No. 13-269

In the Supreme Court of the United States

POWER INTEGRATIONS, INC.,
Petitioner,

v.

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND FAIRCHILD SEMICONDUCTOR CORPORATION,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF FOR PETITIONER

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RULE 29.6 STATEMENT

Power Integrations, Inc. has no parent corporation, and no publicly held company owns ten percent or more of its stock.

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Page(s)

CASES

STATUTES AND RULES

TABLE OF AUTHORITIES—Continued

Page(s)

OTHER AUTHORITIES

ARGUMENT

In the decision below, the Federal Circuit adopted a broad-based legal rule that a patent holder may not recover damages for lost foreign sales of an invention even if "those foreign sales were the direct, foreseeable result" of domestic patent infringement. Pet. App. 39a. According to the Federal Circuit, the "entirely extraterritorial production, use, or sale" of a patented invention "cuts off the chain of causation" between the domestic infringement and the foreseeable harm. *Id.*

Respondent Fairchild does not contest that such a rule would conflict with this Court's cases and settled principles of patent law. Instead, Fairchild seeks to recharacterize the decision below as a sufficiency-of-the-evidence ruling. That attempt to evade this Court's review does not withstand scrutiny. The Federal Circuit plainly held that damages for lost foreign sales do not have a "valid basis in law." *Id.* at 36a; *see id.* at 40a ("damages award was contrary to law"). The language of the Federal Circuit's decision, the way the case was argued below, and the proceedings on remand all confirm that the Federal Circuit decided the issue on legal grounds. Fairchild's alleged vehicle issues are unpersuasive.

Certiorari is warranted because the Federal Circuit's erroneous legal rule not only is contrary to this Court's precedents but is controlling precedent nationwide. Moreover, the issue is undeniably important because the decision below significantly reduces the value of patents held by companies that conduct business globally and gives infringers a free pass to violate United States patent law whenever the violations result in damages abroad.

I. THE FEDERAL CIRCUIT RULE DIRECTLY CONFLICTS WITH THIS COURT'S PRECEDENTS, PATENT LAW, AND THE ANALOGOUS RULE IN COPYRIGHT LAW

A. Fairchild Agrees That A Patent Holder Can Recover Damages For Lost Foreign Sales Caused By Domestic Infringement

Having secured a broad-based legal ruling barring damages under the Patent Act for lost foreign sales, Fairchild now pivots and says it agrees with Power Integrations that, under 35 U.S.C. § 284, a patent holder can recover damages for lost foreign sales that are caused by domestic infringement. As Power Integrations has explained (Pet. 14-29), the Federal Circuit's contrary rule conflicts with this Court's precedents as well as the decisions of other circuits.

This Court has repeatedly held that § 284 of the Patent Act entitles a patent holder to "full compensation" for patent infringement. *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654 (1983); *see Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964). Under that rule, when domestic infringement causes damages abroad, the patent holder is entitled to compensation for those damages. This Court has twice recognized that principle. *See Manufacturing Co. v. Cowing*, 105 U.S. (15 Otto) 253, 256 (1882); *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915). Lower courts and commentators have recognized the same principle. Pet. 18-19. The Federal Circuit's rule that an "entirely extraterritorial" act "cuts off the chain of causation," between domestic infringement and injury abroad, Pet. App. 39a, is fundamentally at odds with the full compensation principle.

The Federal Circuit departed from the full compensation principle based on the "presumption against extraterritoriality." *Id.* at 38a. But its reasoning fundamentally misconceives the presumption—and conflicts with precedent applying the presumption. As this Court and numerous courts of appeals have recognized, the presumption applies to statutes that restrict extraterritorial conduct. Pet. 20-24. Section 284, by contrast, governs remedies, not conduct. And this case involves domestic—not foreign—conduct because the issue is whether a patent holder can recover damages that are directly and foreseeably caused by domestic patent infringement.

The Federal Circuit's rule also conflicts with the analogous rule in copyright law. Under the well-established "predicate act doctrine," a copyright holder can recover damages for lost foreign sales that were made possible by an act of domestic copyright infringement. Pet. 26-29. This Court has recognized the "historic kinship" between patent law and copyright law, *see, e.g.*, *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984), but the decision below brings them into direct conflict.

