

**In the  
Supreme Court of the United States**

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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

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**PETITION FOR A WRIT OF CERTIORARI**

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### QUESTION PRESENTED

In this case, a jury found that respondent Fairchild Semiconductor committed patent infringement and induced infringement by others—in the United States—after it reverse-engineered and mass produced petitioner Power Integrations’ patented technology for controller chips that are used in power supplies (or chargers) for consumer electronic devices such as smart phones. The jury also found that this U.S.-based infringement directly and foreseeably caused Power Integrations to lose sales of its chips worldwide, and the jury awarded \$34 million in damages based on these lost profits and other injuries. The Federal Circuit set aside the jury’s damages award, concluding that under the “presumption against extraterritoriality” patent damages can never be based on lost foreign sales of an infringing product, even when such lost sales are the direct and foreseeable result of patent infringement inside the United States.

The question presented is whether the Federal Circuit erroneously rejected the jury’s damages verdict after holding—in direct conflict with the decisions of this Court—that a patent owner is barred from obtaining damages under 35 U.S.C. § 284 for lost sales outside the United States, even where those lost sales are the direct and foreseeable result of patent infringement inside the United States.

**RULE 29.6 STATEMENT**

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

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## **PETITION FOR A WRIT OF CERTIORARI**

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Power Integrations, Inc. (Power Integrations) respectfully petitions this Court for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

### **OPINIONS BELOW**

The opinion of the court of appeals is reported at 711 F.3d 1348 (Fed. Cir. 2013) (App. 1a-61a). The opinion of the district court addressing the damages issues raised in this petition is reported at 589 F. Supp. 2d 505 (D. Del. 2008) (App. 62a-73a).

### **JURISDICTION**

The judgment of the court of appeals was entered on March 26, 2013. App. 1a-61a. A timely petition for rehearing was denied on May 28, 2013. App. 74a-75a. This Court has jurisdiction under 28 U.S.C. § 1254(1).

### **STATUTORY AND REGULATORY PROVISIONS INVOLVED**

Pertinent statutory provisions are reprinted in the appendix hereto at 76a-85a.

### **INTRODUCTION**

This case presents a basic remedial question of patent law that is increasingly important in today's global marketplace: Whether the accepted rule that U.S. patent holders are entitled to full compensation for harm suffered as a direct result of patent infringement in the United States applies to lost foreign sales caused by such domestic infringement. In the decision below, the Federal Circuit adopted a broad-based prohibition against such damages—

“regardless of any connection to infringing activity in the United States.” App. 39a. That ruling rests on a fundamental misconception of the presumption against extraterritoriality, directly contravenes this Court’s decisions holding that the Patent Act entitles victims of patent infringement to “full” compensation for the infringement, and conflicts with the analogous rule developed by the courts of appeals in copyright cases allowing damages for lost profits from foreign sales stemming from domestic copyright infringement. If allowed to stand, the decision will embolden infringers to violate the patent laws in the United States whenever doing so helps them capture worldwide sales. And it will leave U.S. patent holders at their mercy, without any effective damages remedy.<sup>1</sup>

## STATEMENT OF THE CASE

### A. Statutory Background

1. The Patent Act allows anyone who “invents or discovers any new and useful process, machine, manufacture, or composition of matter, or ... improvement thereof” to obtain a patent for his invention or discovery. 35 U.S.C. § 101. A patent owner has the right to exclude others from making, using, selling, or offering to sell the invention throughout the United States or importing the invention into the United States for a fixed period of years. *Id.* § 154(a)(1). The Act imposes civil liability on anyone who infringes the patent. *Id.* § 281.

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<sup>1</sup> Citations to “App.” refer to the Appendix to this Petition for Certiorari; citations to “JA” refer to the Joint Appendix filed in the Federal Circuit below (*see* Case No. 11-1218, ECF. No. 41).



Section 271 of the Act sets forth the various types of patent infringement. Most—but not all—of its subsections address conduct that takes place in the United States. For example, § 271(a) declares:

[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

35 U.S.C. § 271(a). Section 271(b) imposes liability on anyone who “actively induces” infringement of a patent. And § 271(c) imposes liability on “contributory infringer[s]” who sell or import components of a patented invention into the United States.<sup>2</sup>

The Patent Act imposes liability for conduct outside the United States in certain circumstances. For example, § 271(f) creates liability for anyone who sends “[uncombined] components of a patented invention” from the United States to a foreign country “in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States.” *Microsoft Corp. v.*

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<sup>2</sup> The Federal Circuit has held that liability for induced infringement under § 271(b) must be predicated on an underlying act of direct infringement inside the United States. *See, e.g., Merial Ltd. v. Cipla Ltd.*, 681 F.3d 1283, 1302-03 (Fed. Cir. 2012). But such liability exists even if the acts of inducement take place abroad, so long as infringement ultimately occurs in the United States, such as by importing infringing goods into the United States for sale (as the jury found happened here). *Id.*

*AT&T Corp.*, 550 U.S. 437, 445 (2007) (citation omitted).

2. Whereas § 271 of the Patent Act defines the conduct that constitutes patent infringement, § 284 establishes the damages a victim is entitled to recover after proving that such infringement has taken place. It states:

Upon finding for the claimant [in an action for patent infringement] the court shall award the claimant *damages adequate to compensate for the infringement*, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

35 U.S.C. § 284 (emphasis added).

As this Court has recognized, this standard entitles the victims of patent infringement to obtain “full” and “complete” redress for any harm suffered as a result. *See General Motors Corp. v. Devex*, 461 U.S. 648, 653-57 (1983); *see also Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964); *infra* at 15-16. As the Federal Circuit has recognized, under this Court’s cases the infringement must be a “but for” cause of that harm. *Rite-Hite v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir.) (en banc), *cert. denied*, 516 U.S. 867 (1995). The Federal Circuit has further held that the victim must also show that the infringement was the “proximate cause” of the harm, measured under common-law principles of “reasonable, objective foreseeability.” *Id.* at 1546.

It is well-settled that under the full-compensation rule of patent law, § 284 allows damages for lost profits that a victim of patent infringement would have made

had the infringement not occurred. See *General Motors*, 461 U.S. at 654-55; 1 Donald S. Chisum, *Chisum on Patents: A Treatise on the Law of Patentability, Validity and Infringement* § 20.05 (Matthew Bender 2013). An infringer’s own sales of an infringing product can inform the damages calculation, both (1) by approximating the victim’s lost profits, and (2) by influencing the calculation of a “reasonable royalty.” *Id.* §§ 20.05, 20.07. The question in this case is whether the result is any different when the U.S.-based infringement results in lost *foreign* sales.

### **B. Factual and Procedural Background**

1. *Fairchild’s Infringement.* Power Integrations and Respondent Fairchild Semiconductor (Fairchild) both manufacture and sell integrated circuit controller chips that are used in power supplies to regulate the supply of energy to devices such as cellular telephones. App. 2a, 8a-14a. Between 1987 and 2001, Power Integrations obtained numerous patents that enhanced the quality and functioning of these chips. *Id.* at 2a. This was a significant market advantage, because manufacturers using Power Integrations’ patented technology can reduce costs and build smaller, lighter, and more energy efficient power supplies such as cell phone chargers. JA 4920, 4954, 5293-95, 5338, 9746-48.

One of Power Integrations’ biggest customers for its patented controller chips during the relevant time frame was Samsung Electronics, a multinational corporation headquartered in South Korea and one of the world’s largest information technology companies. JA 5346-47. Samsung uses Power Integrations’ patented chips in cell phone chargers that it sells, along with its cellphones, worldwide. Power Integrations also supplies controller chips to Samsung’s

subcontractors, which use the chips as components in the Samsung chargers they make. JA 5347-48.

Samsung requires potential suppliers to qualify their chips according to rigorous specifications before it will buy them. JA 5299-5302. The specifications are difficult to meet, and Power Integrations relied on its patented technology to meet them and become eligible to sell its chips to Samsung. JA 5306-07. Moreover, Samsung will only buy chips and use them in its chargers if those chips can legally be used in *all* of the countries where its cellphones are sold, including the United States—a major market with stringent product standards. *See* JA 5010-11, 5303-04, 5429-30, 5500-01. As an independent third-party industry analyst testified, Samsung will not “knowingly purchase parts that infringe U.S. intellectual property.” JA 5442-44. As the same analyst explained, “Samsung . . . is not going to buy a part and put it into a certain device and then have to mark that device with a[n indicator] . . . that [this] device can only go outside the U.S. because it has an infringing part, and these electronics can go to the U.S. because they don’t have any infringing parts.” JA 5444.

Before Fairchild’s infringement, Power Integrations supplied 100% of the controller chips used in Samsung phone chargers worldwide. JA 5301, 5439, 5348-49. Fairchild wanted to take over a share of that business. But its own technology did not measure up to Samsung’s demanding specifications, and it failed to qualify using its own non-infringing technology. JA 5011-13, 5301, 5349-55. Instead of innovating on its own, Fairchild—which had a “corporate culture of copying”—reverse-engineered Power Integrations’ products, copied their designs, and began

manufacturing controller chips that incorporated Power Integrations' patented technology. App. 33a (describing this process and noting Fairchild's "corporate culture of copying").

Fairchild's decision to copy Power Integrations' technology enabled Fairchild to offer to sell and sell Samsung chips that could be used in chargers in the United States and therefore to qualify Fairchild as a vendor meeting Samsung's standards—and that decision soon paid significant financial rewards. JA 5011-13, 5348-55. By October 2006, Fairchild had undercut Power Integrations' prices and had thereby taken over roughly 40% of Power Integrations' sales to Samsung and its subcontractors. JA 5012-13, 5349. This accounted for approximately \$10 million in annual Samsung sales to Fairchild—sales that Power Integrations correspondingly lost. JA 5349.

2. *Trial And Jury Verdict.* In 2004, Power Integrations sued Fairchild for infringing four patents relating to the controller chips. App. 2a. The district court bifurcated the infringement and damages issues from patent validity issues, and held separate trials on each set of issues. Power Integrations prevailed in both trials.

In the infringement and damages trial, Fairchild stipulated to the fact that it had made, sold, and/or imported into the United States a large quantity of chips that incorporated Power Integrations' patented technology, including 2.73 million chips that were manufactured in Maine. *Id.* at 49a; JA 5465, 5714. This direct patent infringement—which occurred inside the United States—was a clear violation of 35 U.S.C. § 271(a). At trial, Power Integrations established that this direct infringement was necessary in order for

Fairchild to meet Samsung's requirements for chips. *See* JA 5464, 5700-01, 5713-14. Fairchild sold the chips manufactured in Maine to Samsung and its subcontractors overseas—in Korea—for a total revenue of \$547,724, and Fairchild also made direct imports and sales of infringing chips to U.S.-based customers for a total revenue of \$218,000. JA 5465, 5714; Trial Tr. vol. 4 at 981, Oct. 5, 2006, ECF No. 419.

Power Integrations also presented significant evidence that Fairchild had induced *Samsung* to infringe Power Integrations' patents by selling to Samsung chips that it knew Samsung would later incorporate into chargers that it would import into the United States. App. 72a. Such evidence included testimony that (1) Fairchild's chips are used in Samsung chargers; (2) the chargers and phones are "kitted together in an attractive box and sent around the world for consumer consumption," including in the United States; (3) at least 18% of Samsung cellphones are sold in the United States, JA 5501-03, 5444-45; and (4) Fairchild indemnified Samsung for any infringing U.S. sales. *See, e.g.*, JA 5426, 5442-45, 5459, 5501-03, 5444-45, 5614-17, 5678-79, 5704-11. Indeed, in discussing where Fairchild's chips go when they are incorporated in chargers for Samsung and other consumer electronic devices, Fairchild's own witness admitted that "it's *not* that we don't know these products are sold in the U.S., we just don't know exactly *how many*." JA 5705-06 (emphases added). This induced patent infringement—which culminated in the sale and use of the patented technology inside the United States—violated § 271(b).

