked to decide whether Medtronic Sofamor Danek breached the dispute resolution provisions of the License Agreement and the Purchase Agreement.

Section 13.15 of the License Agreement requires that:

> "Prior to the institution of any formal legal proceeding by either party for breach of this Agreement, Gary Michelson on behalf of KTI and Ron Pickard on behalf of Danek will personally meet at a mutually agreeable location in an effort to resolve the dispute. In the event that either Gary Michelson or Ron Pickard are no longer associated with the respective party at such time, an appropriate substitute may be selected."

Section 12.15 of the Purchase Agreement requires that:

> "Prior to the institution of any formal legal proceeding by either party for breach of this Agreement, Gary Michelson and Ron Pickard on behalf of

Danek will personally meet at a mutually agreeable location in an effort to resolve the dispute. In the event that Ron Pickard is no longer associated with Danek at such time, or if Michelson is unable to meet, an appropriate substitute may be selected."

A party to a contract may also be excused from complying with any pre-suit mediation or other dispute resolution provisions when compliance with those provisions is deemed futile.

Remember that Dr. Michelson and Karlin Technology have the burden of proving by a preponderance of the evidence that Medtronic Sofamor Danek breached its obligation to engage in dispute resolution, and Medtronic Sofamor Danek has the burden of proving by a preponderance of the evidence that compliance with the dispute resolution provision would have been futile.

If Dr. Michelson has proven by a preponderance of the evidence that Medtronic Sofamor Danek breached the Purchase Agreement by failing to engage in dispute resolution, and Medtronic Sofamor Danek has not proven by a preponderance of the evidence that compliance with the dispute resolution provision would have been futile, then you must return a verdict for Dr.

Michelson and answer Verdict Form Question No. 5 "Yes." If Dr. Michelson has failed to prove by a preponderance of the evidence that Medtronic Sofamor Danek breached the Purchase Agreement by failing to engage in dispute resolution, or Medtronic Sofamor Danek has proven by a preponderance of the evidence that compliance with the dispute resolution provision would have been futile, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 5 "No."

If Karlin Technology has proven by a preponderance of the evidence that Medtronic Sofamor Danek breached the License Agreement by failing to engage in dispute resolution, and Medtronic Sofamor Danek has not proven by a preponderance of the evidence that compliance with the dispute resolution provision would have been futile, then you must return a verdict for Karlin Technology and answer Verdict Form Question No. 16 "Yes." If Karlin Technology has failed to prove by a preponderance of the evidence that Medtronic Sofamor Danek breached the License Agreement by failing to engage in dispute resolution, or Medtronic Sofamor Danek has proven by a preponderance of the evidence that compliance with the dispute resolution provision would have been futile, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 16 "No."

III. A.(8)(a)

Best Efforts
Applicable Provisions

The License and Purchase Agreements both contain a provision entitled "Best Efforts." This provision reads in pertinent part:

> Danek will use its best efforts to obtain regulatory approval and to actively promote the sale of the Medical Device consistent with Danek's standards and in light of the then current market conditions; provided, however, that nothing in this Section shall be interpreted or construed as requiring or imposing any obligation on Danek to assume what Danek, in its sole opinion, considers to be an unreasonable or unnecessary business, regulatory, legal, financial or commercial risk or commitment in connection with the Medical Device . . .

Prior to this trial, I issued a ruling on this provision. Under that provision, Medtronic Sofamor Danek has an obligation to use its "reasonable efforts" or "reasonable diligence." However, Medtronic Sofamor Danek is not obligated to "undertake any actions to obtain regulatory approval or promote the Medical Device that conflict with the corporation's normal business

practices or that would be inconsistent with the standards Medtronic Sofamor Danek uses when evaluating which products it will commercialize and how that commercialization will be accomplished." Therefore, Medtronic Sofamor Danek cannot be obligated to obtain regulatory approval or promote the sale of the Medical Device if Medtronic Sofamor Danek "in its sole opinion" determines that its internal standards or the market conditions would require it to engage in behavior Medtronic Sofamor Danek finds amounts to an "unreasonable or unnecessary business, regulatory, legal financial or commercial risk or commitment." Nor is Medtronic Sofamor Danek prohibited from selling competing products.

If you should find from the facts that Medtronic Sofamor Danek made its decisions to seek regulatory approval and promotion of the Medical Device and Technology in accordance with the standards I have just told you about, then you should find that Medtronic Sofamor Danek has used its best efforts and has not breached that clause of the License Agreement and Purchase Agreement.

Your findings concerning the best efforts provision of the Purchase Agreement and any breach that has been proven by a preponderance of the evidence correspond to Verdict Form Question Nos. 1, 2 and 3. Please refer first to Question No. 1 and follow the directions on the Verdict Form for Question Nos. 1, 2 and 3.

Your findings concerning the best efforts provision of the License Agreement and any breach that has been proven by a preponderance of the evidence correspond to Verdict Form Question Nos. 11, 12 and 13. Please refer first to Question No. 11 and follow the directions on the Verdict Form for Question Nos. 11, 12 and 13.

III. A.(8)(b)

Best Efforts
Futility

Compliance with a condition in a contract may be excused if it would be futile to do so.

If Dr. Michelson or Karlin Technology has proven by a preponderance of the evidence that it would have been futile to require Danek's board of directors to make the business decision not to use Danek's reasonable best efforts under either the License Agreement and/or the Purchase Agreement, and, if you find that Medtronic Sofamor Danek made a decision not to use its reasonable best efforts under the agreement or agreements, then you should proceed as if the board of directors had made such a decision.

Your findings concerning the best efforts provision of the Purchase Agreement and any breach that has been proven by a preponderance of the evidence correspond to Verdict Form Question Nos. 1, 2 and 3. Please refer first to Question No. 1 and follow the directions on the Verdict Form for Question Nos. 1, 2 and 3.

Your findings concerning the best efforts provision of the License Agreement and any breach that has been proven by a preponderance of the evidence correspond to Verdict Form Question Nos. 11, 12 and 13. Please refer first to Question No. 11 and follow the directions on the Verdict Form for Question Nos. 11, 12 and 13.

III. A.(8)(c)

Best Efforts
Condition Precedent

A party who makes a conditional promise is bound to perform only if the condition precedent occurs. (A "condition precedent" is an event which must ordinarily occur before a party is obligated to perform his or her promises.) The party making the conditional promise, however, must refrain from conduct that would prevent or hinder the occurrence of the condition precedent. Therefore, if a party who made a conditional promise causes the nonoccurrence of the condition, the condition precedent is excused.

III. A.(9)(a)

Implied Duty of Good Faith and Fair Dealing In Every Contract

The law implies in every contract a duty of good faith and fair dealing in its performance and enforcement. Under this duty, there is an implied undertaking on the part of each party that nothing will be intentionally done which will have the effect of destroying or injuring the right of the other party to receive the "fruits of the contract." Thus, in each of the contracts at issue in this case, there exists an implied duty of good faith and fair dealing in its performance and enforcement.

The nature and extent of the good faith duty depends upon the contract at issue. The language of the contract ultimately determines what is fair and reasonable with respect to the intention of the parties. Therefore, the duty of good faith owed by a party does not extend beyond the contract terms and the reasonable expectations of the parties. Performance of a contract according to its terms cannot be characterized as bad faith.

III. A.(9)(b)

Breach of Implied Duty of Good Faith and Fair Dealing
General Principles

Conduct that may violate the implied duty of good faith and fair dealing may be overt or may consist of inaction, and fair dealing may require more than honesty. A complete catalogue of types of bad faith is impossible, but the following types are among those which have been recognized in judicial decisions: dishonest conduct, asserting an interpretation of the contract contrary to that party’s own understanding, evasion of the spirit of the bargain, lack of diligence and slacking off, willful rendering of imperfect performance, abuse of a power to specify terms, and interference with or failure to cooperate in the other party's performance.

Breach Alleged by Dr. Michelson

If Dr. Michelson has proven by a preponderance of the evidence that Medtronic Sofamor Danek breached the implied covenant of good faith and fair dealing in the Purchase Agreement, then you must return a verdict for Dr. Michelson and answer Verdict Form Question No. 6 “Yes.” If Dr. Michelson has failed to prove by a preponderance of the evidence that Medtronic Sofamor Danek breached the implied covenant of good faith and fair dealing in the Purchase Agreement, then you must return a

verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 6 “No.”

Breach Alleged by Medtronic Sofamor Danek

If Medtronic Sofamor Danek has proven by a preponderance of the evidence that Dr. Michelson breached the implied covenant of good faith and fair dealing in the Purchase Agreement, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 10 “Yes.” If Medtronic Sofamor Danek has failed to prove by a preponderance of the evidence that Dr. Michelson breached the implied covenant of good faith and fair dealing, then you must return a verdict for Dr. Michelson and answer Verdict Form Question No. 10 “No.”

If Medtronic Sofamar Danek has proven by a preponderance of the evidence that Karlin Technology breached the implied covenant of good faith and fair dealing in the License Agreement, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 22 "Yes." If Medtronic Sofamor Danek has failed to prove by a preponderance of the evidence that Karlin Technology breached the implied covenant of good faith and fair dealing in the License Agreement, then you must return a verdict for Karlin Technology and answer Verdict Form Question No. 22 "No."

