

Read, Not Seagate, Controls Enhanced Damages: Spectralytics, Inc. v. Cordis Corp.,

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In a case involving “**black-box**” jury forms, issues of post-*KSR* obviousness, damages and willfulness, the U.S. Court of Appeals for the Federal Circuit affirmed the jury verdict as to validity, damages and willfulness, but reversed and remanded the district court’s refusal to award enhanced damages or attorneys’ fees. *Spectralytics, Inc. v. Cordis Corp.*, Case No. 09-1564; 10-1004 (Fed. Cir., June 13, 2011) (Newman, J.).

Spectralytics manufactures coronary stents that are the subject of the patent in suit. In order to expand the steel tube from which the stent is made, the tube is cut into a “lace-like” pattern that permits expansion and retention of shape after insertion into the artery. The prior art process used a “Swiss-style” laser machine having a workpiece fixture that held the workpiece in a cantilevered manner, with both the workpiece fixture and the laser cutting tool rigidly mounted. Spectralytics changed the tool structure so that it was not based on suppressing vibration, but worked by essentially eliminating relative movement between the workpiece fixture and the cutting tool. It was not disputed that Spectralytics’ patented laser metal-cutting device used to manufacture such stents achieved a precision beyond the prior art laser cutting machines then in use.

Norman Noble, after a visit to Spectralytics, built a Swiss-style stent cutting machine that had the workpiece fixture carried on the laser cutting tool in a manner similar to the Spectralytics tool. It was not disputed that the stents produced by the Noble machine were significantly improved over the stents previously produced by Noble. Cordis entered into an exclusive supply contract with Noble and agreed to indemnify Noble for any patent infringement. Spectralytics filed suit against Cordis for patent infringement and later added Noble as a defendant.

The case was tried to a jury that sustained the validity of the patent, found that the defendants willfully infringed the patent and awarded damages calculated as a 5 percent royalty. The district court granted Spectralytics’ motion for a permanent injunction but denied Spectralytics’ motion for enhanced damages and attorneys’ fees based on the jury verdict of willful infringement. Each side appealed.

Obviousness and “Teaching Away”

The defendants, pointing to the district court’s statement that “if this case had been tried to the

Court, the Court likely would have found the ... patent invalid,” argued that the district court abdicated its role as the ultimate decision maker in relying on the presumed jury findings. Although there was no special jury verdict from which the jury’s fact finding could be ascertained, the Federal Circuit affirmed, noting its agreement with the district court that a reasonable jury could have credited Spectralytics’ evidence as to the disputed positions and expert testimony regarding the prior art.

With regard to the jury’s determination that the claimed invention was not obvious, the Court noted the evidence of “teaching away” by Spectralytics’ expert, who testified that the prior Swiss-style machines taught away from the patented design because the prior machines dealt with the problem of vibration by attempting to suppress or deaden vibration by fastening the entire apparatus to a cast-iron support.

The defendants argued that there was no “teaching away” since the prior art did not directly warn against mounting the workpiece fixture or the laser cutting tool, nor did it teach that the claimed invention would not work. However, as explained by the Court, a “teaching away does not require that the prior art foresaw the specific invention that was later made, and warned against taking that path.” The Court also noted that “teaching away” is not an essential element of a conclusion of non-obviousness.

Copying and Commercial Success

The defendants argued that the requisite “nexus” was not established between the patented device and any commercial success. Spectralytics pointed to the evidence that Noble stated that its new machine was the reason why its product was better than competing products, as well as that Cordis described the new Noble machine as “superior” and “advanced technology,” with “cutting capabilities and precision not attainable” by the prior laser cutting system. Thus, the Federal Circuit concluded that there was substantial evidence whereby a reasonable jury could have found copying and commercial success, and the jury could have weighed these factors in favor of non-obviousness.

Damages

Citing *Rite-Hite*, the Federal Circuit opened its damage analysis with the ominous (for defendants) observation that “a party challenging a jury damages verdict must show that the award is, in view of all the evidence, either so outrageously high or so outrageously low as to be unsupportable as an estimation of a reasonable royalty.”