Fairchild does not dispute these legal principles. Opp. 22-27. Indeed, it does not defend the legal rule that a patent holder cannot recover damages for lost foreign sales that are caused by domestic infringement. Nor does Fairchild deny that such a rule would conflict with the full compensation principle, the presumption against extraterritoriality, and copyright law Those conflicts warrant this Court's review.

B. Fairchild's Attempts To Recast The Federal Circuit's Broad-Based Damages Rule Fail

Fairchild's only response to this clear legal conflict is to try and avoid it by recharacterizing the decision below as a mere sufficiency-of-the-evidence ruling. Opp. 1, 2, 10, 12, 13-15, 22-27. That effort fails.

1. The Federal Circuit's own description of its ruling and the structure of its opinion make clear that its damages ruling is based on legal grounds. The court explicitly distinguished between Fairchild's "two separate arguments" concerning worldwide damages: (1) "the jury's damages award was based on worldwide sales and thus *contrary to law*" and (2) "the jury relied on inadmissible expert testimony." Pet. App. 36a (emphasis added). The court "first consider[ed] whether the jury's original award has a *valid basis in law*" in a stand-alone section before addressing the evidentiary issue. *Id.* (emphasis added). Ultimately, the court "reject[ed] Power Integrations' argument that there exists a *legal basis* sufficient to uphold the jury's original damages award" and held that "the district court correctly decided that the jury's original damages award was *contrary to law*." *Id.* at 40a (emphasis added). The court's own description of its ruling confirms that it adopted a legal rule.

2. The substance of the Federal Circuit's decision also makes clear that it decided the case on legal grounds. The Federal Circuit categorically rejected Power Integrations' argument "that, having established one or more acts of direct infringement in the United States, it may recover damages for Fairchild's worldwide sales of the patented invention because those foreign sales were the direct, foreseeable result of Fairchild's domestic infringement." *Id.* at 39a.

As support, the court stated that Power Integrations "has not cited any case law that supports an award of damages for sales consummated in foreign markets, regardless of any connection to infringing activity in the United States." *Id.* Instead, the court held—without stating any limiting or case-specific qualifier—that "the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement." *Id.*

Fairchild asks this Court to misread the key passage of the Federal Circuit's decision. It argues that the Federal Circuit simply rejected the argument that damages for lost foreign sales "are recoverable 'regardless of any connection to infringing activity in the United States'"—which it interprets to mean even if there is no connection to the United States. Opp. 1 (citation omitted). But that has never been Power Integrations' argument. And in context, the phrase "regardless of any connection" to the United States clearly means "no matter how strong the connection" to the United States. Indeed, that is how the Federal Circuit described Power Integrations' argument in the immediately preceding sentence.

The court found that its new legal rule was met on the facts of this case because there was an "entirely extraterritorial" act, citing Troxel's testimony. Pet. App. 39a-40a. Fairchild tries to recharacterize this discussion as finding that Troxel's testimony failed to link the lost foreign sales to domestic infringement. Opp. 10, 13-14. But that is plainly wrong. The testimony cited by the Federal Circuit simply explained that $30 million of estimated damages

covered foreign sales of products that were not manufactured in the United States. *See* Trial Tr. vol. 3 at 836:13-840:22, Oct. 4, 2006, ECF No. 418. But that says nothing about what *caused* those lost foreign sales. Instead, the Federal Circuit relied on this testimony as establishing that there was an "entirely extraterritorial" act, which—under the Federal Circuit's new legal rule—"cut[] off the chain of causation" between the domestic infringement and the foreign sales. Pet. App. 39a. In other words, the Troxel testimony showed there was an extraterritorial act along the chain of causation, not that there was no chain of causation. The legal conclusion that something "cuts off" a chain of causation is readily different than a factual conclusion that there is no chain of causation in the first place.