III. A.(10)(a)

Notice and Cure
Contentions of the Parties

Medtronic Sofamor Danek and Karlin Technology each contend that the other did not comply with the Notice and Cure provisions of the License Agreement. Similarly, Medtronic Sofamor Danek and Dr. Michelson each contend that the other did not comply with the Notice and Cure provisions of the Purchase Agreement.

Any requirement under the License Agreement that Karlin Technology or Medtronic Sofamor Danek provide the other with notice and an opportunity to cure is a precondition to termination of the License Agreement. Failure to provide notice and an opportunity to cure does not preclude either Karlin Technology or Medtronic Sofamor Danek from suing the other for breach of the License Agreement.

Similarly, any requirement under the Purchase Agreement that Dr. Michelson or Medtronic Sofamor Danek provide the other with notice and an opportunity to cure is a precondition to termination of the Purchase Agreement. Failure to provide notice and an opportunity to cure does not preclude either Dr. Michelson or Medtronic Sofamor Danek from suing the other for breach of the Purchase Agreement.

III. A.(10)(b)

Notice and Cure
Contract Provisions

The Notice Provision of the License Agreement (Section 13.6) and Purchase Agreement (Section 12.6) provide in pertinent part:

> Notices: All Notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand, by expedited deliver[y] or courier service, or by messenger ...

The Cure Provision of the License Agreement (Section 13.14) and Purchase Agreement (Section 12.14) provide:

> Cure: In the event of any alleged breach of this Agreement, Notice shall be given of the alleged breach, and the specifics thereof, to the other party and the party receiving the Notice shall have thirty (30) days to cure such alleged breach.

A party to a contract may be excused from complying with a notice and cure requirement where notice and cure would be futile. Notice and cure are deemed "futile" where one party has repudiated or abandoned an agreement, made an unjustified ultimatum of the party, or if complying with the notice requirement would otherwise be futile.

III. A.(10)(c)

Notice and Cure
Satisfied by Substantial Compliance

A party who has "substantially complied" with a notice and cure provision is deemed to have fulfilled his or her contractual duty to provide the required notice and opportunity to cure. You may find that a party "substantially complied" with the Notice and Cure provisions of the License Agreement and the Purchase Agreement if you find that anything that was changed or not done according to the exact terms of the provisions was relatively minor and unimportant.

III. A.(10)(d)

Notice and Cure
Excused If Futile

A party to a contract may be excused from complying with a notice and cure requirement where notice and cure would be futile. Notice and cure are considered futile if complying with the contract requirement would be a useless gesture, such as where the party to whom the notice is due fails to acknowledge or correct the party's breaches. If you find that a party had actual notice of a complaint but failed to acknowledge or correct it, you may find that further notice or opportunity to cure would have been futile and was therefore excused.

III. A.(10)(e)

Notice and Cure
Summary of Jury Question

In view of all of the instructions I have given you concerning notice and cure, you must consider the following:

If Medtronic Sofamor Danek has proven by a preponderance of the evidence that Dr. Michelson breached the Purchase Agreement by failing to give written notice and an opportunity to cure, you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 9 “Yes.” If Medtronic Sofamor Danek has failed to prove by a preponderance of the evidence that Dr. Michelson breached the Purchase Agreement by failing to give written notice and an opportunity to cure, you must return a verdict for Dr. Michelson and answer Verdict Form Question No. 9 “No.”

If Medtronic Sofamor Danek has proven by a preponderance of the evidence that Karlin Technology breached the License Agreement by failing to give written notice and an opportunity to cure, you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 21 “Yes.” If Medtronic Sofamor Danek has failed to prove by a preponderance of the evidence that Karlin Technology breached the License Agreement by failing to give written notice and an opportunity to cure, you must return a

verdict for Karlin Technology and answer Verdict Form Question No. 21 “No.”

III. A.(11)(a)

Non-Competition
License Agreement

Medtronic Sofamor Danek contends that Karlin Technology has breached certain portions of Section 3.2 of the License Agreement. Specifically, Medtronic Sofamor Danek alleges that:

1) Karlin Technology breached its promise not to grant or attempt to grant any right or license to any third party regarding the Medical Device or Technology;

2) Karlin Technology breached its promise not to compete with Medtronic Sofamor Danek with respect to the Technology and Medical Device;

3) Karlin Technology breached its promise to ensure Medtronic Sofamor Danek's quiet enjoyment of the Technology and Medical Device.

The relevant portion of Section 3.2 of the License Agreement provides:

> "KTI will not grant or attempt to grant any right or license to any third party to make, have made, use, promote, sell, or have sold the Medical Device or in any way to practice the Technology. KTI will not, either directly or indirectly, compete with Danek in any way with respect to the Technology and the Medical Device. KTI agrees to provide Danek with access to all information and documents pertaining to the Technology and the Medical Device and further agrees to cooperate in all respects with Danek to ensure Danek's quiet enjoyment of the Technology and the Medical Device under the license granted hereby."

To compete means to sell or buy goods or services in the same market as another person or entity. A person or entity competes directly when that person or entity is the provider of those goods or services. A person or entity competes indirectly when that person or entity enables a third party who provides the competing goods or services.

A covenant of quiet enjoyment protects a party to whom property is leased, licensed, or sold from any interference with its possession or use by one claiming that they actually own the property, or any acts of the party who leased, licensed or sold the property that will prevent them from quietly and beneficially enjoying the use of the property.

You may find that Karlin Technology breached these provisions in the License Agreement if you find by a preponderance of the evidence ANY ONE of the following:

1. Karlin Technology granted, or attempted to grant, any right or license to a third party (other than Spine-Tech or Surgical Dynamics, Inc. ("SDI")) to make, use or sell the Medical Device or to practice the Technology, as those terms are defined in the License Agreement;

2. Karlin Technology competed directly, or indirectly, in any way, with respect to the Technology or the Medical Device, as those terms are defined in the License Agreement;

3. Karlin Technology disturbed or interfered with Medtronic Sofamor Danek's title or prevented them from quietly enjoying the use of the Medical Device and the Technology transferred to Medtronic Sofamor Danek under the terms of the License Agreement.

If Medtronic Sofamor Danek has proven by a preponderance of the evidence that Karlin Technology has breached the License Agreement by competing with Medtronic Sofamor Danek, either directly or indirectly, with respect to the Technology and Medical Device, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 19 “Yes.” If Medtronic Sofamor Danek has failed to prove by a preponderance of the evidence that Karlin Technology has breached the License Agreement by competing with Medtronic Sofamor Danek, either directly or indirectly, with respect to the Technology and Medical Device, then you must return a verdict for Karlin Technology and answer Verdict Form Question No. 19 “No.”

If Medtronic Sofamor Danek has proven by a preponderance of the evidence that Karlin Technology has breached the License Agreement by failing to cooperate in all respects with Medtronic Sofamor Danek to insure Medtronic Sofamor Danek’s quiet enjoyment of the Technology and Medical Device, then you must return a

verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 20 “Yes.” If Medtronic Sofamor Danek has failed to prove by a preponderance of the evidence that Karlin Technology has breached the License Agreement by failing to cooperate in all respects with Medtronic Sofamor Danek to insure Medtronic Sofamor Danek’s quiet enjoyment of the Technology and Medical Device, then you must return a verdict for Karlin Technology and answer Verdict Form Question No. 20 “No.”

III. A.(11)(b)

Non-Competition
Purchase Agreement

Medtronic Sofamor Danek contends that Dr. Michelson has breached certain portions of Section 3.2 of the Purchase Agreement. Specifically, Medtronic Sofamor Danek alleges that:

1) Dr. Michelson breached his promise not to grant or attempt to grant any right or license to any third party regarding the Medical Device or Technology;

2) Dr. Michelson breached his promise not to compete with Medtronic Sofamor Danek with respect to the Technology and Medical Device;

3) Dr. Michelson breached his promise to ensure Medtronic Sofamor Danek's quiet enjoyment of the Technology and Medical Device.

The relevant portion of Section 3.2 of the Purchase Agreement provides:

> "Michelson will not grant or attempt to grant any right or license to any third party to make, have made, use, promote, sell, or have sold the Medical Device or in any way to practice the Technology. Michelson will not, either directly or indirectly, compete with Danek in any way with respect to the Technology and the Medical Device. Michelson agrees to provide Danek with access to all information and documents pertaining to the Technology and the Medical Device and further agrees to cooperate in all respects with Danek to ensure Danek's quiet enjoyment of the Technology and the Medical Device."

To compete means to sell or buy goods or services in the same market as another person or entity. A person or entity competes directly when that person or entity is the provider of those goods or services. A person or entity competes indirectly when that person or entity enables a third party who provides the competing goods or services.

A covenant of quiet enjoyment protects a party to whom property is leased, licensed, or sold from any interference with its possession or use by one claiming that they actually own the property, or any acts of the party who leased, licensed or sold the property that will prevent them from quietly and beneficially enjoying the use of the property.

You may find that Dr. Michelson breached these provisions in the Purchase Agreement if you find by a preponderance of the evidence ANY ONE of the following:

1. Dr. Michelson granted, or attempted to grant, any right or license to a third party to make, use or sell the Medical Device or to practice the Technology, as those terms are defined in the Purchase Agreement;

2. Dr. Michelson competed directly, or indirectly, in any way, with respect to the Technology or the Medical Device, as those terms are defined in the Purchase Agreement;

3. Dr. Michelson disturbed or interfered with Medtronic Sofamor Danek's title or prevented them from quietly enjoying the use of the Medical Device and the Technology transferred to Medtronic Sofamor Danek under the terms of the Purchase Agreement.