The defendants argued that the royalty imposed was unreasonable because it is much larger than the cost of switching to a non-infringing available alternative. The district court concluded that the jury was not required to accept the defendants’ position that these alternative machines were available and acceptable in light of evidence to the contrary. The Federal Circuit agreed with the district court that a reasonable jury could have found that the alleged alternatives were either not acceptable or not available and that such a finding was supported by substantial evidence.

Spectralytics’ expert testified that based on the *Georgia-Pacific* factors, the hypothetical negotiations favored a 20 percent royalty. The defendants suggested a lump sum-payment, but did not suggest any royalty rate. The evidence was that Spectralytics had never licensed a competitor under the relevant patent and that, at the time of the hypothetical negotiation, Spectralytics and Noble were direct competitors in the market for metal stents. It was not disputed that for the six-year damages period Noble had almost \$450 million in sales to Cordis for stents made with the infringing machine

and realized a profit margin of about 67 percent. There was also testimony that Cordis would have played a role in any hypothetical license negotiation in view of its agreement to indemnify Noble for patent infringement.

The Federal Circuit agreed with the district court that the jury's choice of a 5 percent royalty was not "outrageously high" in view of the expert testimony and was supported by substantial evidence.

Willful Infringement

Spectralytics appealed the denial of its request for enhanced damages and attorneys' fees, arguing that the district court misapplied the law on willfulness, and thus abused its discretion.

The Federal Circuit first observed that the district court applied *In re Seagate Technology, LLC* (see [IP Update, Vol. 10, No 8](#)) "in a more rigorous manner than is appropriate, as has been elaborated in intervening decisions" and also that it "applied the *Seagate* criteria for determining whether infringement is willful, to the separate determination of whether to enhance damages after willful infringement is found."

The Court explained that this was an error, because in *Seagate* the Court only held that "failure to exercise due care by obtaining an exculpatory opinion of counsel before commencing infringing activity is not of itself probative of willful infringement." Rather, under *Seagate* "there must be 'objective recklessness' before failure to obtain an exculpatory opinion of counsel can establish willful infringement." However, in terms of enhanced damages stemming from a finding of willfulness, the Federal Circuit (citing its decision in *i4i v. Microsoft*—see [IP Update, Vol. 14, No. 6](#)) explained that "the test for willfulness is distinct and separate from the factors guiding a district court's discretion regarding enhanced damages."

The Federal Circuit explained that, in terms of an enhanced damages analysis, "the district court could and should consider whether infringement had been investigated" and that "although a finding of willfulness is a prerequisite for enhancing damages under §284, the standard for deciding whether—and by how much—to enhance damages is set forth in *Read [v. Portec]*, not *Seagate*."

As further explained by the Court, under *Read* the factors relevant to damage enhancement include "(1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, when he knew of the other's patent, investigated the patent and formed a good faith belief that it was invalid or that it was not infringed; (3) the infringer's behavior in the litigation; (4) the infringer's size and financial condition; (5) the closeness of the case; (6) the duration of the misconduct; (7) the remedial action by the infringer; (8) the infringer's motivation for harm; and (9) whether the infringer attempted to conceal its misconduct."

Noting that "*Seagate* did not change the application of the *Read* factors with respect to enhancement of damages when willful infringement under §285 is found," the Court vacated the denial of enhanced damages and remanded the issue to "redetermine whether enhanced damages are warranted under the guidance of *Read*."

Attorneys' Fees

The district court did not separately analyze the attorneys' fees issue, but denied attorneys' fees in conjunction with denial of enhanced damages. The Federal Circuit noted that "similar considerations

may be relevant to both enhanced damages and attorney fees” but that “the situations in which §284 and §285 may be invoked are not identical. For example, attorney misconduct or other aggravation of the litigation process may weigh heavily with respect to attorney fees, but not for enhancement of damages.” This issue was also remanded for redetermination.

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