Furthermore, Troxel's testimony was presented to *quantify* the damages Power Integrations suffered. Power Integrations' primary evidence of *causation*—that Fairchild would not have been able to make any sales to Samsung without its U.S.-based infringement because Samsung would only purchase products that could be sold worldwide, including in the United States—came from sources other than Troxel. *See* JA5455, 5459 (testimony of former senior Fairchild employee); JA5431-44 (testimony of third-party industry analyst); JA5286, 5303-04 (testimony of Power Integrations Vice President of worldwide sales); JA4992, 5010-11 (testimony of Power Integrations CEO); JA5429-30, JA9109 (Fairchild documents); *see also* Pet. 6, 9. There is no basis to conclude that the Federal Circuit made a sufficiency-of-the-evidence ruling on causation without discussing this body of the evidence on that topic.

3. Fairchild's position in this Court is also contradicted by the way Fairchild argued the case in the courts below. Fairchild itself consistently framed the issue as legal and never argued the evidence was insufficient to support a link between domestic infringement and worldwide sales. In its motion for remittitur, Fairchild repeatedly argued that "as a matter of law" the worldwide damages were improper, and that "[e]ven" if Power Integrations' causation argument were "true, Power Integrations theory of damages is, again, *legally* wrong." Motion for Remittitur 4, 9-10, ECF No. 619 (emphasis added). Likewise, before the Federal Circuit, Fairchild argued that worldwide damages are "improper as a matter of law." CAFC Response/Reply Br. 33.

The ongoing remand proceedings in the district court also belie Fairchild's position here. Fairchild argues to this Court that the "Federal Circuit's decision allows Power Integrations on remand to recover damages that it ties to the foreign sales of Fairchild's products manufactured in Maine," Opp. 14, which Fairchild estimates as $547,724, *id.* at 18. But before the district court, Fairchild has not conceded that *any* lost profits are available for these products. *See* Joint Status Report 1-2, ECF No. 833. Instead, Fairchild has proceeded on the premise that the Federal Circuit's decision allows Power Integrations to collect only a reasonable royalty, and Fairchild told the court it will consider a lump sum of less than $222,000. *Id.* at 2.

4. Finally, while Fairchild tries to recast the decision below, commentators have (correctly) recognized that the Federal Circuit's decision established a broad *legal* prohibition on damages for

foreign sales. *See, e.g.*, 4 Robert A. Matthews, *Annotated Patent Digest* § 30:44 (2013) ("In *Power Integrations*, a panel of the Federal Circuit essentially rejected the theory that an infringing making of a product in the U.S. that is later sold in a foreign market can form a basis for recovering compensatory damages based on the foreign sale."); John G. Mills, Robert C. Highley et al., *Patent Law Basics* § 18:4 (2013) ("In establishing the total cost of damages, patent owners may not assert the infringer's foreign sales as a basis for proof of lost profits." (citing *Power Integrations*)); 2 Ved P. Nanda & David K. Pansius, *Litigation of International Disputes in U.S. Courts* § 8:49 (2013) ("The general rule is that the patent law provides no remedy for damages suffered outside of the United States." (citing *Power Integrations*)).

II. THERE IS NO IMPEDIMENT TO THIS COURT'S REVIEW OF THE UNDENIABLY IMPORTANT QUESTION PRESENTED

1. Fairchild does not dispute the importance of the question presented. Pet. 30-32. This issue is increasingly important because of the global marketplace for goods. In this case, Fairchild's domestic patent infringement enabled it to capture 40% of Power Integrations' worldwide sales to Samsung. The full compensation rule recognized by this Court is a key principle of patent law that gives patent rights force. As this case illustrates, the Federal Circuit's rule significantly weakens those rights for United States patent holders, like Power Integrations, that sell goods globally.

2. Instead of challenging the importance of the question presented, Fairchild argues that this case is a poor vehicle in which to address it—once again

focusing its efforts on evading review of the question presented rather squarely defending the Federal Circuit's rule. Its various arguments lack merit.