If Medtronic Sofamor Danek has proven by a preponderance of the evidence that Dr. Michelson has breached the Purchase Agreement by competing with Medtronic Sofamor Danek, either directly or indirectly, with respect to the Technology and Medical Device, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 7 “Yes.” If Medtronic Sofamor Danek has failed to prove by a preponderance of the evidence that Dr. Michelson has breached the Purchase Agreement by competing with Medtronic Sofamor Danek, either directly or indirectly, with respect to the Technology and Medical Device, then you must return a verdict for Dr. Michelson and answer Verdict Form Question No. 7 “No.”

If Medtronic Sofamor Danek has proven by a preponderance of the evidence that Dr. Michelson has breached the Purchase Agreement by failing to cooperate in all respects with Medtronic Sofamor Danek to insure Medtronic Sofamor Danek’s quiet enjoyment of the Technology and Medical Device, then you must return a

verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 8 “Yes.” If Medtronic Sofamor Danek has failed to prove by a preponderance of the evidence that Dr. Michelson has breached the Purchase Agreement by failing to cooperate in all respects with Medtronic Sofamor Danek to insure Medtronic Sofamor Danek’s quiet enjoyment of the Technology and Medical Device, then you must return a verdict for Karlin Technology and answer Verdict Form Question No. 8 “No.”

III. A.(12)

Confidentiality Agreement

Dr. Michelson claims that Medtronic Sofamor Danek breached the Confidentiality Agreement entered into on February 3, 1998 with respect to the Burr Guide module, the Flip 90 implant and the tapered root implant.

In order to find that Medtronic Sofamor Danek breached the Confidentiality Agreement, you must find by a preponderance of the evidence each of the following:

(1) Dr. Michelson's detailed information was disclosed to a third party; and

(2) the disclosed information was not publicly available at the time of the alleged disclosure; and

(3) the information was disclosed by Medtronic Sofamor Danek to a third-party for a purpose other than for evaluation of that information; and

(4) Medtronic Sofamor Danek did not take such precaution with Dr. Michelson's information as it normally takes with its own confidential information; and

(5) the alleged disclosure by Medtronic Sofamor Danek occurred within five (5) years from the date when Medtronic Sofamor Danek received the information from Dr. Michelson.

If Dr. Michelson has proven by a preponderance of the evidence each of the five elements above, then you must return a verdict for Dr. Michelson and answer Verdict Form Question No. 26 "Yes." If Dr. Michelson has failed to prove by a preponderance of the evidence each of the five elements above, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 26 "No."

III. A(13)

Oral Modification of Written Agreement

Section 13.4 of the License Agreement and Section 12.4 of the Purchase Agreement provide that neither the Agreements nor any term contained in the Agreements "may be amended, waived, discharged or terminated other than by a written instrument signed by the party against whom enforcement of any such amendment, waiver, discharge, or termination is sought."

A written contract may be modified orally even if the contract contains an express contractual provision that all modifications to the contract must be in writing and signed by the parties to the contract.

Therefore, oral modifications to the License Agreement and Purchase Agreement are permitted. That is, you should consider any changes that were made by the parties to the Agreements, whether the parties made such changes orally or in writing so long as both parties showed their agreement to the modification.

III. B.(1)

Patent Issues - General

The United States Patent and Trademark Office has granted patents to Dr. Michelson for inventions relating to medical devices and methods used in spinal surgery. Dr. Michelson contends that Medtronic Sofamor Danek has infringed six of these patents. Dr. Michelson is the named inventor on and holds legal title to these six patents at issue, which are identified by the Patent Office as No. 5,797,909 (which may be called the '909 Patent); No. 6,080,155 (which may be called the '155 Patent); No. 6,210,412 (which may be called the '412 Patent); No, 6,259,214 (which may be called the '214 Patent); No. 6,270,498 (which may be called the '498 Patent); and No. 6,440,139 (which may be called the '139 Patent). These patents may also collectively be referred to as "the Asserted Patents."

You will be asked to decide whether Medtronic Sofamor Danek has infringed the Asserted Patents. Specifically, you must decide the following:

1. Has Dr. Michelson proven by a preponderance of the evidence that Medtronic Sofamor Danek has directly infringed, or indirectly infringed by inducing others to infringe or

contributing to the infringement by others of, one or more claims of the Asserted Patents.

2. If you find any claims of any of the Asserted Patents infringed, directly or indirectly, has Dr. Michelson proven by clear and convincing evidence that the infringement was willful.

3. If you find any claims of any of the Asserted Patents infringed, directly or indirectly, what amount of damages are due as a result of the infringement.

You will decide these patent issues according to the instructions that I will give you.

III. B.(1)(a)

The Patent System

At the beginning of the trial, I gave you some general information about patents and the patent system and a brief overview of the patent laws relevant to this case. I will now give you more detailed instructions about the patent laws that specifically relate to this case. If you would like to review my instructions at any time during your deliberations, they will be available to you in the jury room.

III. B.(1)(b)

Scope of Patent Rights

The patent laws provide that patent rights only confer the right to exclude others from practicing its claimed inventions. This right to exclude others is the basic right of the patent grant.

A patent does not grant the right to make, use or sell the patented subject matter. Indeed, the patent laws do not create any affirmative right to make, use, or sell anything.

III. B.(1)(c)

Validity Not an Issue

A patent issued by the United States Patent Office is presumed valid and the named inventor is presumed to be the inventor of the claimed inventions therein. The three elements to a valid patent are: (1) novelty, (2) utility, and (3) non-obviousness.

Validity is not an issue in this case. None of the parties dispute that all of the Michelson patents relevant to this case are valid. You should therefore regard all of the claimed inventions in the Michelson patents to be novel, useful, and non-obvious.

III. B.(2)(a)

Patent Claims
Claims of the Patents in Suit

As I told you at the beginning of the trial, the claims of a patent are the numbered sentences at the end of the patent. The claims are "word pictures" intended to define, in words, the boundaries of the invention described and illustrated in the patent. The claims describe the invention made by the inventor and describe what the patent owner owns and what the patent owner may prevent others from doing. Claims may describe products, such as instruments or chemical compounds, or methods for making or using a product.

Only the claims of the patent can be infringed. Neither the written description, nor the drawings of a patent can be infringed. Each of the claims must be considered individually, and not all claims of a patent have to be infringed for the patent to be infringed. To prove infringement of a patent, Dr. Michelson need only establish by a preponderance of the evidence that one claim of a patent is infringed.

Claims are usually divided into parts or steps, called "limitations." For example, a claim that covers the invention of a table may recite the tabletop, four legs and the glue that secures the legs to the tabletop. The tabletop, legs and glue are each a separate limitation of the claim.

III. B.(2)(b)

Patent Claims
Independent and Dependent Claims

Patent claims may exist in two forms, referred to as independent claims and dependent claims. An independent claim does not refer to any other claim of the patent. Thus it is not necessary to look at any other claim to determine what an independent claim covers. Claim 1 of the '155 patent, for example, is an independent claim.

A dependent claim refers to at least one other claim in the patent. A dependent claim includes each of the limitations of the other claim or claims to which it refers, as well as the additional limitations recited in the dependent claim itself. Therefore, to determine what a dependent claim covers, it is necessary to look at both the dependent claim and the other claim or claims to which it refers.

There is only one dependent claim being asserted against Medtronic Sofamor Danek: claim 72 of the '155 patent. If you find that the independent claim to which claim 72 refers has been infringed, you must separately determine whether dependent claim 72 has also been infringed.

III. B.(2)(c)

Patent Claims
Construction of the Claims

In deciding whether or not an accused method or product infringes a patent, the first step is to understand the meaning of the words used in the patent claims.

It is my job as Judge to determine what the patent claims mean and to instruct you about that meaning. You must accept the meanings I give you and use them when you decide whether or not the patent is infringed.

At the start of the trial, I instructed you about the meaning of the words of the claims and the different types of claims that are at issue in this case. Words in a claim are generally given their ordinary and customary meaning. However, there is one patent claim limitation that I earlier determined has a specific meaning. I will instruct you now about the meaning of that claim term.

III. B.(2)(d)

Patent Claims
Limitations of the Claims at Issue

You must use the definition I provide to you in your consideration of infringement issues.

The term "hollow generally tubular member," which is in claim 1 of the '498 patent, at column 39, lines 38-39, was interpreted by this Court to mean "a hollow apparatus that will embody an elongated cylinder shape for the most part, but not always."

You should consider this instruction only with Verdict Form Question No. 34.

III. B.(2)(e)

Patent Claims
"Comprising" Claims

The beginning portion, or preamble, of a claim commonly uses the word "comprising." "Comprising" means "including" or "containing." A claim that uses the word "comprising" or "comprises" is not limited to products or methods having only the elements or steps that are recited in the claim, but also covers products or methods that add additional elements or steps.

Let's take our example of the claim that covers a table. If the claim recites a table "comprising" a tabletop, legs and glue, the claim will cover any table that contains these structures, even if the table also contains other structures, such as a leaf or wheels on the legs.

All of the claims of the Asserted Patents use the "comprising" language.

III. B.(3)(a)

Infringement
Every Claim Limitation must Be Present
For Determination of Infringement

You must consider each of the patent claims separately. In order to infringe a patent claim, a product or method must include every limitation of the claim. If Medtronic Sofamor Danek's product or method omits a single structure or step recited in a claim, then you must find that Medtronic Sofamor Danek has not infringed that claim. If you find that Dr. Michelson has shown by a preponderance of the evidence that each limitation of the claim is present in any item of or method used by the Accused Systems, then you must find that Medtronic Sofamor Danek infringes that claim.