As to damages, Power Integrations established that, just as in the period before Fairchild's

infringement, Samsung would have purchased *all* of its controller chips from Power Integrations—and *none* from Fairchild—but for Fairchild’s U.S.-based patent infringement in violation of § 271(a) and (b). JA 5010-11, 5303-04, 5429-30, 5500-01. Its evidence included testimony from an independent industry analyst who stated that Samsung would not “knowingly purchase parts that infringe U.S. intellectual property.” JA 5442-44. Moreover, Power Integrations’ CEO testified that “manufacturers [such as Samsung] don’t want to make different products for different countries.” JA 4992, 5010-11. And a former senior Fairchild employee testified that the company’s “intention was always to have products for [the] global marketplace”—which, of course, includes the United States. JA 5455-56, 5459.

The evidence showed that Samsung purchased Fairchild’s chips because it believed that such chips could legally be incorporated in phone chargers sold or used in the United States. In other words, Fairchild’s capture of 40% of Power Integrations’ worldwide chip sales to Samsung was the direct and foreseeable result of Fairchild’s willingness to infringe Power Integrations’ patents—inside the United States—in violation of § 271. Power Integrations also presented testimony that if Fairchild had *not* infringed the patents, Power Integrations would have continued to supply Samsung with 100% of the controller chips for its chargers and would not have reduced its prices on those sales to respond to the infringing competition. JA 5439, 5442-44, 5500-01.

After hearing the evidence, the jury sided with Power Integrations on both infringement and liability. It awarded the company \$34 million in damages, which incorporated the profits Power Integrations would

have made on worldwide sales to Samsung had Fairchild not violated § 271 by infringing its patents inside the United States. The jury thereby adopted the argument Power Integrations had advanced at trial—that its loss of 40% of Samsung’s business worldwide would never have occurred but-for Fairchild’s U.S.-based infringement of its patents. The award also accepted Power Integrations’ argument that Fairchild’s infringement eroded the prices for the chips it continued to sell to Samsung, and it incorporated a lump-sum reasonable royalty payment based on Fairchild’s other infringing sales.

3. *Post-Trial Motions.* Unhappy with the jury’s verdict, Fairchild filed various post-trial motions, including a request for remittitur or, in the alternative, for a new trial on damages. Among other arguments, it asserted that the jury’s \$34-million damages award was legally flawed because it awarded Power Integrations damages based on sales of controller chips that it would have made to Samsung outside the United States, arguing that the “presumption against extraterritoriality” precluded such damages.

The district court agreed with Fairchild and held that Power Integrations’ was not entitled to damages for lost foreign sales. App. 70a-71a. It remitted the damages verdict to \$6 million after determining that the trial evidence showed that only 18% of the chips Fairchild sold worldwide were ultimately imported into the United States. *Id.* at 72a-73a. In so holding, the court pointed to record evidence “demonstrat[ing] that companies like Samsung import Fairchild’s accused devices into the United States, and that Fairchild was aware of such importation,” explaining that such



evidence showed that Fairchild had induced infringement in violation of § 271(b). *Id.* at 71a-72a.

The district court also granted Fairchild’s motion for a new trial on whether its infringement had been “willful” in light of intervening Federal Circuit precedent. After a bench trial, however, the court concluded that the infringement *was* willful, explicitly found that Fairchild had engaged in “industrial stalking” of Power Integrations, JA 111, and subsequently doubled the remitted damages award of \$6 million to \$12 million. App. 4a.

3. *Federal Circuit Proceedings.* Fairchild appealed the remitted damages award and challenged the jury’s finding that it had engaged in induced infringement. Power Integrations cross-appealed, seeking reinstatement of the jury’s \$34-million verdict and arguing that the jury was entitled to award damages for all of the harm Power Integrations suffered as a result of U.S.-based infringement—including the lost worldwide sales that such infringement enabled.

The Federal Circuit affirmed the jury’s finding that Fairchild had committed direct patent infringement in the United States, and it castigated Fairchild for “foster[ing] a corporate culture of copying” and for “reverse engineering” Power Integrations’ technology. App. 33a. Nonetheless, the court set aside the jury’s damages verdict and held that Power Integrations could not obtain any damages for its own lost foreign sales—as a matter of law—even if those lost sales were the direct and foreseeable consequence of patent infringement that violated § 271 and occurred in the United States. The court grounded that holding on the “presumption against extraterritoriality,” *i.e.*, the

general rule that “U.S. patent law does not operate extraterritorially to prohibit infringement abroad,” *id.* at 37a-38a, and then ruled that damages for lost foreign sales are essentially *never* an appropriate remedy for infringement inside the United States, *id.* at 38a-39a.

The court of appeals stated: “Power Integrations is incorrect that, having established one or more acts of 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. Applying this general rule, the court held that the jury’s damages verdict based on lost foreign sales was invalid as a matter of law. *Id.* at 39a-40a. After that legal ruling, the court further rejected Power Integrations’ expert’s calculation of the amount of lost foreign sales as unsound. *Id.* at 40a-45a. In doing so, the court rejected the expert’s assumption that *all* the relevant sales of Samsung’s mobile phones included chargers containing infringing controller chips. *Id.* at 44a. But the court implicitly recognized that at least *some* of Samsung’s chargers incorporated such chips (as the evidence showed). *Id.*

The Federal Circuit then reversed the district court’s remitted damages award of \$6 million, holding that the court had improperly relied on Power Integrations’ expert to conclude that 18% of the chips Fairchild had sold to Samsung around the world were ultimately imported into the United States. *Id.* at 47a-48a. In doing so, it found that there was insufficient evidence that the imports of Samsung products included [power] chargers” or “that any included chargers incorporated Fairchild’s infringing circuits.” *Id.* at 48a-49a. The court thereby essentially concluded

that it was unreasonable—as a matter of law—for the jury to infer that *any* of Fairchild’s infringing chips made its way back to the United States. *Id.*

The court of appeals recognized, however, that Fairchild had itself stipulated to directly infringing Power Integrations’ patents by making, selling, and importing chips in the United States. *Id.* at 49a n.6. It remanded the case for a new trial to determine the proper measure of damages for this direct infringement, noting that Fairchild’s liability should “be commensurate in scope with the accused domestic activity to which Fairchild stipulated.” *Id.* at 51a.<sup>3</sup>

The court of appeals denied rehearing. App. 74a-75a.

### REASONS FOR GRANTING THE WRIT

The Federal Circuit’s decision establishes a broad-based rule of patent damages that bars victims of U.S.-based patent infringement from recovering full compensation for their harms any time the domestic infringement results in harm based on lost foreign sales. The Federal Circuit rule prohibits the victims of intentional copying and willful infringement from recovering damages relating to lost profits from foreign sales of their own patented technology. It does so even when, as here, the harm is direct and foreseeable—indeed, even when the whole purpose of the domestic infringement is to enable the infringing party to steal worldwide sales away from the victim.

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<sup>3</sup> In addition to the damages issue presented in this petition, the Federal Circuit also resolved various other issues not directly pertinent to the question presented by this petition.

The Federal Circuit's damages limit contradicts this Court's precedent, creates a conflict with analogous doctrines of copyright law, and undermines the core policies of the Patent Act. This Court should grant review to address this rule and ensure that any victim of patent infringement that occurs inside the United States can obtain full compensation for any harm foreseeably resulting from that infringement, including when the harm consists of lost foreign sales, just as Congress intended when it enacted § 284.

**I. THE FEDERAL CIRCUIT RULE DIRECTLY  
CONFLICTS WITH THIS COURT'S  
PRECEDENTS AND UNDERMINES A CORE  
PRINCIPLE OF PATENT LAW**

The Federal Circuit's decision contravenes this Court's precedents in two fundamental respects. First, the decision directly undermines the Court's repeated holdings under the Patent Act that victims of infringement are entitled to full compensation for their harms. Those holdings are unequivocal, and they brook no exception for harm suffered as a result of lost profits that victims would have earned overseas. Second, the decision conflicts with this Court's cases applying the statutory presumption against extraterritoriality. Whereas those cases preclude liability for *conduct* committed abroad, the decision here absolves wrongdoers from having to pay *damages* for statutory violations taking place inside the United States. The Federal Circuit's clear departure from the Court's precedent—on important issues of federal law—warrants this Court's review. *See* Sup. Ct. R. 10.

**A. The Decision Directly Contravenes The Full-Compensation Rule Of Patent Damages Recognized By This Court**

1. The Federal Circuit’s rule barring damages for lost sales to companies outside the United States that are a direct and foreseeable consequence of patent infringement inside the United States violates this Court’s consistent holdings that § 284 entitles victims to full compensation for patent infringement. *See General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654-55 (1983); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964). Section 284 explicitly provides for “damages adequate to compensate [victims] for the infringement.” 35 U.S.C. § 284. In *Aro*, a four-justice plurality held that, in assessing damages under § 284, the proper question is “how much [the victim] would have made if [the infringer] had not infringed.” 377 U.S. at 507. The plurality similarly explained that patent damages “constitute ‘the difference between [the victim’s] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred.’” *Id.* (quoting *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552 (1886)).

The Court later unanimously applied this full-compensation rule in *General Motors*. There, the Court held that § 284 allows courts to award prejudgment interest from the date the patent infringement begins. 461 U.S. at 653-57. The Court rooted its holding in the “fundamental purpose” of § 284, which it said was “to afford the plaintiff *full compensation* for the infringement.” *Id.* at 654 (emphasis added); *see also id.* at 655 (describing the “overriding purpose” of § 284 as being to “afford[]

patent owners complete compensation”); *id.* at 656 (“complete justice” between the parties (citation omitted)). It noted that awarding prejudgment interest was “necessary to ensure that the patent owner is placed in as good a position as he would have been in had the infringer entered into a reasonable royalty agreement [instead of infringing the patent].” *Id.* at 655. The Court also explained that “[a] rule denying prejudgment interest” would “undercompensate[] the patent owner” and “grant a windfall to the infringer.” *Id.* at 655 n.10.

*Aro* and *General Motors* establish that § 284 allows a victim of patent infringement to recover damages for *all* of the harm it suffers as a result of the infringement. In *General Motors*, the Court further admonished that “[w]hen Congress wishe[s] to limit an element of recovery in a patent infringement action, it sa[ys] so *explicitly*.” *Id.* at 653 (emphasis added); *id.* (noting that Congress had expressly limited the recovery of attorney’s fees to “exceptional cases”). The Court has therefore rejected non-textual restrictions on the broad recovery authorized by § 284.

The Federal Circuit’s rule directly violates this Court’s full-compensation principle by categorically rejecting any lost profits that would have been obtained from foreign sales that would have been made had the U.S.-based infringement never occurred. App. 37a-39a. By barring recovery for such lost foreign sales, the Federal Circuit rule undeniably provides less than “full” and “complete” compensation for “any” harm suffered as a result of the infringement. See *General Motors*, 461 U.S. at 654-55. It fails to make up “the difference between [the victim’s] pecuniary condition after the infringement, and what his

condition would have been if the infringement had not occurred.” See *Aro*, 377 U.S. at 507 (citation omitted). And the Federal Circuit rule that the full-compensation principle stops at the border, even for damages that are the direct and foreseeable result of domestic infringement, finds no support in the statute.

2. The decision below also violates settled precedent from this Court that effectuates the full-compensation rule by recognizing that lost foreign sales *can* constitute an element of damages for U.S.-based infringement. In *Goulds*, the Court held that a patent holder could obtain lost profits based on the defendant’s sale of devices outside the United States. *Manufacturing Co. v. Cowing*, 105 U.S. (15 Otto) 253, 256 (1882) (*Goulds*); see also *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915) (discussing *Goulds*). There, the defendant had manufactured the devices in the United States, and sold them in Canada. *Goulds*, 105 U.S. at 256; *Dowagiac*, 235 U.S. at 650. The fact that the lost sales were consummated abroad did not bar the patentee from obtaining full compensation for its losses.