First, Fairchild contends that the Federal Circuit's decision rests (entirely) on the alternative ground that Troxel's testimony was inadmissible. Opp. 16-17. That is wrong because the evidentiary holding on the admissibility of Troxel's testimony does not independently support the Federal Circuit's judgment—as a matter of law—prohibiting recovery for lost foreign sales. When an appellate court reviews the denial of a motion for judgment as a matter of law and finds that evidence supporting the verdict was not admissible, it has the discretion to order a new trial, remand the case to the district court to determine whether a new trial is warranted, or to enter judgment itself. *See* Fed. R. Civ. P. 50(e); 9B Charles A. Wright & Arthur Miller, *Federal Practice and Procedure* § 2540 (3d ed. 2008). Even Fairchild recognized in its Federal Circuit brief appealing the admission of Troxel's testimony that "remand for a new trial on damages" would be an appropriate remedy. CAFC Opening Br. 43.

In the decision below, the Federal Circuit first found that worldwide damages were "contrary to law," Pet. App. 40a, and then found that Troxel's testimony was inadmissible, *id.* at 45a. The court then stated, "[i]n view of our other holdings in this case, we do not find that the district court's decision to admit Dr. Troxel's testimony warrants a new trial." *Id.* If this Court were to reverse the Federal Circuit's legal determination that damages for lost foreign sales are "contrary to law," *id.* at 40a, that would undo the primary basis for the Federal Circuit's decision not to

order a new trial. At a minimum, the Federal Circuit would have to reconsider whether a new trial is required under the correct legal rule.

Second, Fairchild speculates that the ongoing district court proceedings might moot the issue because Power Integrations can already recover lost profits from foreign sales due to Fairchild's direct infringement. Opp. 17-18. But that is not the position Fairchild has taken on remand. *Supra* at 7. Moreover, the correct legal rule not only allows Power Integrations to seek damages for the lost foreign sales of the specific chips included in the stipulated direct infringement, but also allows Power Integrations to argue that but for the direct infringement, it would have continued to supply *all* (or some portion) of Samsung's chips. The proper legal rule is key to calculating damages in this case.

Finally, Fairchild argues that reversing the Federal Circuit's legal rule cannot affect the outcome of this case. Opp. 19-21. At a minimum, this is incorrect because the proper legal rule is relevant to the question of damages based on domestic infringement.

More generally, Fairchild fails to account for the way in which the Federal Circuit's erroneous legal rule infected its analysis of the jury's damages award. In the courts below, Power Integrations argued that all of Fairchild's domestic infringement—including manufacturing in the United States, offers for sales from the United States that result in sales abroad, and inducement—enabled Fairchild to sell *any* products to Samsung and thus caused all of Power Integrations' lost sales to Samsung. *See, e.g.*, Opp. to Remittitur Mot. 11, ECF No. 650. The Federal Circuit rejected this argument as a categorical matter on legal grounds,

without distinguishing between the different types of domestic infringement (and considering whether then jury's award could be upheld as to particular types of infringement). Pet. App. 36a-40a. This Court should reverse the erroneous legal premise and remand for the lower courts to consider the impact on the different types of infringement.

In addition, the Federal Circuit's legal premise likely affected the court's subsequent rulings on damages—including its evidentiary rulings. The court's rulings were all in a single section titled "Damages," *id.* at 34a, and the court's evidentiary rulings followed its legal conclusion that worldwide damages are not cognizable, *id.* at 40a-49a. The extent to which its ruling on worldwide damages infected its other rulings is an issue for the Federal Circuit to consider on remand. "When this Court determines that a Court of Appeals has applied an incorrect principle of law, wise judicial administration normally counsels remand of the cause to the Court of Appeals with instructions to reconsider the record." *O'Leary v. Brown-Pacific-Maxon, Inc.*, 340 U.S. 504, 508 (1951) (citing *Universal Camera Corp. v. NLRB*, 340 U.S. 474 (1951)). The antecedent legal question is clearly relevant to the proceedings the court has already ordered and further proceedings it would likely order on remand.

* * * * *

Fairchild succeeded in siphoning off 40% of Power Integrations' sales to Samsung, after blatantly copying Power Integrations' patented chips. The jury awarded Power Integrations damages for those lost foreign sales based on the undisputed evidence that Fairchild would not have made any of them without its U.S.

infringement. The Federal Circuit set aside that ruling based on a legal position so flawed—and out of step with this Court's precedents—that Fairchild does not even defend it here. And the Federal Circuit's new damages rule will erode U.S. patent rights and harm U.S. companies that compete abroad. Certiorari is warranted.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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December 23, 2013