A claim limitation is literally present if it exists in the accused product or method just as it is described in the claim language, either as I have explained that language to you or, if I did not explain it, as you understand it.

III. B.(3)(b)

Infringement
Direct Infringement

A patent owner has the right to stop others from using the invention covered by its patent claims during the life of the patent. If any person makes, uses, sells or offers to sell or imports what is covered by the patent claims without the patent owner's permission, that person is said to infringe the patent. This type of infringement is called "direct infringement." In addition to enforcing a patent against a direct infringer, a patent owner also has the right to enforce the patent against those who are known as "indirect infringers."

In reaching your decision on infringement, keep in mind that only the claims of a patent can be infringed. You must compare patent claims, as I have defined them, to the accused product or method, and determine whether or not there is infringement. You must consider each claim individually and must reach your decision as to each assertion of infringement based on my instructions about the meaning and scope of the claims, the legal requirements for infringement, and the evidence presented to you by the parties.

Whether or not Medtronic Sofamor Danek knew that what it was doing was an infringement does not matter. A person may be found to be a direct infringer of a patent even if he or she believes in good faith that what he or she is doing is not an infringement of any patent, and even if he or she does not even know of the patent.

Dr. Michelson contends that as of May 9, 2001, Medtronic Sofamor Danek infringes, either directly or indirectly, the Asserted Patents.

I will first discuss direct infringement.

First, Dr. Michelson contends that Medtronic Sofamor Danek infringes claims 1 and 68 of the '498 patent by its manufacture, use, sale, or offer for sale of instruments that include a guard with a disc penetrating extension in the following Systems (which I refer to as the "Accused Systems"): (1) AFFINITY™ Cervical Threaded Cage System; (2) Anterior Instrumentation System; (3) INTER FIX™ Threaded Fusion Device System; (4) LT-CAGE™ Lumbar Tapered Fusion Device System; (5) Infuse™ Bone Graft/LT-CAGE™ Lumbar Tapered Fusion Device System; (6) Tapered Laparoscopic System; (7) Cylindrical Endoscopic System; (8) Anterior Endoscopic Bone Dowel Instrumentation System; (9) Reduced Profile

Instrumentation System; (10) Posterior Instrumentation System; (11) Precision-Graft Burr™ Guide System; (12) Precision-Graft™ Anterior Impacted Instrumentation System; and (13) Tangent Posterior Discectomy & Grafting Instrumentation System.

Second, Dr. Michelson contends that Medtronic Sofamor Danek infringes claim 1 of the '909 patent by its manufacture, use, sale, or offer for sale of tapered distractor instruments included in the following Systems: (1) Anterior Instrumentation System; (2) Anterior Endoscopic Bone Dowel Instrumentation System; (3) Precision-Graft Burr™ Guide System; and (4) Precision-Graft™ Anterior Impacted Instrumentation System.

Third, Dr. Michelson contends that Medtronic Sofamor Danek infringes claim 45 of the '909 patent by its manufacture, use, sale or offer for sale of tapered distractor, guard member and implant driver instruments included in the following systems: (1) Anterior Instrumentation System; and (2) Bone Dowel Instrumentation System.

Fourth, Dr. Michelson contends that Medtronic Sofamor Danek infringes claims 1 and 74 of the '214 patent and claim 1 of the '139 patent by its manufacture, use, sale, or offer for sale of a milling block and bone removal device included in the following

Systems: (1) Precision-Graft Burr™ Guide System; and (2) Precision-Graft™ Anterior Impacted Instrumentation System.

It is your job to determine whether or not Dr. Michelson has proven by a preponderance of the evidence that Medtronic Sofamor Danek has directly infringed any of these claims.

III. B.(3)(c)

Infringement
Indirect Infringement

As I have told you, in addition to enforcing a patent against a direct infringer, a patent owner may also enforce the patent against indirect infringers. There are two types of indirect infringement -- inducing infringement and contributory infringement. The act of encouraging or inducing others to infringe a patent is called "inducing infringement." The act of contributing to the infringement of others by, for example, supplying them with components used in the patented invention is called "contributory infringement."

There can be no indirect infringement unless someone is directly infringing the patent. Thus, in order to prove that Medtronic Sofamor Danek is inducing another person to infringe or contributing to the infringement of another, Dr. Michelson must prove by a preponderance of the evidence that the other person is directly infringing at least one claim of the patent. Proof of this direct infringement may be inferred based on circumstantial evidence.

III. B.(3)(d)

Infringement
Inducing Infringement

A person induces patent infringement if he or she purposefully causes, urges or encourages another to infringe a patent. Inducing infringement cannot occur unintentionally. This is different from direct infringement, which, as I told you, can occur unintentionally. In order to prove inducement, the patent owner must prove by a preponderance of the evidence that the accused inducer knew of the patent and encouraged or instructed another person to use a product or perform a method in a manner that infringes the patent. The patent owner must also prove by a preponderance of the evidence that the other person infringed the patent. Proof of this direct infringement may be based on circumstantial evidence. A person can be an inducer even if he or she thought that what he or she was encouraging or instructing the other person to do was not an infringement.

Dr. Michelson asserts that Medtronic Sofamor Danek induced patent infringement of claims 1, 66 and 72 of the '155 patent; claim 27 of the '412 patent; and claim 113 of the '139 patent.

To show that Medtronic Sofamor Danek induced infringement of each particular patent, Dr. Michelson must prove four things by a preponderance of the evidence:

1. First, Medtronic Sofamor Danek encouraged or instructed another person how to perform a method in a manner that you, the jury, find infringes one or more of the claims of these patents.

2. Second, Medtronic Sofamor Danek knew of that particular patent.

3. Third, Medtronic Sofamor Danek knew or should have known that its encouragement or instructions would likely result in the other person doing that which you find to be an infringement of that particular patent.

4. Fourth, the other person infringed the patent.

If, and only if, you find that Dr. Michelson has proven by preponderance of the evidence each of these four things may you find that Medtronic Sofamor Danek induced patent infringement of any particular asserted patent.

III. B.(3)(e)

Infringement
Contributory Infringement

Contributory infringement can occur when a supplier provides a part, or a component, to another for use in a patented product or machine, or in a patented method. In order for there to be contributory infringement, the person who received the component must infringe the patent. Proof of this direct infringement may be based on circumstantial evidence. The component must also have certain characteristics. First, the component must be a material part of the invention. Second, the component must be especially made or adapted for use in a manner that infringes the patent, and the supplier must know that the component was especially made for that use. Third, the component must not have a substantial use that does not infringe the patent. A component that has a number of non-infringing uses is often referred to as a staple or commodity article. Providing such a staple or commodity article is not contributory infringement, even if the person to whom the article was supplied uses it in an infringing manner.

Dr. Michelson asserts that Medtronic Sofamor Danek contributed to infringement of claims 1, 66 and 72 of the '155 patent; claim 27 of the '412 patent; and claim 113 of the '139

patent. Dr. Michelson asserts that Medtronic Sofamor Danek's selling or supplying a guard with an extension for use in the patented surgical method contributes to the infringement of claims 1, 66 and 72 of the '155 patent. In order to establish that Medtronic Sofamor Danek has contributorily infringed claims 1, 66 or 72 of the '155 patent Dr. Michelson must prove five things by a preponderance of the evidence standard. These five things are:

1. First, Medtronic Sofamor Danek knew of the '155 patent.

2. Second, the guard with an extension is a material component of the claimed invention and Medtronic Sofamor Danek sold or supplied that component.

3. Third, Medtronic Sofamor Danek knew that the component was especially made for use in a manner that infringes the patent claims.

4. Fourth, the component is not a staple or commodity article.

5. Fifth, the component was actually used in a manner that you find infringes the '155 patent.

Dr. Michelson asserts that Medtronic Sofamor Danek's selling or supplying a guide sleeve for use in the patented surgical method contributes to the infringement of claim 27 of the '412 patent. In order to establish that Medtronic Sofamor Danek has contributorily infringed claim 27 of the '412 patent, Dr. Michelson must prove five things by a preponderance of the evidence. These five things are:

1. First, Medtronic Sofamor Danek knew of the '412 patent.

2. Second, the guide sleeve is a material component of the claimed invention and Medtronic Sofamor Danek sold or supplied that component.

3. Third, Medtronic Sofamor Danek knew that the component was especially made for use in a manner that infringes the patent claims.

4. Fourth, the component is not a staple or commodity article.

5. Fifth, the component was actually used in a manner that you find infringes the '412 patent.

Finally, Dr. Michelson also asserts that Medtronic Sofamor Danek's selling or supplying the milling block and bone cutting device for use in the patented surgical method contributes to the infringement of claim 113 of the '139 patent. In order to establish that Medtronic Sofamor Danek has contributorily infringed claim 113 of the '139 patent, Dr. Michelson must prove five things by a preponderance of the evidence standard. These five things are:

1. First, Medtronic Sofamor Danek knew of the '139 patent.

2. Second, the milling block and bone cutting device is a material component of the claimed invention and Medtronic Sofamor Danek sold or supplied that component.

3. Third, Medtronic Sofamor Danek knew that the component was especially made for use in a manner that infringes the patent claims.