The Court reaffirmed the *Goulds* rule for lost foreign sales in *Dowagiac*. In that case, the Court rejected a damages award based on foreign sales, but only because those damages did not result from any infringement attributable to the defendant inside the United States. *Dowagiac*, 235 U.S. at 650. Although the “infringing articles” at issue “were made in the United States, they *were not made by the defendants*.” *Id.* (emphasis added). Although the decision in *Dowagiac* emphasized that “acts wholly done in a foreign country” do not constitute patent infringement, its discussion of *Goulds* made clear that damages for

lost foreign sales *would* be proper when such sales were the direct result of U.S.-based infringement. *Id.*

In *Goulds*, the infringing products were manufactured by the defendant in the United States. But that is true in this case as to the infringing chips that Fairchild manufactured in Maine and then sold to Samsung overseas. Moreover, the critical issue is whether there is infringing activity in the United States. Once a plaintiff has established infringing activity in the United States, then the full-compensation rule permits victims to recover damages that are a direct and foreseeable result of that infringement. It does not matter whether the infringement is direct, U.S.-based infringement under § 271(a) involving devices manufactured in the United States and sold abroad; or induced, U.S.-based infringement under § 271(b) involving devices manufactured abroad and imported into the United States. As long as the lost profits from lost foreign sales are a direct and foreseeable result of the infringement, they are recoverable under § 284.

The availability of damages for lost foreign sales caused by U.S.-based infringement was recognized by other courts, including in the Federal Circuit. For example, in *Railroad Dynamics, Inc. v. A. Stucki Co.*, the court affirmed a damages award including royalties for infringing products sold to foreign customers in foreign countries. 727 F.2d 1506, 1519 (Fed. Cir.), *cert. denied*, 469 U.S. 871 (1984). The court explained that such damages were proper because the products had been manufactured in the United States, noting that “[w]hether [the products] were sold in the U.S. or elsewhere [wa]s therefore irrelevant” to the damages calculation. *Id.* Other decisions confirmed that so long



as the foreign sales are lost as the direct result of infringement made illegal by § 271, recovery is appropriate under § 284.<sup>4</sup> Leading commentators have recognized the same common-sense rule.<sup>5</sup>

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<sup>4</sup> See, e.g., *Datascope Corp. v. SMEC, Inc.*, 879 F.2d 820, 824-27 (Fed. Cir. 1989) (authorizing damages based on foreign sales), *cert. denied*, 493 U.S. 1024 (1990); *Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 1546 (Fed. Cir. 1987) (recognizing that damages for lost foreign sales are appropriate when infringing product was manufactured inside United States); *Schneider (Eur.) AG v. Scimed Life Sys., Inc.*, Nos. 94-1317, -1410, -1456, 1995 U.S. App. LEXIS 9754, at \*8-9 (Fed. Cir. Apr. 26, 1995) (relying on *Datascope* to affirm award of lost profits based on foreign sales); *Scimed Life Sys., Inc. v. Johnson & Johnson*, 225 F. Supp. 2d 422, 433 (D. Del. 2002) (noting jury verdict awarding damages based on foreign sales), *aff'd*, 87 F. App'x 729 (Fed. Cir. 2004); *Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.*, 561 F. Supp. 512, 526-30 (E.D. La. 1981) (awarding lost profits based on foreign sales), *aff'd*, 708 F.2d 151 (5th Cir. 1983), *transferred to* 761 F.2d 649 (Fed. Cir.), *cert. denied*, 474 U.S. 902 (1985); *Broadview Chem. Corp. v. Loctite Corp.*, 311 F. Supp. 447, 452-53 (D. Conn. 1970) (same).

<sup>5</sup> See, e.g., Robert A. Matthews, *Diverted Sales from Patentee to Infringer—Diverted foreign sales*, 4 Annotated Patent Digest 30:44 (2013) (“[L]ost profits based on an accused infringer’s sales of a patented product in a foreign country may be properly recoverable as an item of lost profits if the patentee can show ‘a reasonable probability that but for the infringement,’ it would have made the foreign sales that were made by the accused infringer.”); Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 Va. J. Int’l L. 505, 523 (1997) (discussing case law and explaining that “so long as the defendant infringes the patent in the United States . . . , then the recoverable damages may include the profits received by the defendant from foreign sales of the invention”).

The Federal Circuit’s broad-based rule barring damages for lost foreign sales stemming from U.S.-based patent infringement conflicts with these cases and upsets this important principle of law.

### **B. The Decision Fundamentally Misconceives The Presumption Against Extraterritoriality**

The reason that the Federal Circuit gave for departing from this Court’s full-compensation rule was the “presumption against extraterritoriality.” App. 38a. But invoking that presumption as a means for cutting off *damages* directly and foreseeably caused by U.S.-based infringement conflicts both with the decisions of this Court and those of other circuits.

1. The presumption against extraterritoriality is a canon of statutory construction that this Court “typically” invokes when deciding “whether an Act of Congress *regulating conduct* applies abroad.” *Kiobel v. Royal Dutch Petroleum Co.*, 133 S. Ct. 1659, 1664 (2013) (emphasis added). Recognizing that “Congress ordinarily legislates with respect to domestic, not foreign matters,” the Court has held that U.S. statutes will not regulate extraterritorial conduct in the absence of a clear indication to the contrary. *Morrison v. National Australian Bank Ltd.*, 130 S. Ct. 2869, 2877 (2010). The Court has also applied the presumption to the Alien Tort Statute, a jurisdictional statute, when holding that U.S. courts lack power to address claims that “*conduct* within the territory of another sovereign” violates customary international law. *Kiobel*, 133 S. Ct. at 1664-69 (emphasis added).<sup>6</sup>

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<sup>6</sup> The Court has applied the presumption to laws governing conduct on numerous occasions. *See, e.g., Morrison*, 130 S. Ct.

The Court has never used the presumption to limit the damages that may be recovered for illegal conduct that occurs on U.S. soil. Indeed, members of the Court have emphasized that “the presumption against extraterritoriality does not apply ‘when the conduct [at issue] occurs within the United States.’” *Morrison*, 130 S. Ct. at 2893 (Stevens, J., joined by Ginsburg, J., concurring in the judgment). To the extent that a statutory violation occurs inside the country, therefore, the presumption places no independent restriction on the damages recoverable for that violation.

Congress’s reaction to this Court’s decisions in *Aramco* and *Deepsouth* confirms that the presumption applies only to statutory provisions regulating conduct—and not to statutory damages provisions. In those cases, the Court applied the presumption and held that the substantive liability created by Title VII and the Patent Act (respectively) did not apply to conduct occurring abroad. *Aramco*, 499 U.S. at 248-53; *Deepsouth*, 406 U.S. at 527. Congress disagreed with the decisions, and it amended the relevant statutes to explicitly cover the extraterritorial conduct. Notably,

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2877-83 (applying presumption to place geographic limit on conduct giving rise to liability for securities fraud); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-59 (2007) (same, for liability under Patent Act); *Sale v. Haitian Ctrs. Council, Inc.*, 509 U.S. 155, 173-74 (1993) (limiting application of Immigration and Nationality Act to conduct within United States); *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248-53 (1991) (*Aramco*) (limiting conduct giving rise to liability under Title VII); *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) (same, for liability under Patent Act); *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285-86 (1949) (same, for liability under federal labor law).

however, Congress did *not* amend the damages provisions in those statutes, which make no distinction between domestic and extraterritorial harms. Rather, Congress knew that the damages available for a statutory violation would be limited only by the scope of the underlying restriction on conduct—and not by the presumption against extraterritoriality.

2. Until now, the federal courts of appeals have followed this same approach. Just like this Court, they have used the presumption to place geographic limits on the liability that federal statutes impose for committing certain conduct. Moreover, they have also recognized that the presumption only kicks in when the illegal conduct at issue takes place abroad.

At least four circuits have expressly declared that the presumption does not apply when the conduct giving rise to liability takes place inside the United States. For example, in *Environmental Defense Fund, Inc. v. Massey*, the District of Columbia Circuit declared that “the presumption against extraterritoriality is not applicable when the conduct regulated by the government occurs within the United States.” 986 F.2d 528, 531 (D.C. Cir. 1993). The court also noted that, “[b]y definition, an extraterritorial application of a statute involves the regulation of *conduct* beyond U.S. borders.” *Id.* (emphasis added).

Similarly, the Fourth Circuit has held that “[t]he presumption has no bearing ‘when the conduct which Congress seeks to regulate occurs largely within the United States’—that is, when regulated conduct is domestic rather than extraterritorial.” *French v. Liebmann*, 440 F.3d 145, 149 (4th Cir.) (citation omitted), *cert. denied*, 549 U.S. 815 (2006). The Ninth Circuit has held that “a statute that does not regulate

conduct occurring abroad does not implicate the presumption against extraterritoriality.” *Blazevska v. Raytheon Aircraft Co.*, 522 F.3d 948, 952-55 (9th Cir. 2008). And the Seventh Circuit has admonished that “[r]eliance on [the] presumption [against extraterritoriality] is misplaced . . . when the conduct under scrutiny has not occurred wholly outside the United States, or when conduct outside the United States could otherwise affect domestic conditions.” *Tamari v. Bache & Co. (Lebanon) S.A.L.*, 730 F.2d 1103, 1107 n.11 (7th Cir.), *cert. denied*, 469 U.S. 871 (1984).

The Federal Circuit’s decision is at odds with this Court’s practice and the approach taken by its sister courts of appeals. The regulated conduct at issue here was infringement that took place *inside the United States*, which the jury found violated 35 U.S.C. § 271(a) and (b). Nonetheless, the court applied the presumption against extraterritoriality to limit the damages available, under § 284, for this U.S.-based infringement. In doing so, it violated the established rule that the presumption “is not applicable when the conduct regulated by the government”—here, the patent infringement in violation of § 271—“occurs within the United States.” *Environmental Def. Fund*, 986 F.2d at 531-32. The court’s departure from this settled approach is reason alone to grant review.

Nor is it possible to invoke the presumption by arguing that the “regulated conduct” here is Fairchild’s own foreign sales—and not its direct and induced infringement of Power Integrations’ patents inside the United States. Power Integrations has not alleged—and the jury did not find—that Fairchild’s foreign sales constituted patent infringement in violation of § 271.

Rather, Power Integrations argued—and the jury found—that Fairchild committed patent infringement in violation of § 271(a) and (b) based on acts *within* the United States. The lost foreign sales are simply an element of damages stemming from that U.S.-based infringement. *See, e.g.*, Power Integrations’ COA Br. at 47-48; Power Integrations’ COA Reply Br. 11-15.

The lost foreign sales served as a measure of the harm that Power Integrations suffered as a result of the U.S.-based infringement, which (among other harms) caused Power Integrations to lose 40% of Samsung’s business. Fairchild’s foreign sales are relevant to the damages calculation in this case because (1) they provide a reasonable estimate of Power Integrations’ own lost profits, and (2) they inform the proper calculation of the reasonable royalty Fairchild would have had to pay to use Power Integrations’ patents. The presumption against extraterritoriality has no bearing on whether Fairchild’s foreign sales are a proper basis for estimating the harm suffered by Power Integrations.

3. The Federal Circuit’s holding that the presumption against extraterritoriality limits the full-compensation rule established by § 284 is also flawed for two additional reasons. First, in reaching that ruling, the Federal Circuit erroneously invoked the common-law doctrine of superseding causation when it held—as a matter of law—that the “entirely extraterritorial . . . 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.” App. 39a. That holding contravenes this Court’s decisions in *Exxon Co., U.S.A. v. Sofec, Inc.*, 517 U.S.

830 (1996), and *Staub v. Proctor Hosp.*, 131 S. Ct. 1186 (2011). These cases make clear that an intervening cause is superseding—and therefore cuts off the chain of causation—*only* if that later cause was (1) “of independent origin” from the earlier misconduct and (2) “not foreseeable.” *Exxon*, 517 U.S. at 837-38; *Staub*, 131 S. Ct. at 1192.