4. Fourth, the component is not a staple or commodity article.

5. Fifth, the component was actually used in a manner that you find infringes the '139 patent.

You are to consider the different types of infringement (direct, indirect, induced, and/or contributory) in Verdict Form Question Nos. 33-39. If you find that Dr. Michelson has proven by a preponderance of the evidence that Medtronic Sofamor Danek has infringed any claims of the Asserted Patents, you must return a verdict for Dr. Michelson in an answer of “Yes” for the patent claims you so find are infringed in Question Nos. 33-39 of the Verdict Form. If Dr. Michelson has failed to prove by a preponderance of the evidence that Medtronic Sofamor Danek has infringed any claims of the Asserted Patents, you must return a verdict for Medtronic Sofamor Danek and answer “No” for the patent claims you so find are not infringed in Question Nos. 33-39 of the Verdict Form.

III. B.(3)(f)

Infringement
Willful Infringement

Dr. Michelson also contends that Medtronic Sofamor Danek has willfully infringed the asserted patent claims as of May 9, 2001. If you find on the basis of the evidence and the law as I have explained it, that Medtronic Sofamor Danek directly or indirectly infringes any claim of any of the six Asserted Patents, you must then decide whether or not Medtronic Sofamor Danek's infringement was willful.

When a person becomes aware that a patent may have relevance to his or her activities, that person has a duty to exercise due care and investigate whether or not his or her activities or proposed activities infringe any valid, enforceable claim of the patent. If that person did not do this and is found to have infringed the patent claims, then the infringement was willful. The issue of willful infringement is relevant, not to your decision of whether or not there is infringement, but rather to the amount of damages to which Dr. Michelson is entitled. A finding of willful infringement may, in certain circumstances, entitle the patent owner to increased damages. If you decide that Medtronic Sofamor Danek willfully infringed any of the

asserted patent claims, then it is my job to decide whether or not to award increased damages to Dr. Michelson.

Although, as I explained before, Dr. Michelson must prove infringement by a preponderance of the evidence standard, the burden of proving that the infringement was willful is the clear and convincing standard.

Clear and convincing evidence is a higher standard than preponderance of the evidence. It means evidence that clearly shows there is no substantial doubt about the correctness of the conclusion to be drawn from the evidence.

To establish willful infringement as to each Asserted Patent, Dr. Michelson must prove two things by clear and convincing evidence. First, Dr. Michelson must prove that Medtronic Sofamor Danek was aware of the patent. Second, Dr. Michelson must prove that Medtronic Sofamor Danek proceeded with the activities that are accused of infringement without a good faith belief that the patent was not infringed.

In determining whether or not Medtronic Sofamor Danek acted in good faith, you should consider all of the facts and circumstances. No factor by itself requires a finding of willful

or non-willful infringement. In considering whether Medtronic Sofamor Danek's infringement was willful, you should consider the totality of the circumstances and all of the evidence demonstrating Medtronic Sofamor Danek's intentions.

If you find that Dr. Michelson has proven each of the elements of willful infringement by clear and convincing evidence, then you must return a verdict for Dr. Michelson and answer Question No. 40 of the Verdict Form “Yes” for any of the Asserted Patents you find are willfully infringed.

If you find that Dr. Michelson has failed to prove any element of willful infringement by clear and convincing evidence, then you must return a verdict for Medtronic Sofamor Danek and answer Question No. 40 of the Verdict Form “No” for each of the Asserted Patents you find are not willfully infringed.

III. B.(4)(a)

Damages for Infringement
Damages for Patent Infringement

I have now instructed you as to the law governing Dr. Michelson's claims of patent infringement.

If you find that Medtronic Sofamor Danek has infringed a claim of the '498 patent, the '155 patent, the '412 patent, the '909 patent, the '214 patent or the '139 patent, then you must determine what damages Medtronic Sofamor Danek must pay to Dr. Michelson for that infringement. If, on the other hand, you find that Medtronic Sofamor Danek has not infringed any claim of any Asserted Patent, then Dr. Michelson is not entitled to any damages for patent infringement, and you should not make any findings about damages.

The fact that I am instructing you about damages does not mean that Dr. Michelson is or is not entitled to recover damages. I am expressing no opinion one way or the other. These instructions are only to guide you in case you find that Medtronic Sofamor Danek infringed a claim of an asserted patent.

III. B.(4)(b)

Damages for Infringement
Compensatory Patent Damages in General

If you find that any claim of any of the Asserted Patents is infringed, then Dr. Michelson is entitled to damages adequate to compensate for the infringement. Your damage award should put Dr. Michelson in approximately the financial position he would have been in had the infringement not occurred; but in no event may the damage award be less than a reasonable royalty.

These damages may not be less than what a reasonable royalty would be for the use made of the invention by Medtronic Sofamor Danek. You must decide the amount of money that Dr. Michelson would have made through a reasonable royalty.

In determining infringement damages, you must not consider Dr. Michelson's allegations of willfulness, or take into account any evidence relating to those allegations. The consideration of willfulness, if any, is entirely separate from the question of any infringement damages that you are asked to determine. Infringement damages should not be increased because you find willfulness, nor decreased because you do not find willfulness. Nor should you include any amount in your infringement damages

award for interest, attorneys' fees or other expenses. When determining damages for infringement, you must not include an additional amount for the purpose of punishing Medtronic Sofamor Danek or setting an example.

III. B.(4)(c)

Damages for Infringement
Reasonable Royalty

Dr. Michelson is asking for damages in the amount of a reasonable royalty. Thus, for Medtronic Sofamor Danek's infringing sales or activities, you should determine the amount Dr. Michelson has proven to be a reasonable royalty.

Generally, a reasonable royalty is defined by the patent laws as the reasonable amount that someone wanting to use the patented invention should expect to pay to the patent owner and the owner should expect to receive. A reasonable royalty is the minimum amount of damages that a patent owner may recover.

III. B.(4)(d)

Damages for Infringement
What Is a Reasonable Royalty?

You are to decide what a reasonable royalty would be, based on circumstances as of the time just before Medtronic Sofamor Danek's manufacture, use, instruction for use, sale, or offer for sale of the patented invention became an infringement. You should assume that Medtronic Sofamor Danek and Dr. Michelson knew at that time such things as the level of sales and profits that Medtronic Sofamor Danek would make using or selling the invention. You should also assume that Dr. Michelson was willing to grant Medtronic Sofamor Danek a license to sell or use the patented invention and that Medtronic Sofamor Danek was willing to pay for that license.

In deciding what is a reasonable royalty, you may consider the factors that Dr. Michelson and Medtronic Sofamor Danek would consider in setting the amount Medtronic Sofamor Danek should pay.

I will list for you a number of factors you may consider. This is not every possible factor, but it will give you an idea of the kinds of things to consider in setting a reasonable royalty.

1. Whether Dr. Michelson had established a royalty for the patented invention, for example, by granting other licenses at that royalty.

2. Royalties paid by Medtronic Sofamor Danek or by others for patents comparable to the patent.

3. Whether or not Dr. Michelson had a policy of licensing or not licensing the patent.

4. Whether or not Dr. Michelson and Medtronic Sofamor Danek are competitors.

5. Whether being able to use the patented invention helps in making sales of other products or services.

6. The profitability of the product made using the patent, and whether or not it is commercially successful or popular.

7. The advantages and benefits of using the patented invention over products or methods not claimed in the patent.

8. The extent of Medtronic Sofamor Danek's use of the patented invention and the value of that use to Medtronic Sofamor Danek.

9. Whether or not there is a portion or percentage of the profit or selling price that is customarily paid in the spinal technology field for use of patented inventions comparable to the inventions claimed in the asserted patents.

10. The portion of the profit that is due to the patented invention, as compared to the portion of the profit due to other factors, such as unpatented elements or unpatented manufacturing methods, or features or improvements developed by Medtronic Sofamor Danek.

11. Expert opinions as to what would be a reasonable royalty.

III. B.(4)(e)

Damages for Infringement
Reasonable Royalty Distinguished

Dr. Michelson and Karlin Technology are seeking different types of damages for their different claims against the Medtronic parties. One type of damages being sought by Dr. Michelson is damages from Medtronic Sofamor Danek's infringement of six patents owned by Dr. Michelson. The Court has ruled that these patents are not part of the License Agreement or the Purchase Agreement. You will decide what amount is due for this infringement, if you find there is infringement. The damages sought by Dr. Michelson are measured by what the law calls a reasonable royalty. Mr. Collins testified that a reasonable royalty would be 27.9%. Mr. Jarosz testified that a reasonable royalty would be 10%. Whatever you may decide, the reasonable royalty you would use would be applied to all sales that you find infringe one or more of the six Michelson patents at issue in this lawsuit.

The fact that Medtronic Sofamor Danek may have paid royalties to Karlin Technology or Dr. Michelson or some other doctor under agreements with Medtronic Sofamor Danek does not reduce any damages due to Dr. Michelson for infringement of the six patents. Thus, you must disregard the testimony from Mr.

Jarosz that because royalties were paid on some products for the patent rights under the License or Purchase Agreements, damages for patent infringement are not due on those products. That is wrong. The law provides that if patent infringement is shown, Dr. Michelson is entitled to damages of not less than a reasonable royalty for infringement of one or more of the six patents that I have found are not within the scope of the License and Purchase Agreements. Patent infringement damages are not reduced by any royalties or amounts paid for rights to the separate, different patents under the License or Purchase Agreements.

III. B.(4)(f)

Damages for Infringement
Reasonable Royalty (Timing)

The relevant date for the hypothetical reasonable royalty negotiation is the date that the infringement began.

In view of all of the instructions I have given you on what constitutes a reasonable royalty, if you answer any part of Verdict Form Question Nos. 33, 34, 35, 36, 37, 38, or 39 “YES,” indicate what you find is the reasonable royalty percentage due Dr. Michelson in your response to Verdict Form Question No. 69.

III. B.(5)(a)

Estoppel

Implied License by Reason of Equitable Estoppel

Medtronic Sofamor Danek contends that Dr. Michelson is barred from asserting his patent infringement claim because it has an implied license by reason of equitable estoppel. An implied license signifies a patentee's waiver of the statutory right to exclude others from making, using, selling, offering to sell, or importing, the patented invention. Implied license by reason of equitable estoppel can be a defense to a claim of patent infringement.

In order to find that Dr. Michelson is barred from asserting his claims for patent infringement due to an implied license by reason of equitable estoppel, Medtronic Sofamor Danek must prove by a preponderance of the evidence that: (1) Dr. Michelson, through statements or conduct, gave an affirmative grant of consent or permission to make, use, or sell his patented inventions to Medtronic Sofamor Danek without condition; (2) Medtronic Sofamor Danek relied on that statement or conduct by Dr. Michelson; and (3) Medtronic Sofamor Danek would, therefore, be materially prejudiced if Dr. Michelson is allowed to proceed with his claim. Medtronic Sofamor Danek must have knowledge of

Dr. Michelson and his patents and must reasonably infer that Dr. Michelson consented to the allegedly infringing activity.

If Medtronic Sofamor Danek has proven each of these elements by a preponderance of the evidence, then you must return a verdict for Medtronic Sofamor Danek and answer Question Nos. 41, 42, and 44 of the Verdict Form with a “Yes.” If Medtronic Sofamor Danek has failed to show any element by a preponderance of the evidence, then you must return a verdict for Dr. Michelson and answer Question Nos. 41, 42, and 44 of the Verdict Form with a “No.”

III. B.(5)(b)

Estoppel
Implied License by Reason of Legal Estoppel

Dr. Michelson contends that starting May 9, 2001, Medtronic Sofamor Danek infringes the six Asserted Patents. Medtronic Sofamor Danek contends that Dr. Michelson is barred from asserting his patent infringement claim because it has an implied license by reason of legal estoppel. An implied license by reason of legal estoppel signifies a patentee's waiver of the statutory right to exclude others from making, using, selling, offering to sell or importing the patented invention. Implied license by reason of legal estoppel can be a defense to a claim of patent infringement.

In order to find that Dr. Michelson is barred from asserting his claims for patent infringement due to an implied license by reason of legal estoppel, Medtronic Sofamor Danek must prove by a preponderance of the evidence that: (1) Dr. Michelson licensed to Medtronic Sofamor Danek a right to the Asserted Patents; (2) Dr. Michelson received consideration for the right granted; and (3) Dr. Michelson sought to derogate from the right granted (in other words took steps that would diminish the right granted).

If Medtronic Sofamor Danek has proven all three of these elements by a preponderance of the evidence, then you must return a verdict for Medtronic Sofamor Danek and answer Question No. 43 of the Verdict Form with a “Yes.” If Medtronic Sofamor Danek has failed to show any element by a preponderance of the evidence, then you must return a verdict for Dr. Michelson and answer Question No. 43 of the Verdict Form with a “No.”

III. B.(5)(c)

Estoppel
Equitable Estoppel

Dr. Michelson contends that starting May 9, 2001, Medtronic Sofamor Danek infringes the six Asserted Patents. Medtronic Sofamor Danek contends that Dr. Michelson is barred from asserting that patent infringement claim by reason of equitable estoppel. Equitable estoppel can be a defense to a claim of patent infringement.

In order to find that Dr. Michelson is barred from asserting his claims for patent infringement due to equitable estoppel, Medtronic Sofamor Danek must prove by a preponderance of the evidence that: (1) Dr. Michelson, through misleading conduct, led Medtronic Sofamor Danek to reasonably infer that Dr. Michelson did not intend to enforce his patents against Medtronic Sofamor Danek; (2) that Medtronic Sofamor Danek relied on Dr. Michelson's misleading conduct; and (3) due to Medtronic Sofamor Danek's reliance on Dr. Michelson's misleading conduct, Medtronic Sofamor Danek is materially prejudiced if Dr. Michelson is allowed to proceed with his claim for patent infringement.

If Medtronic Sofamor Danek has proven all three of these elements by a preponderance of the evidence, then you must return a verdict for Medtronic Sofamor Danek and answer Question Nos. 41, 42, and 44 of the Verdict Form with a “Yes.” If Medtronic Sofamor Danek has failed to show any element by a preponderance of the evidence, then you must return a verdict for Dr. Michelson and answer Question Nos. 41, 42, and 44 of the Verdict Form with a “No.”

III. C. (1)

Tortious Interference
Three Claims Summary

You must decide the following tort liability issues according to the instructions that I will give you.

Dr. Michelson has brought two types of tortious interference claims. The issues presented by these claims are:

- Has Dr. Michelson proven by a preponderance of the evidence that Medtronic Sofamor Danek tortiously interfered with a prospective business relationship between Dr. Michelson and another.

- Has Dr. Michelson proven by a preponderance of the evidence that Medtronic, Inc. tortiously interfered with a prospective business relationship between Dr. Michelson and another.

- Has Dr. Michelson proven by a preponderance of the evidence that Medtronic, Inc. tortiously interfered with the business relationship between Medtronic Sofamor Danek and Dr. Michelson by interfering with the proposed "global agreement."

III. C.(1)(a)

Tortious Interference
with Business Relationships
5 Elements

Dr. Michelson contends that Medtronic Sofamor Danek and Medtronic, Inc. are liable for intentional interference with Dr. Michelson's business relationships. The law does not permit a complaining party to recover damages from another party who has engaged in proper competitive business practices. However, the law does prohibit a party from unfairly interfering with a business relationship.

There are five elements required to prove tortious interference with business relationships. To recover damages, Dr. Michelson must prove, by a preponderance of the evidence, each of the following five elements:

1. Dr. Michelson had a prospective business relationship with an identifiable class of third persons; and

2. The party you are considering (either Medtronic, Inc. or Medtronic Sofamor Danek) at the time it committed the acts complained of, knew of these relationships and did not have just a mere awareness of Dr. Michelson's business dealings with others in general;

3. The party you are considering (either Medtronic, Inc. or Medtronic Sofamor Danek) intended to cause a breach or termination of the business relationship or expectancy;

4. The party you are considering (either Medtronic, Inc. or Medtronic Sofamor Danek) had an improper motive or used improper means; and

5. Dr. Michelson suffered damages as a result of the tortious interference.

If you find by a preponderance of the evidence, each of the five elements of Dr. Michelson's claim for interference with prospective business relations, you must then consider whether Medtronic Sofamor Danek has established by a preponderance of the evidence that Section 3.2 (the non-compete portion) of the Purchase Agreement prevents Dr. Michelson from entering into the prospective business relationship(s) you have determined to have existed under the first element above. If you find by a preponderance of the evidence that Dr. Michelson is prevented from entering into the prospective business relationships, then you must enter a verdict in favor of Medtronic, Inc. and Medtronic Sofamor Danek on that issue by answering Verdict Form Question Nos. 28 and 29 “No.”

If, on the other hand, you find that Dr. Michelson has proven by a preponderance of the evidence each of the five elements of this claim against Medtronic Sofamor Danek and you find that Medtronic Sofamor Danek has not proven by a preponderance of the evidence that Dr. Michelson is prevented from entering into the prospective business relationships, then you must enter a verdict in favor of Dr. Michelson on this issue by answering Verdict Form Question No. 28 “Yes.”

Also, if you find that Dr. Michelson has proven by a preponderance of the evidence each of the five elements of this claim against Medtronic, Inc., and you find that Medtronic, Inc. has not proven by a preponderance of the evidence that Dr. Michelson is prevented from entering into the prospective business relationships, then you must enter a verdict in favor of Dr. Michelson on this issue by answering Verdict Form Question No. 29 “Yes.”

III. C.(1)(b)

Tortious Interference with
Prospective Business Relationships
5 Elements

The law protects a party from intentional interference with a continuing prospective business or other customer relationship not amounting to a formal contract.

III. C.(1)(b)(1)

Tortious Interference
with Prospective Business Relationships
No Formal Contract Required

A prospective business relationship with an identifiable class of persons is protected against the intentional interference by another party if that relationship is of pecuniary value to the complaining party, or would otherwise lead to potentially profitable contracts.

III. C.(1)(b)(2)

Tortious Interference
with Prospective Business Relationships
Improper Motive or Means

"Improper motive" is established by proving that the interfering party's predominant purpose was to injure the complaining party. A purpose is "predominant" if it is greater or superior in influence as compared to other facts. Injuring the complaining party does not have to be the interfering party's sole purpose for its motive to be improper.

"Improper means" of interference include those means that are illegal or independently tortious, such as fraud, duress, undue influence, misuse of inside or confidential information, or breach of a fiduciary relationship. Improper means also includes those methods that involve unethical conduct, such as overreaching.