The Federal Circuit’s holding erroneously casts aside both of these requirements. It jettisons the “foreseeability” requirement by arbitrarily treating any foreign sale as the only proximate cause of the victim’s harm simply because it takes place outside the United States. *See* App. 39a (rejecting Power Integrations’ argument that it should be compensated for “foreign sales [that] were the direct, foreseeable result of Fairchild’s domestic infringement”). Especially in today’s global marketplace, there is no reason why an injury—including a lost sale—is any less foreseeable simply because it happens abroad.

Equally arbitrary is the Federal Circuit’s assertion that extraterritorial sales are inherently “independent” of domestic patent infringement. *Id.* That assertion is based on a fundamental misconception of how markets—including global markets—work. There is no reason to assume that harm outside the United States is always independent of infringement inside the country. That is especially true when the clear purpose of the domestic infringement is to facilitate the foreign sales, in the context of two firms competing for the same foreign buyer. Here, Fairchild was directly responsible for both the U.S.-based infringement *and* the lost foreign sales, and the jury concluded that the former was the direct cause of the latter.

Second, the Federal Circuit’s extraterritoriality analysis also fails because it ignores this Court’s teaching that the presumption against extraterritoriality does not apply when there is a “clear indication” from Congress that a provision *is* intended to have extraterritorial effect. *Morrison*, 130 S. Ct. at 2878. Here, § 284 is the Patent Act’s generic damages provision that authorizes recovery for any type of patent infringement that violates the various subsections of § 271. But § 271(f) unambiguously creates liability for a form of extraterritorial patent infringement. If the presumption against extraterritoriality applies to § 284, then there is no way for any victim of a § 271(f) violation to obtain recovery. That is an absurd result. The only reasonable interpretation of the statutory scheme is that § 284 is *not* subject to the presumption, and that it allows full recovery for any conduct that violates § 271.

The Federal Circuit expressly acknowledged the contradiction between its geographical restriction on damages and the “principle of full compensation” embraced in this Court’s case law. App. 38a. But it improperly resolved that conflict in favor of the “presumption against extraterritoriality” when it comes to regulating *conduct*—cutting off damages for injuries that are directly and foreseeably caused by U.S.-based infringement, just because they are felt abroad. That ruling also warrants review.

## II. THE DECISION BELOW CONFLICTS WITH THE RULE DEVELOPED BY COPYRIGHT LAW FOR ANALOGOUS CIRCUMSTANCES

The Federal Circuit’s decision prohibiting damages for domestic patent infringement based on lost foreign



sales also conflicts with the rule developed by copyright law to deal with analogous circumstances. As several circuits have recognized, the “predicate act doctrine” allows for the recovery of lost-profits from foreign sales when those sales were made possible by a direct act of copyright infringement inside the United States. The Federal Circuit’s decision categorically barring recovery for lost foreign sales resulting from U.S.-based patent infringement needlessly brings patent law into conflict with copyright law.

This Court has explained that patent and copyright law have a “historic kinship,” and that the same principles generally apply in both contexts. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984); *id.* at 440-41 (relying on staple-article doctrine of patent law as a model for copyright’s “safe-harbor rule”); *see also Metro-Goldwyn-Mayer Studios, Inc., v. Grokster, Ltd.*, 545 U.S. 913, 936-37 (2005) (applying patent law’s “inducement rule” to copyright). The Federal Circuit has itself emphasized that “the Patent Act and the Copyright Act should be interpreted consistently,” and that the rules governing the extraterritorial reach of the former should “apply equally” to the latter. *Litecubes, LLC v. Northern Light Prods., Inc.*, 523 F.3d 1353, 1367 (Fed. Cir.), *cert. denied*, 555 U.S. 1013 (2008). The Federal Circuit decision below contravenes these settled principles and upsets the “historic kinship” between copyright and patent law on an important remedial question.

The Copyright Act—like the Patent Act—has a broadly worded damages provision. 17 U.S.C. § 504(b) (providing that “copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement”). And neither the Copyright Act nor

Patent Act imposes liability for the mere act of selling an infringing work or device abroad. But copyright holders *can* recover damages for such foreign sales when they result from predicate acts of copyright infringement inside the United States. *See, e.g., Los Angeles News Serv. v. Reuters Television Int’l*, 149 F.3d 987, 990-93 (9th Cir. 1998) (noting that a copyright plaintiff “is entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement”). This rule—known as the “predicate act doctrine”—reflects the fact that domestic infringement can cause extraterritorially-based harm, and that fully compensating victims for acts of domestic infringement sometimes requires taking into account foreign sales.

The predicate act doctrine of copyright law allowing for such damages has been widely embraced by the courts of appeals. The Second, Fourth, and Ninth Circuits have all expressly adopted the doctrine, and district courts in other circuits have endorsed the doctrine as well.<sup>7</sup> No circuit has rejected the doctrine.

The Ninth Circuit’s *L.A. News* decision illustrates how the predicate act doctrine works in practice.

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<sup>7</sup> *See, e.g., Tire Eng’g & Distrib., LLC v. Shandong Linglong Rubber Co.*, 682 F.3d 292, 307-09 (4th Cir. 2012), *cert. denied*, 133 S. Ct. 846 (2013); *L.A. News*, 149 F.3d at 990-92; *Update Art, Inc. v. Modiin Publ’g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988); *StockFood Am., Inc. v. Pearson Educ., Inc.*, No. 2:12-cv-124-JAW, 2012 WL 5986791, at \*7 (D. Me. Nov. 29, 2012); *Rundquist v. Vapiano SE*, 798 F. Supp. 2d 102, 123-24 (D.D.C. 2011); *Stolle Mach. Co. v. Ram Precision Indus.*, No. 3:10-cv-155, 2011 U.S. Dist. LEXIS 144662, at \*35-36 (S.D. Ohio Dec. 15, 2011); *Peter Rosenbaum Photography Corp. v. Otto Doosan Mail Order, Ltd.*, No. 04 C 0767, 2005 U.S. Dist. LEXIS 21528, at \*10-13 (N.D. Ill. Sept. 26, 2005).

There, the defendant committed acts of copyright infringement—inside the United States—when it unlawfully reproduced live video of the 1992 Los Angeles riots in the wake of the Rodney King verdict. *Id.* at 990. The defendant then transmitted these U.S.-produced copies of the video abroad, where they were then widely copied and distributed. *Id.* The court acknowledged that the foreign distribution of the copies could not itself give rise to liability under the Copyright Act, which does not apply extraterritorially. *Id.* at 990-92. But the court *did* allow the copyright holder to obtain damages for the worldwide distribution, on the ground that this distribution was the direct result of the U.S.-based acts of infringement. *Id.* As the court explained, such recovery “was allowed because the *predicate act* of infringement occurring within the United States enabled further reproduction abroad.” *Id.* at 992 (emphasis added).

The Federal Circuit’s damages rule for patent law conflicts with the predicate act doctrine. The court refused to award full damages for U.S.-based patent infringement simply because some of the harm caused by that predicate act of infringement was felt abroad. App. 39a. Under copyright law, the outcome would have been different: All of the damages flowing from the domestic infringement would have been compensable, including harm based on foreign sales. This Court should grant review to ensure that—in light of the “historic kinship” between the Patent Act and Copyright Act—the same extraterritoriality rules apply to both statutes. *See Sony*, 464 U.S. at 439.

### III. THE QUESTION PRESENTED IS EXCEPTIONALLY IMPORTANT AND MERITS THIS COURT'S REVIEW

In today's global marketplace, the Federal Circuit's decision will significantly reduce the level of protection that American patent holders and businesses have against infringement that occurs in the United States. The court's interpretation of § 284 to bar—in broad-based terms—compensation for lost worldwide sales when calculating damages for such infringement will undercompensate U.S. victims and incentivize additional U.S.-based infringement. The Federal Circuit's decision controls nationwide, and there is no possibility of a circuit split emerging. *See* 28 U.S.C. § 1295(a)(1) (granting Federal Circuit exclusive jurisdiction over appeals in patent cases). This Court's intervention is therefore urgently required.

A confluence of factors makes the question presented undeniably important. First, intangible assets—including patents, copyrights, and trademarks—now constitute roughly 80% of the value of American corporations (up from only 20% three decades ago). Timothy B. Dyk, *Does the Supreme Court Still Matter?*, 57 Am. U. L. Rev. 763, 766 (2008). And second, as the economic significance of intellectual property has grown, so too has the importance of global trade. Today, 74% of global GDP and demand are located outside the United States.<sup>8</sup> Merchandise

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<sup>8</sup> Kevin A. Hassett & Robert J. Shapiro, *What Ideas Are Worth: The Value of Intellectual Capital and Intangible Assets In The American Economy* 21, available at [http://www.sonecon.com/docs/studies/Value\\_of\\_Intellectual\\_Capital\\_in\\_American\\_Economy.pdf](http://www.sonecon.com/docs/studies/Value_of_Intellectual_Capital_in_American_Economy.pdf) (last visited Aug. 20, 2013).

exports of intellectual-property-intensive industries amounted to \$775 billion in 2010—an increase of over 50% from the prior decade, accounting for over 60% of total U.S. merchandise exports.<sup>9</sup> And U.S. companies that manufacture and sell IP-intensive products for sale abroad directly support the domestic economy by employing many high-skilled workers in high-paying jobs here in the United States.<sup>10</sup>

Any rule barring victims of U.S.-based patent infringement from obtaining damages for lost sales abroad—even when those lost sales are the direct, foreseeable, and *intended* consequence of infringement here in the United States—would have far-reaching implications. American companies that design or manufacture components using patented technology in the United States will often sell these components to manufacturers located abroad (often in Asia), which will in turn integrate those components in uniform products sold around the world. Denying recovery for the lost profits from foreign sales of those products—when those lost sales are the direct and foreseeable result of U.S.-based patent infringement—will prevent companies from being made whole for U.S.-based patent infringement. It will also create powerful incentives for companies to infringe U.S. patents—inside the United States—whenever such infringement

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<sup>9</sup> Economics and Statistics Administration and U.S. Patent and Trademark Office, U.S. Dep’t of Commerce, *Intellectual Property and the U.S. Economy: Industries in Focus* 53 (Mar. 2012), available at <http://www.esa.doc.gov/sites/default/files/reports/documents/ipandtheuseconomyindustriesinfocus.pdf>.

<sup>10</sup> *Id.* at 54.

will help those companies capture global market share for products using the patented technology.

The decision below will also undermine the core policies of U.S. patent law. As evidenced by § 284 of the Patent Act and this Court’s full-compensation rule, a key policy of the Act is that victims be made whole for patent infringement. By undercompensating victims for U.S.-based infringement, it will discourage the innovation that is the lifeblood of our economy. It will also harm patent holders, who will have worked long and hard to develop new technologies and reasonably expect that U.S. law will prevent the fruits of their labor from being stolen out from under them.

This case highlights these very concerns. As the jury found, Fairchild stole Power Integrations’ patented controller-chip technology and committed both direct and induced infringement—inside the United States—in violation of § 271(a) and (b). The Federal Circuit itself denounced Fairchild’s “reverse engineering” of the technology, blaming what it called Fairchild’s “corporate culture of copying.” App. 33a. Fairchild exploited U.S.-based infringement to secure and maintain a large share of Samsung’s worldwide business—directly siphoning business away from Power Integrations. Samsung would never have purchased *any* of Fairchild’s chips, anywhere in the world, had it not been for Fairchild’s violations of § 271(a) and (b). But for that U.S.-based patent infringement, Power Integrations would have continued to supply all of Samsung’s chips. The Federal Circuit’s decision essentially validates Fairchild’s scheme of reverse-engineering and copying Power Integrations’ patented technology, and then going after Power Integrations’ worldwide business.

A decision in favor of Power Integrations on the question presented will vindicate the purposes of the Patent Act by allowing the company to obtain full compensation for Fairchild's acts of U.S.-based patent infringement in violation of § 271. With respect to the direct infringement under § 271(a), such a decision will entitle Power Integrations to recover damages based on sales it would have made to Samsung—overseas—had it not been for Fairchild's manufacture of infringing products in Maine. As noted, Fairchild manufactured infringing chips in Maine and sold such chips to Samsung contractors in Korea. *Supra* at 7-8. The Federal Circuit's damages rule would prevent Power Integrations from recovering lost profits from lost sales to Samsung—even though the infringement occurred in the United States—because the sales were to Samsung in Korea. It also would prevent Power Integrations from arguing that but for the direct infringement, Power Integrations would have continued to supply all of Samsung's chips.