III. C.(1)(c)

Tortious Interference
with Global Agreement Negotiations

Dr. Michelson also contends that Medtronic, Inc. is liable for intentional interference with Defendants' prospective business relationship with Medtronic Sofamor Danek. Specifically, Dr. Michelson contends that Medtronic, Inc. interfered with the potential global agreement between Dr. Michelson and Medtronic Sofamor Danek. The law does not permit a complaining party to recover damages from another party who has engaged in proper competitive business practices. However, the law does prohibit a party from unfairly interfering with a business relationship.

There are five elements required to prove this claim of tortious interference with prospective business relationships. To recover damages, the complaining party must prove, by a preponderance of the evidence, each of the following five elements:

1) Dr. Michelson had a prospective business relationship with Medtronic Sofamor Danek;

2) Medtronic, Inc., at the time it committed the acts complained of, knew of this relationship and did not have a mere awareness of Dr. Michelson's business dealings with Medtronic Sofamor Danek;

3) Medtronic, Inc. intended to cause a breach or termination of the business relationship or expectancy;

4) Medtronic, Inc. had an improper motive or used improper means; and

5) That Dr. Michelson suffered damages as a result of the tortious interference.

Simply because the parties failed to reach a global agreement is not sufficient proof for Defendants to recover anything on this claim.

But, if you find that Dr. Michelson has proven by a preponderance of the evidence each of the five elements listed above, you should answer Question No. 30 "Yes." If you find that Dr. Michelson did not prove each of these elements by a preponderance of the evidence or that the evidence is evenly balanced, you should answer Question No. 30 "No."

If you answer “Yes” to Question No. 30, you must also consider whether Dr. Michelson has established by a preponderance of the evidence, that Medtronic, Inc. did not have a qualified privilege to interfere in the business dealings of its subsidiary, Medtronic Sofamor Danek, which I will instruct you on next.

III. C.(1)(c)(1)

Tortious Interference
Parent Corporation Privilege

A parent corporation cannot be held liable for tortious interference with its subsidiary's business relationships, because the parent corporation has a qualified privilege to interfere with such relationships. That privilege, however, can be lost if the parent acts in a way that is contrary to the subsidiary's economic interests or if it employs wrongful means.

"Wrongful means" is defined to include acts which are wrongful in and of themselves, such as misrepresentation of facts, threats, restraint of trade, or any other wrongful act recognized by statute or common law.

If you find that Dr. Michelson has proven by a preponderance of the evidence that Medtronic, Inc. acted in a way that was contrary to Medtronic Sofamor Danek's economic interests or that it employed wrongful means in interfering with the proposed global agreement, you must find that Medtronic, Inc. had no privilege to interfere with that proposed agreement and your answer to Verdict Question Nos. 31 or 32 must be "Yes." On the other hand, if the evidence on this issue is evenly balanced, or if you find that the evidence preponderates in favor of

Medtronic, Inc., then you must find in favor of Medtronic, Inc. and your answer to Verdict Question Nos. 31 and 32 must be "No." This, of course, is for you the jury to decide.

If you answer “Yes” to Question 30 and “Yes” to either Question 31 or Question 32, you have returned a verdict in favor of Dr. Michelson on this claim. If you answer “No” to Question 30 or “No” to both Questions 31 and 32, then you have returned a verdict in favor of Medtronic, Inc. on this claim.

III. C.(1)(d)

Tortious Interference
Damages

If you find by a preponderance of the evidence that Dr. Michelson is entitled to recover damages for tortious interference with business relationships, you may award Dr. Michelson an amount that will compensate him for all damages resulting from the interference. The award of damages may include compensation for:

1. The pecuniary loss of the benefits of the prospective business relationships resulting from the interference. This may include Dr. Michelson's loss of profits from the prospective business relationships.

2. Any consequential losses as a result of the interference. A consequential loss is any direct out-of-pocket expense incurred by Dr. Michelson as a result of the interference.

Your findings concerning damages, if any, that have been proven by a preponderance of evidence for Dr. Michelson's claims for tortious interference with prospective business relationships correspond to Verdict Form Question Nos. 66, 67 and 68.

Misappropriation of Trade Secrets Elements

Dr. Michelson contends that Medtronic Sofamor Danek misappropriated his trade secrets relating to the threaded and tapered implant invention (sometimes referred to as the "threaded frusto-conical implant").

To establish misappropriation, Dr. Michelson must prove by a preponderance of the evidence that:

- Dr. Michelson possessed trade secret(s) relating to the "threaded frusto-conical implant;"

- Dr. Michelson communicated the trade secret(s) to Medtronic Sofamor Danek while Medtronic Sofamor Danek was in a position of trust and confidence; or Medtronic Sofamor Danek procured the trade secret(s) through a confidential relationship with Dr. Michelson and Karlin Technology; and

- Medtronic Sofamor Danek used the purported trade secret information without Dr. Michelson's authorization in developing or making its products; and

- Dr. Michelson suffered damage as a result of Medtronic Sofamor Danek's use of the trade secret(s).

A trade secret consists of any formula, process, pattern, device or compilation of information that is used in Dr. Michelson's business and which gives him an opportunity to obtain an advantage over competitors who do not use it. Additionally, the subject matter of a trade secret must be secret (and not already known in the industry or by Medtronic Sofamor Danek), except Dr. Michelson, as the proprietor of a business, may disclose the secret to his or Karlin Technology's employees involved in its use, and others pledged to secrecy.

III. C.(2)(a)

Misappropriation of Trade Secrets
Confidential Relationship

You must determine whether Dr. Michelson has proven by a preponderance of the evidence that his trade secret was given to Medtronic Sofamor Danek as a result of a confidential relationship between the parties. An express or written agreement is not a prerequisite to establishing a confidential relationship existed.

You must find that an express or implied agreement existed between the parties relating to the threaded and tapered implant invention -- that both the parties understood or should have understood its terms. You may find that such a relationship was implied by the business relationship or by the circumstances surrounding the dealings between the parties.

A mere allegation of a confidential relationship is not enough, however. The fact of such a relationship must be proven by Dr. Michelson by a preponderance of the evidence.

If Dr. Michelson has proven by a preponderance of the evidence that Medtronic Sofamor Danek misappropriated any of Dr. Michelson's trade secrets relating to the threaded and tapered implant invention, then you must return a verdict for Dr. Michelson and answer Verdict Form Question No. 27 "Yes." If Dr. Michelson has failed to prove by a preponderance of the evidence that Medtronic Sofamor Danek misappropriated any of Dr. Michelson's trade secrets relating to the threaded and tapered implant invention, then you must return a verdict for Medtronic Sofamor Danek and answer Verdict Form Question No. 27 "No."

III. C.(2)(b)

Misappropriation of Trade Secrets
Limitation on Damages for Misappropriation
(Tennessee Uniform Trade Secrets Act)

Dr. Michelson seeks damages and attorneys' fees for his claim that Medtronic Sofamor Danek misappropriated Dr. Michelson's threaded and tapered implant invention under Tennessee's Uniform Trade Secrets Act. This act does not cover any act which took place before July 1, 2000. If you find that Medtronic Sofamor Danek's alleged misappropriation occurred prior to July 1, 2000, you may not award any damages or attorneys' fees under Tennessee's Uniform Trade Secrets Act. This instruction does not apply to a claim for misappropriation under the common law.

IV. A.

DAMAGES
Consider Damages Only If Necessary

If a party has proven under the applicable standard, either by a preponderance of the evidence or by clear and convincing evidence depending on the particular issue you are considering, that another party is liable on a claim, then you must determine the damages if any to which that party is entitled but only under the instructions I will give you as to how to calculate damages. However, you should not infer that any party is entitled to recover damages merely because I am instructing you on the elements of damages. It is exclusively your function to decide upon liability, and I am instructing you on damages only so that you will have guidance should you decide that a party is entitled to recovery.

IV. B.

Damages

Multiple Claims and Separate Consideration

You cannot award compensatory damages more than once for the same injury. For example, if a party were to prevail on two claims and establish a total injury of one dollar, you could not award him one dollar compensatory damages on each claim - he or it is only entitled to be made whole again, not to recover more than he or it lost.

Further, you must be careful to impose any damages that you may award on a claim solely upon the party or parties that you find to be liable on that claim. Although there are five parties in this case, it does not follow that if one is liable, all or any one of the others are liable as well. Each party is entitled to fair, separate and individual consideration of the case without regard to your decision as to the other parties. If you find that only one party is responsible for a particular injury, then you must impose damages, if any, for that injury only upon that party.

IV. C.

Damages
Damages for Breach of Contract

When a contract is breached, the complaining party is entitled to be placed in as good a position as would have been occupied had the contract been fulfilled in accordance with its terms. The complaining party is not entitled to be put in a better position by a recovery of damage for breach of contract than would have been realized had there been full performance. The damages to be awarded are those that may fairly and reasonably be considered as arising out of the breach or those that may reasonably have been in the contemplation of the parties when the contract was made. Damages that are remote or speculative may not be awarded.

IV. D.

Damages
No Speculative Damages

You may not award remote or speculative damages. You may not, therefore, include any damages which compensate for loss or harm that, although possible, are based on conjecture, speculation, or not reasonably certain.

To state this principle in another way, damages are prohibited as speculative when their existence is uncertain, not when merely their amount is uncertain. Mathematical certainty is not required. Instead, the amount of damages must be shown with such reasonable degree of certainty as the situation permits.