With respect to the induced infringement under § 271(b), a decision by this Court in favor of Power Integrations will allow it to establish that—as the jury found—it would have retained all of Samsung's business had Fairchild not led Samsung to believe that it could lawfully sell products containing Fairchild's infringing technology inside the United States. The Federal Circuit barred these damages as a matter of law, even though the induced infringement occurred in the United States when the chips were imported back into the country. *See supra* at 3 n.2 & 7-10.

The Federal Circuit also went astray when it held that the jury's induced-infringement verdict was not supported by the evidence. That ruling may have been

tainted by the court's erroneous antecedent conclusion that—as a matter of law—damages were not available at all for lost sales to Samsung in Korea. But in any event, the Federal Circuit's evidentiary ruling was erroneous. As the district court correctly recognized, there was more than enough evidence for the jury to conclude that at least *some* of Fairchild's infringing chips were incorporated into Samsung cell phone chargers imported into the United States. App. 72a (citing evidence); *see also supra* at 8-10. As Fairchild's own witness testified, the question was not *whether* the chips were imported into the United States, but "*how many*" were. JA 5706 (emphasis added). The Federal Circuit erred in substituting its own judgment for the jury's and in failing to view the evidence most favorably to Power Integrations and give it the benefit of all reasonable inferences from the evidence. *See Reeves v. Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 150-51 (2000); *see generally* 9B Charles Alan Wright & Arthur R. Miller, *Federal Practice and Procedure: Civil* § 2524 (3d ed. 2008) (citing cases).

If this Court grants review of the question presented, Power Integrations will ask the Court to reverse the judgment below and remand the case for the district court to determine whether to reinstate the full jury verdict or to grant a new trial on the issue of damages for Fairchild's distinct violations of 35 U.S.C. § 271(a) and (b). But in any event, the need to calculate damages on the stipulated finding of direct infringement for the chips that were manufactured in Maine provides a sufficient basis to grant the petition and decide the question presented.

\* \* \* \* \*



The Federal Circuit erred in setting aside the jury award that fully and properly compensated Power Integrations for the injuries—including lost profits from lost foreign sales—that were a direct and foreseeable result of Fairchild’s U.S.-based infringement of Power Integrations’ patents. The Federal Circuit’s decision directly contravenes this Court’s precedents. It conflicts with the rule adopted by other circuits for lost foreign sales stemming from U.S.-based copyright infringement. It upsets core policies of U.S. patent law to the detriment of U.S. businesses. And it should be overturned by this Court.

**CONCLUSION**

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

Respectfully submitted,

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August 23, 2013

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UNITED STATES COURT OF APPEALS,  
FEDERAL CIRCUIT

POWER INTEGRATIONS, INC., Plaintiff–Cross  
Appellant,

v.

FAIRCHILD SEMICONDUCTOR  
INTERNATIONAL, INC., and Fairchild  
Semiconductor Corporation, Defendants–Appellants.

Nos. 2011–1218, 2011–1238.

March 26, 2013.

711 F.3d 1348

Rehearing and Rehearing En Banc  
Denied May 28, 2013.

Before LOURIE, O'MALLEY, REYNA, Circuit  
Judges.

REYNA, Chief Judge.

This is an appeal from a final judgment of the United States District Court for the District of Delaware finding that Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation (collectively, “Fairchild”) willfully infringed several valid patents belonging to Power Integrations, Inc. (“Power Integrations”). After two jury trials, a bench trial, and post-trial proceedings including a motion for remittitur, the district court entered final judgment in favor of Power Integrations and awarded compensatory and enhanced damages in the amount of \$12,866,647.16. Fairchild on appeal asserts that the district court erred in its claim construction, in denying Fairchild’s motion for

judgment as a matter of law that one of Power Integrations' claimed inventions would have been obvious, in formulating its remitted damages award, and in finding Fairchild's infringement willful. On cross-appeal, Power Integrations argues that it was error for the district court to grant Fairchild's motion for remittitur, thereby reducing the jury's original damages award by eighty-two percent. Power Integrations asserts further error in the district court's exclusion of evidence related to price erosion prior to the date Fairchild was notified of its infringement, and in the district court's denial of Power Integrations' motion for a post-verdict accounting.

For the reasons set out below, we affirm the district court's finding of non-obviousness; we affirm-in-part and reverse-in-part on claim construction; we vacate the district court's order of remittitur and its attendant damages award; we find error in the district court's exclusion of evidence related to pre-notice price erosion and in its refusal to grant Power Integrations a postverdict accounting; we vacate the district court's finding of willful infringement; and we remand to the district court for further proceedings consistent with this opinion.

#### PROCEDURAL POSTURE

In 2004, Power Integrations sued Fairchild for infringement of four U.S. patents related to power supplies for electronic devices: U.S. Patent Nos. 6,249,876 (filed Nov. 16, 1998) (the '876 Patent); 6,107,851 (filed Aug. 20, 2000) (the '851 Patent); 6,229,366 (filed May 8, 2001) (the '366 Patent); and 4,811,075 (filed Apr. 24, 1987) (the '075 Patent). The patented technology is used in electric chargers for mobile phones.

In 2006, following its claim construction order, the district court bifurcated infringement and damages issues from those relating to validity of the asserted patents. The parties tried the issues before separate juries, and both juries rendered verdicts in favor of Power Integrations.

In the trial on infringement and damages, a first jury found that Fairchild had willfully infringed claim 1 of the '876 Patent, claims 1 and 4 of the '851 Patent, claims 9 and 14 of the '366 Patent, and claims 1 and 5 of the '075 Patent. The jury awarded Power Integrations lost profits due to lost sales (\$14,981,828), lost profits due to price erosion (\$1,952,893), future lost profits due to price erosion (\$13,018,379), and a lump sum reasonable royalty (\$4,028,681), for a total damages award of \$33,981,781.

In the trial on validity, a second jury found all asserted claims valid. After the validity trial, the district court denied Fairchild's motion for judgment as a matter of law ("JMOL") that the invention of Power Integrations' '876 Patent would have been obvious to one of ordinary skill in the art.

Fairchild subsequently moved for remittitur, JMOL, or in the alternative, a new trial on damages. Expressing concern over the testimony of Power Integrations' damages expert, the district court granted Fairchild's motion for remittitur and reduced the jury's combined damages award by 82%, resulting in a total award of \$6,116,720.58. On the same day, the district court issued a permanent injunction covering all claims of the asserted patents. The court also granted Fairchild's motion for a new trial on willfulness in view of our decision in *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed.Cir.2007) (en banc).

Fairchild filed an emergency request to stay the injunction pending appeal. In support of its request, Fairchild cited favorable actions taken by the U.S. Patent and Trademark Office (“Patent Office”) in the reexaminations of three Power Integrations patents.<sup>1</sup> The district court denied the stay request, Fairchild appealed to this court, and we dismissed for lack of jurisdiction. *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, 345 Fed.Appx. 563 (Fed.Cir.2009).

In June 2009, following a bench retrial of the issue of willfulness, the district court concluded in view of *Seagate* that Fairchild’s infringement was willful. The district judge who had been presiding over the case retired, and a new judge assumed the bench. In January 2011, the district court reaffirmed its willfulness finding, and pursuant to its authority under 35 U.S.C. § 284, the court granted Power Integrations’ motion for enhanced damages. The court awarded Power Integrations enhanced damages for willful infringement by doubling its remitted damages award of \$6,116,720.58, for a total award of \$12,233,441.16, not including interest.

These appeals followed. We have jurisdiction under 28 U.S.C. § 1295(a)(1).

#### STANDARDS OF REVIEW

We review issues of claim construction without deference. *See Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1456 (Fed.Cir.1998) (en banc). Whether a

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<sup>1</sup> We note that Fairchild filed the requests for reexamination with the Patent Office after conclusion of the first jury trial but before conclusion of the second.



claim limitation invokes means-plus-function claiming under 35 U.S.C. § 112, ¶ 6 (now 35 U.S.C. § 112(f)), is an exercise in claim construction which we review without deference. *Inventio AG v. ThyssenKrupp Elevator Ams. Corp.*, 649 F.3d 1350, 1356 (Fed.Cir.2011).

We review a district court's denial of a JMOL motion under the law of the regional circuit, in this case the Third Circuit. *See Therasense, Inc. v. Becton, Dickinson & Co.*, 593 F.3d 1325, 1330 (Fed.Cir.2010) (en banc). The Third Circuit reviews a district court's denial of a JMOL motion without deference. *Rinehimer v. Cemcolift, Inc.*, 292 F.3d 375, 383 (3d Cir.2002).

Obviousness is a question of law based on underlying factual findings. *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 427, 127 S.Ct. 1727, 167 L.Ed.2d 705 (2007); *In re Cyclobenzaprine Hydrochloride Extended-Release Capsule Patent Litig.*, 676 F.3d 1063, 1068 (Fed.Cir.2012). We review a jury's ultimate conclusions on obviousness without deference, but review the jury's findings of fact for substantial evidence. *LNP Eng'g Plastics, Inc. v. Miller Waste Mills, Inc.*, 275 F.3d 1347, 1353 (Fed.Cir.2001). Objective evidence of secondary considerations of patentability are fact determinations which we review for substantial evidence. *Para-Ordnance Mfg., Inc. v. SGS Importers Int'l, Inc.*, 73 F.3d 1085, 1088 (Fed.Cir.1995).

We review admissibility of evidence under the law of the regional circuit. *Ethicon, Inc. v. U.S. Surgical Corp.*, 135 F.3d 1456, 1465 (Fed.Cir.1998). The Third Circuit reviews a district court's ruling on admissibility of expert testimony for abuse of discretion. *In re Paoli R.R. Yard PCB Litig.*, 35 F.3d 717, 749 (3d Cir.1994).

To the extent the district court's ruling turns on an interpretation of a Federal Rule of Evidence, our review is plenary. *DeLuca v. Merrell Dow Pharm.*, 911 F.2d 941, 944 (3d Cir.1990).

We review a district court's decision to set aside a jury's damages award by applying the standard of review applicable in the regional circuit. *Siemens Med. Solutions USA, Inc. v. Saint-Gobain Ceramics & Plastics, Inc.*, 637 F.3d 1269, 1289 (Fed.Cir.2011). The Third Circuit will not disturb a jury's damages award unless unsupported by substantial evidence, *Thabault v. Chait*, 541 F.3d 512, 532 (3d Cir.2008), or contrary to the limits established by law, *Scott v. Baltimore & O.R. Co.*, 151 F.2d 61, 65 (3d Cir.1945). We consider issues regarding what types of damages are legally compensable in an action for patent infringement under the law of our own circuit, without deference to the trial court. *See Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1544 (Fed.Cir.1995) (en banc).

We review a district court's decision to grant or withhold a remittitur under the law of the regional circuit. The Third Circuit has held that "[a] remittitur is in order when a trial judge concludes that a jury verdict is 'clearly unsupported' by the evidence and exceeds the amount needed to make the plaintiff whole." *Starceski v. Westinghouse Elec. Corp.*, 54 F.3d 1089, 1100 (3d Cir.1995). The Third Circuit has emphasized that it is not the function of the appellate court to assess what would constitute fair recompense for the injuries sustained by the plaintiff, but rather to ascertain whether the trial judge, weighing all the evidence on damages, "has exercised his considered judgment as to a rational verdict in a judicial manner." *Russell v. Monongahela Ry. Co.*, 262 F.2d 349, 352 (3d

Cir.1958). Thus, “[t]he trial judge’s decision to grant or withhold a remittitur cannot be disturbed absent a manifest abuse of discretion.” *Starceski*, 54 F.3d at 1100; *accord 2660 Woodley Rd. Joint Venture v. ITT Sheraton Corp.*, 369 F.3d 732, 745 (3d Cir.2004) (“We review a grant of remittitur for abuse of discretion.”).

While we review for abuse of discretion the district court’s decision to order a remittitur, *Starceski*, 54 F.3d at 1100, we review the amount of the court’s remittitur on the basis of whether it exceeds the maximum award supported by the evidence, *see Garrett v. Faust*, 183 F.2d 625, 629 (3d Cir.1950); *see also* 11 Charles Alan Wright, Arthur R. Miller and Mary Kay Kane, *Federal Practice and Procedure* § 2815, at 159 (2d ed. 1995). We thus consider whether the amount of the district court’s remittitur order is supported by substantial evidence.

The issue of willful infringement has two components, each with a different standard of review. First, the “patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed.Cir.2007). This first inquiry is a question of law that we review without deference. *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003, 1006–07 (Fed.Cir.2012). Second, “the patentee must . . . demonstrate that this objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer.” *Seagate*, 497 F.3d at 1371. This second inquiry is a question of fact which we review for substantial evidence. *Bard*, 682 F.3d at 1006.

## THE PATENTED TECHNOLOGY

Power Integrations' patented technology is used in power supplies for electronic devices. The '851,'366, and '876 Patents describe techniques for alleviating electromagnetic interference and current flow problems associated with prior art power supplies. The '075 Patent describes a type of transistor useful in high voltage power circuits. Although the patented technologies are applicable generally in the field of electronics, the present case focuses on their use in chargers for mobile phones.

Electrical outlets throughout much of the world, including standard wall outlets in the United States, provide electrical energy by way of an alternating current (AC). The electric current provided by such power outlets is called "alternating" because the direction of current flow reverses periodically. In operation, current flows first from the wall outlet through a power cable, toward the powered device. Flow then reverses, and electric current flows back from the powered device through the power cable, toward the wall outlet. These current flow reversals occur many times per second. An AC power source such as a standard wall outlet accomplishes these current flow reversals by providing a voltage, sometimes called a "power signal," which changes cyclically over time from positive to negative. When the power signal voltage is positive, current tends to flow in one direction; when the power signal voltage is negative, current tends to flow in the opposite direction. As a result of these rapid changes in voltage and current flow, AC power signals continually fluctuate.

Some devices can utilize an AC power signal directly, but most electronic devices must convert the rapidly fluctuating AC power signal to a more stable “direct current” (DC) power signal. A DC power signal does not change over time; rather, it provides a steady, constant voltage, and current tends to flow in only one direction. Electronic devices that require DC rather than AC power often utilize external adapters to convert the AC power from standard wall outlets into suitable DC power. This process of converting AC to DC is known as “rectification.” Popular examples of rectifying power supplies are wall-chargers for laptops and mobile phones.

After rectification, most power supplies must adjust the voltage of the rectified DC power signal. This adjustment brings the voltage of the DC power signal within an appropriate operating range for the powered electronic device. Many modern power supplies carry out this voltage adjustment by using semiconductor switches, called transistors, to switch the rectified DC power signal rapidly on and off. This is similar to operating a light switch, which can be turned quickly on and off to simulate medium light (not fully lit, but not completely dark). By using this rapid on-and-off switching technique, a switching power supply can produce an output power signal that can be used as if it were a steady DC voltage. To fine-tune the voltage of this output DC power signal, the power supply can adjust its “pulse-width,” which measures the time the power supply spends in the “on” switching stage relative to the “off” stage. More switching time spent in the “on” stage transfers more voltage to the output DC power signal. This voltage-adjustment technique is

called pulse-width modulation (PWM), and it is the technology implicated in this appeal.

#### A. THE '851 AND '366 PATENTS

There are two notable problems with pulse-width modulated (PWM) power converters: electromagnetic interference (EMI) and inrush current. EMI results when the rapid switching in a PWM power supply generates a high frequency signal that interferes with other electronic devices. The power supply can radiate this high frequency signal, thereby affecting nearby devices; it can also inject the high frequency signal back into the power grid, thereby affecting other devices on the grid.

PWM power supplies are also susceptible to large inrush currents. When a PWM power supply first turns on, current rushes in and charges the internal capacitors. This initial inrush current is much higher than the current utilized during normal, steady-state operation. Inrush current stresses the components of the power supply and decreases its useful life. Substituting components capable of handling a large inrush current can add significantly to the power supply's cost.

To address EMI and inrush current, the '851 Patent and its divisional, the '366 Patent, disclose improved integrated circuitry for PWM power supplies. The improved circuitry provides "frequency-jittering" functionality for reducing EMI, and "soft-start" functionality for reducing inrush current.

"Frequency-jittering" is a technique that varies the frequency of the on-off switching in a PWM power supply. This frequency variation disperses generated EMI by spreading it out over a range of frequencies. In a PWM power supply, a periodically repeating signal

known as an oscillating drive signal drives the power supply's rapid on-off switching. The '851 Patent discloses a technique for varying the frequency of a PWM power supply's oscillating drive signal by using an independent "frequency variation signal." By changing the frequency variation signal, the PWM power supply can vary the frequency of its oscillating drive signal. This frequency variation in the oscillating drive signal spreads generated EMI over a spectrum of frequencies, thereby reducing interference with other devices.

"Soft-start" circuitry attempts to reduce inrush current that stresses internal components of a PWM power supply. The '851 Patent describes an improvement over prior art soft-start circuits, which in some cases suffer from brief initial periods of large current flow. To alleviate this problem, the '851 Patent discloses a PWM power supply with soft-start circuitry driven by the same independent frequency variation signal used for frequency-jittering. Tying soft-start circuitry to the independent frequency variation signal allows soft-start functionality to operate independently of the electrical characteristics of a powered device. It also eliminates the brief initial inrush current suffered by prior art soft-start circuits.

#### B. THE '876 PATENT

The '876 Patent discloses a "frequency-jittering" circuit that provides frequency-jittering functionality in a manner distinct from the '851 and '366 Patents. Unlike the '851 and '366 Patents, the circuit of the '876 Patent does not provide "soft-start" functionality. Representative Figure 1 of the '876 Patent is shown below:

12a

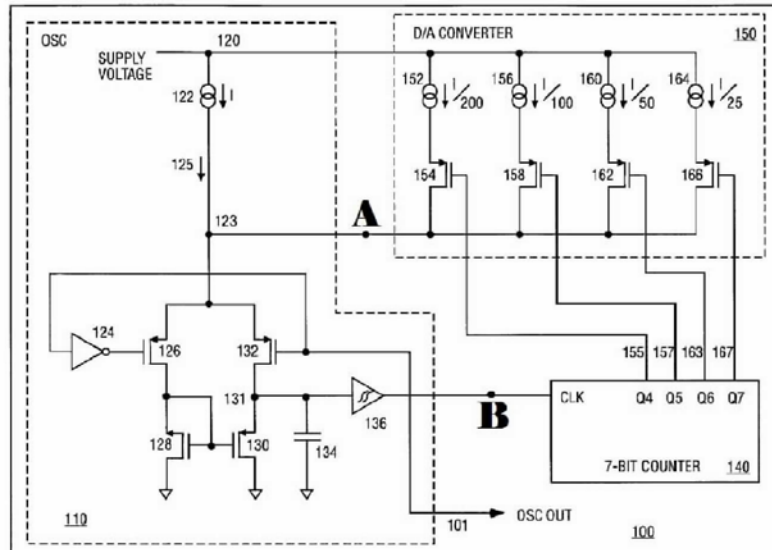


FIG. 1

'876 Patent fig. 1 (labels "A" and "B" added). The circuit of the '876 Patent uses an analog "control signal" (designated in Fig. 1 by "A") to control the frequency of the power supply's oscillating drive signal ("B"). This analog "control signal" is similar to the frequency variation signal of the '851 and '366 Patents, which also controls oscillating drive signal frequency. In the circuit depicted in Fig. 1, the analog "control signal" ("A") periodically changes, thus changing the frequency of the oscillating drive signal ("B"). These periodic changes in the drive signal's frequency help dissipate generated EMI by spreading it over a range of frequencies.

At the heart of the '876 Patent is the process by which the analog "control signal" changes, thus varying the frequency of the oscillating drive signal. Generally, this process works as follows: A digital counter (box 140) monitors the power supply's oscillating drive



signal (“B”), which repeats periodically. As the oscillating drive signal repeats, the digital counter counts the drive signal’s repetitions. After the count reaches a maximum value, the digital counter resets to zero. Essentially, the digital counter keeps a tally of how many times the oscillating drive signal repeats. A digital-to-analog converter (dotted area 150) reads the outputs of the digital counter (signal lines 155, 157, 163, and 167). Based on the counter’s outputs, the digital-to-analog converter generates an analog signal proportional to the counter’s tally. This analog signal is the analog “control signal” (“A”) that controls the frequency of the oscillating drive signal. An oscillator (dotted area 110) generates the oscillating drive signal (“B”) based on the analog control signal (“A”).

As the digital counter counts the cycles of the power supply’s oscillating drive signal, the outputs of the digital counter change, thereby changing the analog control signal. The analog control signal, in turn, changes the frequency of the oscillating drive signal. Each time the digital counter increments, the frequency of the oscillating drive signal changes with it. The end result is that the frequency of the power supply’s oscillating drive signal—and thus the frequency of its generated EMI—steps through an ordered set of frequencies. This frequency stepping repeats when the counter resets to zero. Because the frequency of the power supply’s generated EMI is continually changing, EMI is spread out over a wide range of frequencies and interference with other devices is reduced.

### C. THE ’075 PATENT

The ’075 Patent, now expired, discloses a type of metal-oxide semiconductor field-effect transistor

(MOSFET) for use in high voltage electronic devices such as power supplies. The disclosed transistor provides improved ability to incorporate high and low voltage circuitry on a single chip. Power Integrations notes that the technology of the '075 Patent served as the cornerstone for the company's founding. Fairchild does not raise any claim construction or validity issues with regard to the '075 Patent. We therefore do not describe the technology in depth.

#### CLAIM CONSTRUCTION

The district court conducted a *Markman* hearing and construed various terms of the claims in the asserted patents. On appeal, Fairchild argues that the district court erred in its construction of two terms in particular: "frequency variation signal" and "soft start circuit," both of which appear in the claims of the '851 and '366 Patents.

Claim construction begins with the language of the claim. See *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312 (Fed.Cir.2005) (en banc) ("[T]he claims are of primary importance, in the effort to ascertain precisely what it is that is patented."). We presume that the terms in the claim mean what they say. *Tate Access Floors, Inc. v. Interface Architectural Res., Inc.*, 279 F.3d 1357, 1370 (Fed.Cir.2002). We interpret the claim's words "in light of the intrinsic evidence of record, including the written description, the drawings, and the prosecution history." *Teleflex, Inc. v. Ficosa N. Am. Corp.*, 299 F.3d 1313, 1324 (Fed.Cir.2002). Where the intrinsic record is ambiguous, and when necessary, we have authorized district courts to rely on extrinsic evidence, which "consists of all evidence external to the patent and prosecution history, including expert and inventor testimony, dictionaries, and learned

treatises.” *Phillips*, 415 F.3d at 1317 (quoting *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 980 (Fed.Cir.1995), *aff’d*, 517 U.S. 370, 116 S.Ct. 1384, 134 L.Ed.2d 577 (1996)).

#### D. FREQUENCY VARIATION SIGNAL

The district court construed the term “frequency variation signal” in the ’851 and ’366 Patents as “an internal signal that cyclically varies in magnitude during a fixed period of time and is used to modulate the frequency of the oscillation signal within a pre-determined frequency range.”

On appeal, Fairchild argues that the district court erred by improperly reading features of the preferred embodiments into the claims. Specifically, Fairchild argues that the claimed “frequency variation signal” is not limited to an internal signal (the “internal signal” limitation) and that “frequency variation signal” is not limited to a signal that varies cyclically in magnitude during a fixed period of time (the “cyclically varies” limitation). These limitations, Fairchild insists, appear in the patents’ preferred embodiments and not in the claims, and because the district court’s construction incorporates both limitations, that construction is incorrect as a matter of law. Fairchild argues that we should not look to the patent specification to define the disputed term “frequency variation signal” because the term has a plain and ordinary meaning. Fairchild would have us construe “frequency variation signal” more broadly as “a signal that is used to vary the frequency of the oscillation signal.”