In determining whether the proof meets the requisite degree of certainty, you may consider whether a party is responsible for creating the difficulty in ascertaining the exact amount of damages. If you make that determination, then you may, but are not required to, resolve any doubt about the amount of damages against the party responsible.

IV. E.

Damages
Reasonable Certainty

A party is not entitled to recover damages for a particular loss or type of harm unless it proves that it is reasonably certain that it has suffered such a loss or type of harm as a result of a breach by the accused party. However, once a party proves that it is reasonably certain that it has suffered a particular loss or type of harm as a result of a breach by the accused party, the law does not require the party to prove the exact amount of that loss or harm.

If it is reasonably certain that it has suffered a particular loss or type of harm as a result of a breach by the accused party, the injured party is entitled to recover damages for that loss or harm as long as there is some reasonable basis for estimating or approximating the amount of the loss or harm. It may not be denied damages merely because the amount of the loss or harm is uncertain or difficult to determine.

IV. F.

Damages
Nominal Damages

When there is a breach of contract and actual damages have not been proven, the law will presume "nominal damages." Nominal damages are given, not as an equivalent of a wrong, but in recognition of a legal or technical injury and by way of declaring a right. Nominal damages are to be the smallest appreciable amount. If you find that nominal damages should be awarded, the amount awarded should be one dollar ($1).

In this case, Dr. Michelson and Karlin Technology have admitted that nominal damages are the proper award for the following claims:

1. Dr. Michelson's and Karlin Technology's claim for breach of the proper patent notice provision of the Purchase Agreement and the License Agreement against Medtronic Sofamor Danek;

2. Dr. Michelson's and Karlin Technology's claim for breach of the name attribution provision of the Purchase Agreement and the License Agreement against Medtronic Sofamor Danek;

3. Dr. Michelson’s claim for breach of the February 3, 1998 Confidentiality Agreement;

4. Dr. Michelson’s and Karlin Technology’s claim for breach of the dispute resolution provision of the Purchase Agreement and License Agreement.

Also in this case Medtronic Sofamor Danek has admitted that nominal damages are the proper award for the following claims:

1. Medtronic Sofamor Danek's claim of breach of the non-competition clause under the License and Purchase Agreements against Karlin Technology and Dr. Michelson;

2. Medtronic Sofamor Danek's claim for breach of the covenant of quiet enjoyment under the License and Purchase Agreements against Karlin Technology and Dr. Michelson;

3. Medtronic Sofamor Danek's claim for breach of the notice and cure provisions under the License and Purchase Agreements against Karlin Technology and Dr. Michelson;

4. Medtronic Sofamor Danek's claim of breach of the implied covenant of good faith and fair dealing under the License

and Purchase Agreements against Karlin Technology and Dr. Michelson.

IV. G.

Damages
Royalties Calculation

In regard to Defendants' claims for failure to pay royalties or the failure to pay the proper amount of royalties, Defendants presented alternative theories for damages for devices they assert are covered by the License Agreement or the Purchase Agreement. If you determine that Defendants are entitled to royalties in addition to those already tendered by Medtronic Sofamor Danek under these Agreements, then I need to remind you that Defendants are entitled to only one royalty for each device -- irrespective of the fact that the device might be covered by more than one Agreement. Defendants are not entitled to two royalties for the same sale under these Agreements. Thus, if you determine that additional royalties are owed for a device under the License Agreement or the Purchase Agreement, then you may only award damages once for that device. You should remember that no second royalty as to any item is being sought in connection with the TSRH-B Agreement.

IV. H.

Damages
Inference

As you have heard during the course of this case, the sales data for items sold by Medtronic Sofamor Danek are collected by and maintained by Medtronic Sofamor Danek. Any difficulty in ascertaining the exact amount of sales for particular items, or the exact amount of any other item of damages, because data from Medtronic Sofamor Danek has not been supplied may, but is not required to be, resolved against Medtronic Sofamor Danek since Medtronic Sofamor Danek collected and maintained that data. This, however, is for you the Jury to decide.

IV. I.

Damages
Misappropriation

If you find by a preponderance of the evidence presented that Medtronic Sofamor Danek has misappropriated Dr. Michelson's trade secret, then you must determine the amount of damages, if any, that Dr. Michelson is entitled to receive.

Dr. Michelson has the burden of establishing the amount of actual damages, if any, that were suffered. Damages must be determined with reasonable certainty from the evidence presented. Mathematical precision need not be shown, but you are not to guess or speculate as to damages.

You may only award an amount that would fairly compensate Dr. Michelson for damages proximately caused by Medtronic Sofamor Danek's use of the trade secret.

You may consider, in awarding such actual damages, the cost Medtronic Sofamor Danek would have incurred in acquiring the same information or trade secret through its own experimentation or through other lawful means, or you may consider the actual value of what has been appropriated or the reasonable royalty as of the

time of the misappropriation. Remote or speculative damages cannot be awarded.

Your findings concerning damages, if any, that have been proven by a preponderance of evidence for Dr. Michelson’s claim for misappropriation correspond to Verdict Form Question No. 65.

IV. J.

Damages
Punitive Damages

Dr. Michelson and Karlin Technology have asked that you make an award of punitive damages, but this award may be made only under the following circumstances. You may consider an award of punitive damages only if you find that Dr. Michelson and Karlin Technology have suffered actual damage as a legal result of Medtronic Sofamor Danek's fault and you have made an award for compensatory damages, or if you find that Dr. Michelson and Karlin Technology are entitled to nominal damages due to Medtronic Sofamor Danek's conduct.

You should presume that Dr. Michelson and Karlin Technology, Inc. have already been made whole for any injuries by the compensatory damages or nominal damages you have awarded, if any.

The purpose of punitive damages is not to further compensate a party but to punish a wrongdoer and deter others from committing similar wrongs in the future. Punitive damages may be considered if, and only if, Dr. Michelson and Karlin Technology have shown by clear and convincing evidence that Medtronic Sofamor Danek has acted either intentionally, recklessly, maliciously, or fraudulently.

Clear and convincing evidence is a different and higher standard than the preponderance of the evidence. It means that Medtronic Sofamor Danek's wrong, if any, must be so clearly shown that there is no serious or substantial doubt about the correctness of the conclusions drawn from the evidence.

A person acts intentionally when it is the person’s purpose or desire to do a wrongful act or to cause the result.

A person acts recklessly when the person is aware of, but consciously disregards, a substantial and unjustifiable risk of injury or damage to another. Disregarding the risk must be a gross deviation from the standard of care that an ordinary person would use under all the circumstances.

A person acts maliciously when the person is motivated by ill will, hatred or personal spite.

A person acts fraudulently when: (1) the person intentionally either misrepresents an existing material fact or causes a false impression of an existing material fact to mislead or to obtain an unfair or undue advantage; and (2) another person suffers injury or loss because of reasonable reliance upon that representation.

If you decide to award punitive damages, you will not assess an amount of punitive damages at this time. You will, however, report your finding to the court.

If you the jury, find that the conduct of Medtronic Sofamor Danek or Medtronic, Inc., as determined under these instructions, was intentional, reckless, malicious, or fraudulent towards Dr. Michelson or Karlin Technology, then indicate so in your response to Question No. 72 on the Verdict Form, but do not indicate the amount of punitive damages you would award.

Of course, if you find that the actions of Medtronic Sofamor Danek or Medtronic, Inc. were neither intentional, reckless, malicious, or fraudulent towards Dr. Michelson and Karlin Technology, then you should so indicate in your response to Question No. 72 on the Verdict Form.

V. A.

DELIBERATION AND VERDICT
Verdict Form

Finally, ladies and gentlemen of the jury, we come to the point where we will discuss the form of your verdict and the process of your deliberations. You will be taking with you to the jury room a verdict form which reflects your findings. The verdict form reads as follows:

[Read Verdict Form]

You will be selecting a presiding juror after you retire to the jury room. That person will preside over your deliberations and be your spokesperson here in court. When you have completed your deliberations, your presiding juror will fill in and sign the verdict form.

Your verdict must represent the considered judgment of each of you. In order to return a verdict, it is necessary that each of you agree to that verdict. That is, each of your verdicts must be unanimous.

It is your duty as jurors to consult with one another and to deliberate with a view to reaching an agreement, if you can do so without violence to individual judgments. Each of you must decide the case for yourself, but do so only after an impartial consideration of the evidence with your fellow jurors. In the course of your deliberations, do not hesitate to re-examine your own views and change your opinion if convinced it is erroneous. But do not surrender your honest conviction as to the weight or effect of evidence solely because of the opinion of your fellow jurors, or for the mere purpose of returning a verdict.

We will be sending with you to the jury room all of the exhibits that have been marked and admitted as evidence in the case. You may not have seen all of these previously and they will be there for your review and consideration. You may take a break before you begin deliberating but do not begin to deliberate and do not discuss the case at any time unless all of the jurors are present together in the jury room. Some of you have taken notes. I remind you that these are for your own individual use only and are to be used by you only to refresh your recollection about the case. They are not to be shown to others or otherwise used as a basis for your discussion about the case.

If you should desire to communicate with me at any time, please write down your message or question and pass the note to the Court Security Officer who will bring it to my attention. I will then respond as promptly as possible after consulting with counsel for the parties either in writing or by having you returned to the courtroom so that I can address you orally. Please understand that I may only answer questions about the law and I cannot answer questions about the evidence. I caution you, however, with regard to any message or question you might send, that you should not tell me your numerical division at the time.

V. B.

General Instructions
Regarding Deliberation