Power Integrations argues that the district court correctly construed “frequency variation signal.” Power Integrations argues that “frequency variation signal” does not have a plain and ordinary meaning.

Because we must consider claim terms in light of the entire patent, Power Integrations insists that we must look to the specification to define “frequency variation signal.” Power Integrations argues that, although the claims do not explicitly recite the “internal signal” and “cyclically varies” limitations, these limitations are necessary and inherent components of the term “frequency variation signal.” Power Integrations further argues that failing to include the “internal signal” limitation would cause the claims to read on the prior art, and would likewise ignore a fundamental aspect of the invention’s improvement.

With respect to the “cyclically varies” limitation, Power Integrations maintains that all examples and descriptions in the patents limit the “frequency variation signal” to a “signal that cyclically varies in magnitude during a fixed period of time.” Without this limitation, Power Integrations argues, the invention would experience the same problem with “unpredictably, externally influenced variations the patent set out to solve.” Power Integrations urges that the district court correctly construed the claims to uphold their validity, as required by our precedent.

In construing a claim term, we look to the words of the claim itself. *Vitronics Corp. v. Conceptronics, Inc.*, 90 F.3d 1576, 1582 (Fed.Cir.1996). If the claim term has a plain and ordinary meaning, our inquiry ends. *Id.* If, however, the claim term does not have an ordinary meaning, and its meaning is not clear from a plain reading of the claim, “we turn to the remaining intrinsic evidence, including the written description, to aid in our construction of that term.” *Telemac Cellular Corp. v. Topp Telecom, Inc.*, 247 F.3d 1316, 1326 (Fed.Cir.2001). As we have said, “the specification is

always highly relevant to the claim construction analysis. Usually, it is dispositive; it is the single best guide to the meaning of a disputed term.” *Vitronics*, 90 F.3d at 1582. The construction that stays true to the claim language and most naturally aligns with the patent’s description of the invention will be, in the end, the correct construction. *Renishaw PLC v. Marposs Societa’ per Azioni*, 158 F.3d 1243, 1250 (Fed.Cir.1998).

With these principles in mind, we turn to the claims of the ’851 and ’366 Patents. Claim 1 of the ’851 Patent recites both

a frequency variation circuit that provides a  
*frequency variation signal*

and

an oscillator that provides an oscillation signal having a frequency range, said frequency of said oscillation signal varying within said frequency range according to said *frequency variation signal*.

’851 Patent col. 12 ll. 22–27 (emphases added). Similarly, claim 14 of the ’366 Patent includes

a frequency variation circuit that provides a  
*frequency variation signal* and wherein said maximum time period varies according to a magnitude of said *frequency variation signal*.

’366 Patent col. 14 ll. 14–17 (emphases added). Claims 1 and 14 do not further define “frequency variation signal.”

Although Fairchild argues that “frequency variation signal” has a plain and ordinary meaning, an expert for Power Integrations, Mr. Blauschild, testified that “[t]he term ‘frequency variation signal,’ recited in the ’851 Patent, is not a term of art.” “Nor would this

term have had,” Mr. Blauschild continued, “a plain and ordinary meaning to one of skill in the art at the time of the invention.” J.A. 359. Turning to the specification, Mr. Blauschild opined that “the specification of the ’851 Patent clearly defines such a signal as an internal signal that cyclically varies in magnitude during a fixed period of time.” *Id.* Fairchild offers no evidence to contradict the testimony of Mr. Blauschild other than its own assertion that “frequency variation signal” has a plain and ordinary meaning.

We are not persuaded that the claims inform a plain and ordinary meaning of the term “frequency variation signal,” nor do we agree with Fairchild that we need only a dictionary to discern the meaning of “frequency variation signal.” Unless the inventor intended a term to cover more than the ordinary and customary meaning *revealed by the context of the intrinsic record*, it is improper to read the term to encompass a broader definition simply because it may be found in a dictionary, treatise, or other extrinsic source. *Nystrom v. TREX Co., Inc.*, 424 F.3d 1136, 1145 (Fed.Cir.2005). In any event, our inquiry here starts with the intrinsic record, including the specification, and not with a dictionary definition of the disputed term. *Phillips*, 415 F.3d at 1321 (“The problem is that if the district court starts with the broad dictionary definition in every case and fails to fully appreciate how the specification implicitly limits that definition, the error will systematically cause the construction of the claim to be unduly expansive.”).

Here, the specification of the ’851 Patent describes the frequency variation signal:

Although the presently preferred frequency variation signal 400 is a triangular waveform,

alternate frequency variation signals such as *ramp signals, counter output signals or other signals that vary in magnitude during a fixed period of time may be utilized as the frequency variation signal.*

'851 Patent col. 6 ll. 34–38 (emphases added). The patent thus contemplates frequency variation signals other than the preferred embodiment's triangular waveform. The specification describes these alternatives as “other signals that vary in magnitude during a fixed period of time.” *Id.* col. 6 ll. 36–37. Specifically limiting the expansive term “other signals” to “signals that vary in magnitude during a fixed period of time” suggests that the patentee contemplated only frequency variation signals having a periodic waveform. The intrinsic record thus clearly indicates the patentee's precise conception and formulation, which here must control our construction. See *Renishaw*, 158 F.3d at 1250 (“Ultimately, the interpretation to be given a term can only be determined and confirmed with a full understanding of what the inventors actually invented and intended to envelop with the claim.”).

We also note that the specification, in describing the frequency variation signal, lists several specific examples followed by the general phrase “or other signals . . . .” When a general phrase follows a list of specific items, this can be a good indication that the general phrase refers to additional items of the same kind. Here, the specification lists a preferred “triangular waveform” along with two alternatives, “ramp signals” and “counter output signals.” All of these signals have periodic waveforms. '851 Patent col. 6 ll. 35–36. Thus, in context, the general phrase “other signals” suggests other *periodic* signals. This implicit

limitation is confirmed by the words that follow: “other signals *that vary in magnitude during a fixed period of time.*” *Id.* col. 6 ll. 36–37 (emphasis added). We thus agree with the district court that the proper construction of “frequency variation signal” includes the “cyclically varies” limitation.

With regard to the “internal signal” limitation, the specification indicates that the term “frequency variation signal” refers to an internal signal. In two separate places, the specification provides,

That is, the switching frequency of the pulse width modulated switch 262 varies according to an *internal frequency variation signal*. This has an advantage over the frequency jitter operation of [the prior art circuit of] FIG. 1 *in that the frequency range of the presently preferred pulse width modulated switch 262 is known and fixed*, and is *not subject to the line voltage or load magnitude variations*.

’851 Patent col. 6 ll. 12–18, col. 11 ll. 44–49 (emphases added). This description confirms that the patentee contemplated a fixed-range, periodic frequency variation signal, and it further indicates that the internal character of the frequency variation signal is essential to the invention. It is the internal character of the signal that makes the frequency-jittering functionality “not subject to the line voltage or load magnitude variations.” *Id.* col. 6 ll. 17–18, col. 11 ll. 48–49. As the specification reflects, the patentee did not employ the term “frequency variation signal” to refer to external signals, nor did the patentee consider external frequency variation signals as part of the invention. In fact, the patentee sought to alleviate



problems with the prior art's external frequency variation techniques.

For these reasons, the district court properly limited the claimed "frequency variation signal" to an internal, periodic signal. We thus conclude that the district court correctly construed "frequency variation signal" as "an internal signal that cyclically varies in magnitude during a fixed period of time and is used to modulate the frequency of the oscillation signal within a predetermined frequency range."

#### E. SOFT START CIRCUIT

The district court construed the term "soft start circuit" in the '851 and '366 Patents as means-plus-function limitations under paragraph 6 of 35 U.S.C. § 112 (now 35 U.S.C. § 112(f)). In the district court's view, an ordinarily skilled artisan would not "know the precise structures for a soft start circuit, because the function of a soft start circuit can be achieved in a variety of ways making it unclear what the specific structures are for performing the recited functions." *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 422 F.Supp.2d 446, 459 (D.Del.2006). Thus, the district court concluded that "the term 'soft start circuit' should be construed in accordance with Section 112, ¶ 6" and limited to the structure described in the specification and its equivalents. *Id.* at 460.

On appeal, Fairchild argues that the district court incorrectly construed the "soft start circuit" limitations in the '851 and '366 Patents as means-plus-function limitations. Fairchild contends that these limitations do not include the word "means," which creates a strong presumption that mean-plus-function claiming does not apply. Rather, Fairchild argues, the claims disclose sufficient structure to remove the "soft start

circuit” limitations from the reach of means-plus-function claiming.

Power Integrations seeks an affirmance of the district court’s construction. Power Integrations argues that the term “soft start circuit,” does not suggest sufficiently definite structure to the skilled artisan. Power Integrations would have us affirm the district court’s construction and limit the term “soft start circuit” to the structures described in the specifications of the ’851 and ’366 Patents.

Means-plus-function limitations permit a patentee to claim an element of her invention in terms of the element’s function, without in the claim itself reciting corresponding structure:

An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.

35 U.S.C. § 112, ¶ 6.<sup>2</sup> If a claim term does not use the word “means,” we presume that means-plus-function claiming does not apply. *See CCS Fitness, Inc. v. Brunswick Corp.*, 288 F.3d 1359, 1369 (Fed.Cir.2002). If, however, the claim term recites a function *without reciting sufficient structure* for performing that

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<sup>2</sup> In 2011, Congress reformatted the paragraphs of § 112 as subsections. Leahy–Smith America Invents Act (“AIA”), Pub. L. No. 112–29, 125 Stat. 284 (2011). Section 112, ¶ 6, is now codified as § 112(f). To maintain consistency with the district court’s opinion, we refer to § 112, ¶ 6

function, the presumption falls and means-plus-function claiming applies. *See, e.g., Watts v. XL Sys., Inc.*, 232 F.3d 877, 880 (Fed.Cir.2000). We assess whether a claim limitation recites sufficient structure to avoid means-plus-function claiming from the vantage point of an ordinarily skilled artisan. *See Inventio*, 649 F.3d at 1357; *Apex Inc. v. Raritan Computer, Inc.*, 325 F.3d 1364, 1372 (Fed.Cir.2003). To this end, “considering intrinsic and extrinsic evidence is usually helpful [in determining whether] a claim limitation is so devoid of structure that the drafter constructively engaged in means-plus-function claiming.” *Inventio*, 649 F.3d at 1357. With respect to intrinsic evidence, a patent’s specification may inform the skilled artisan’s understanding of the structure required by a claim limitation.

We have previously held on several occasions that the term “circuit” connotes structure. *See MIT v. Abacus Software*, 462 F.3d 1344, 1355 (Fed.Cir.2006) (“[D]ictionary definitions establish that the term ‘circuitry,’ by itself, connotes structure.”); *see also Linear Tech. Corp. v. Impala Linear Corp.*, 379 F.3d 1311, 1320–21 (Fed.Cir.2004) (holding that the term circuit is not a means-plus-function limitation when the patent provides “a recitation of the respective circuit’s operation in sufficient detail to suggest structure to persons of ordinary skill in the art”); *Apex*, 325 F.3d at 1373 (“[T]he term ‘circuit’ with an appropriate identifier such as ‘interface,’ ‘programming’ and ‘logic,’ certainly identifies some structural meaning to one of ordinary skill in the art.”). In *Abacus*, we said,

The claim language here too does not merely describe a circuit; it adds further structure by describing the operation of the circuit. The circuit’s

input is “appearance signals” produced by the scanner; its objective is to “interactively introduce[e] [sic] aesthetically desired alterations into said appearance signals”; and its output is “modified appearance signals.” This description of the operation of the circuit is sufficient to avoid 112 ¶ 6.

462 F.3d at 1356 (citation omitted).

*Abacus* establishes that in determining whether the word “circuit” invokes means-plus-function claiming, the pivotal issue is “whether the [circuit limitation] as properly construed recites *sufficiently definite* structure.” *Personalized Media Commc’ns, LLC v. Int’l Trade Comm’n*, 161 F.3d 696, 704 (Fed.Cir.1998) (emphasis added). A description of the circuit’s operation may provide sufficiently definite structure, *Abacus*, 462 F.3d at 1356, as can certain “adjectival qualifications,” *Apex*, 325 F.3d at 1374 (“interface circuit”). Nevertheless, not just any adjectival qualification or functional language will suffice. See *Abacus*, 462 F.3d at 1362–63 (Michel, C.J., dissenting). The proper inquiry is whether the claim limitation itself, when read in light of the specification, connotes to the ordinarily skilled artisan sufficiently definite structure for performing the identified functions. *Apex*, 325 F.3d at 1373.

#### 1. CLAIM 4 OF THE ‘851 PATENT

Turning to the claims at issue, claim 4 of the ‘851 Patent recites a “soft start circuit” that performs a function:

*a soft start circuit that provides a signal instructing said drive circuit to discontinue said drive signal when said magnitude of said oscillation signal is*

greater than a magnitude of said frequency variation signal.

'851 Patent col. 12 ll. 46–49 (emphasis added). Although the claim includes a functional description of the “soft start circuit,” the claim does not include the word “means.” Further, the claimed “soft start circuit” performs a straightforward function when a simple test is met: it “provides a signal” that cuts off the drive signal “when said magnitude of said oscillation signal is greater than a magnitude of said frequency variation signal.” This test is nothing more than a comparison of the magnitudes of two signals. The end result is simple: if the comparison is met, an “off” signal is provided. The word “circuit” in combination with such a clear and unambiguous description of the circuit’s operation weighs heavily in favor finding sufficient structure to avoid means-plus-function claiming.

The district court expressed concern that an ordinarily skilled artisan would not “know the precise structures for a soft start circuit, because the function of a soft start circuit can be achieved in a variety of ways.” *Power Integrations*, 422 F.Supp.2d at 459. Yet, we require only that the claim term be used in common parlance or by ordinarily skilled artisans to designate *sufficiently definite* structure, “even if the term covers a broad class of structures.” *Lighting World*, 382 F.3d at 1359–60. Here, as the district court pointed out, a variety of structures can be used to provide the claimed function. Nevertheless, viewed in the context of the claimed invention, the function recited is sufficiently clear, and definitely described, to suggest to the ordinarily skilled artisan a defined class of structures. As in *Abacus*, we have an input to the circuit (the oscillation and frequency variation signals),

a straightforward function (comparing of the magnitudes of these signals), and an output (the signal provided to the drive circuit based on the comparison). This is sufficient structure in the context of the claimed invention to avoid the ambit of means-plus-function claiming.

The “soft start circuit” limitation of claim 4 of the ‘851 Patent, therefore, recites sufficient structure to avoid means-plus-function claiming. The district court erred in construing this term as a means-plus-function limitation under § 112, ¶ 6.

## 2. CLAIMS 9 AND 14 OF THE ‘366 PATENT

We turn next to claims 9 and 14 of the ‘366 Patent. Claim 9 also includes a “soft start circuit”:

a *soft start circuit* that provides a signal instructing said drive circuit to disable said drive signal during at least a portion of said maximum time period.

’366 Patent col. 13 ll. 33–35 (emphasis added). Claim 14 depends from claim 9 and is therefore subject to the same limitation. This “soft start circuit” in the ‘366 patent, like the soft start circuit in claim 4 of the ‘851 Patent, provides a signal that cuts off the drive signal. The claim further informs us that the soft start circuit provides the cutoff signal “during at least a portion of said maximum time period.”

While we agree that this functional description is less illuminating than that recited in claim 4 of the ‘851 patent, we find that it suggests sufficient structure to an ordinarily skilled artisan. Power Integrations conceded that a skilled artisan would understand the claim limitation as referring to “various soft start circuit structures [which] accomplish the functions recited in the patent claims . . .” J.A. 358. As such, an

ordinarily skilled artisan reading the claim limitation in the context of the claimed invention, and in light of the specification, would understand that the limitation connotes “sufficiently definite structure for performing the identified functions.” *Apex*, 325 F.3d at 1373.

Having concluded our review of claim construction, we reverse the district court’s construction of the “soft start circuit” limitations in claim 4 of the ‘851 Patent and in claims 9 and 14 of the ’366 patent. On remand, the district court shall construe those claims according to our instructions and assess what effects, if any, the new constructions have on the validity of those claims and on Fairchild’s infringement thereof. If the court determines that its constructions raise new, material issues of validity or infringement, the court shall determine whether to order a new trial. The court shall determine whether any such new, material issues are “distinct and separable” such that a new trial limited to those issues would not unduly prejudice either party. *Cf. Gasoline Prods. Co. v. Champlin Ref. Co.*, 283 U.S. 494, 500, 51 S.Ct. 513, 75 L.Ed. 1188 (1931). If, in its discretion, the district court finds that any such new, material issues may be tried separately without prejudice, the court may limit any new trial accordingly. The court should consider the effects of any amendments made in reexamination.

#### OBVIOUSNESS

At trial, Fairchild argued that claim 1 of the ’876 Patent would have been obvious in view of the prior art, which included U.S. Patent No. 4,638,417 (filed Jan. 20, 1987) (“Martin”). The jury returned a verdict of nonobviousness, and the district court denied Fairchild’s motion for judgment as a matter of law (JMOL). Fairchild appeals the district court’s denial of

its JMOL motion, and asserts that claim 1 of the '876 Patent would have been obvious in view of Martin.

The parties agree that the salient difference between Martin and the '876 Patent is Martin's inclusion of an EPROM memory. Fairchild contends, however, that Martin's EPROM memory is not related to frequency-jittering and is only necessary to mask the signature of the power supply. Fairchild thus argues that removing the EPROM would have been obvious if signature masking was not required. Because frequency-jittering is desirable independent of signature masking, Fairchild argues that the invention of the '876 Patent would have been obvious in view of Martin.

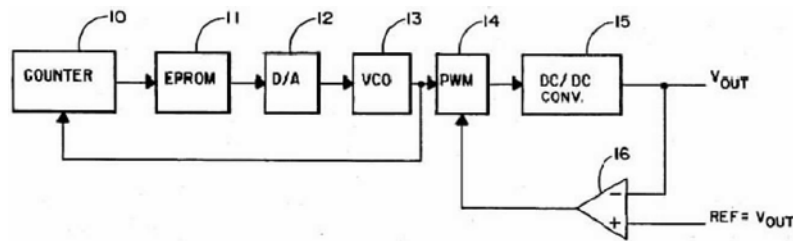
Power Integrations counters that nothing in the prior art suggests that Martin's EPROM "could or should be removed." Appellee's Br. 65. Power Integrations directs our attention to the many prior art references considered by Fairchild's expert, who by his own admission failed to uncover a single reference lacking Martin's EPROM memory. Power Integrations also cites evidence of secondary considerations of non-obviousness. The evidence of secondary considerations, Power Integrations argues, is sufficient to uphold the jury's verdict that the '876 Patent would not have been obvious.

Martin teaches "spread spectrum techniques" that operate in a manner similar to the "frequency-jittering" functionality of Power Integrations' '876 Patent. Martin's spread spectrum techniques, like the frequency-jittering of the '876 Patent, reduce generated EMI by spreading it over a range of frequencies. Martin discloses



[a] power density spectrum controller circuit which incorporates a programming element in conjunction with a voltage controlled oscillator and which uses spread spectrum techniques to provide a relatively clean output signal having little or no ripple, little or no noise and little or no signature while having a minimum output filtering requirement.

Martin, at [57] (abstract). Martin's sole figure shows the general layout of the disclosed power circuit:



A voltage controlled oscillator (VCO) (13) produces an oscillating signal which drives a pulse width modulator (PWM) (14). The VCO also feeds the oscillating drive signal back to a counter (10), which counts at a rate dependent on the oscillating drive signal's frequency. The output of the counter is connected to a memory device, EPROM (11), which stores a pseudo-random code in digital form. The counter output causes the EPROM to "selectively step[] ... through its addressing routine in order to select the contents of a particular address." Martin col. 2 ll. 30-32. The digital output of the EPROM serves as input to a digital-to-analog converter (D/A) (12), which converts the digital output to an analog signal. This analog signal, in turn, controls the frequency of the oscillating drive signal produced by the VCO. The result is that the frequency of Martin's oscillating drive

signal steps through a pseudo-random set of discrete frequency values, spreading out the power circuit's generated EMI and limiting its observable signature.<sup>3</sup> Martin refers to this as “spread spectrum” technology.

Martin's “spread spectrum” technology operates in essentially the same manner as the frequency-jittering in the '876 Patent, with the exception that the '876 Patent does not use an EPROM memory. Martin, on the other hand, always includes an EPROM memory between the counter and digital-to-analog converter (D/A). Martin does not teach removing the EPROM memory as in the '876 Patent, nor does Martin suggest that it would be feasible to do so. Martin's sole figure indicates that the EPROM is just as integral as the circuit's other components. Nevertheless, on its face, Martin suggests to the ordinarily skilled artisan that the purpose of the EPROM is to mask the power circuit's signature, not to reduce EMI through frequency-jittering.

Martin's “spread spectrum” functionality arises from periodically changing the frequency of the oscillating drive signal. The cycles of the oscillating drive signal increment a counter, and changes to the counter's value cause changes in the frequency of the oscillating drive signal. This is the same principle disclosed in Power Integrations' '876 Patent. Although Martin teaches, without exception, an EPROM

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<sup>3</sup> Limiting a power supply's signature—a unique signal pattern that “identifies [the power supply] much in the nature of a fingerprint”—is desirable in high-security applications. Martin col. 1 ll. 24–27. Without signature masking, a “signature signal can be used to identify a particular source . . . by means of appropriate spectrum analyzing.” *Id.* col. 1 ll. 29–36.

memory between the counter and D/A, the ordinarily skilled artisan would understand that the EPROM is necessary only for signature masking. Essentially, Martin's EPROM converts ordinary frequency-jittering, as in the '876 Patent, to "masked" frequency-jittering. We thus agree with Fairchild that an ordinarily skilled artisan would have understood that Martin's EPROM was used for signature masking and not for frequency-jittering.<sup>4</sup>

Our inquiry does not end here, however, and we next turn to objective considerations, which we sometimes refer to as "secondary considerations," as essential components of our obviousness analysis. *In re Cyclobenzaprine*, 676 F.3d at 1076–79. Objective evidence of nonobviousness can include copying, long felt but unsolved need, failure of others, commercial success, unexpected results created by the claimed invention, unexpected properties of the claimed invention, licenses showing industry respect for the invention, and skepticism of skilled artisans before the invention. *In re Rouffet*, 149 F.3d 1350, 1355 (Fed.Cir.1998) (collecting cases). These objective considerations can protect against the prejudice of hindsight bias, which often overlooks that "[t]he genius of invention is often a combination of known elements which in hindsight seems preordained." *McGinley v.*

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<sup>4</sup> Listing Martin as an anticipatory prior art reference, the Patent Office's Board of Patent Appeals and Interferences affirmed the examiner's final rejection of claim 1 of the '876 Patent in *ex parte* reexamination. *Ex parte Powers Integration, Inc.*, No. 2010-011021, Reexamination No. 90/008,326 (B.P.A.I. 22 Dec. 2010).

*Franklin Sports, Inc.*, 262 F.3d 1339, 1351 (Fed.Cir.2001).

The record here is replete with testimony and other evidence demonstrating that Power Integrations' patented technology was far less obvious than Martin on its face suggests. Power Integrations offered testimony that Martin's EPROM adds expense and imposes design constraints, a good indication that removing the EPROM provided otherwise unexpected benefits. Another witness testified that, because of its components, Martin's circuit cannot be integrated on a single chip. Dr. Horowitz, Fairchild's obviousness expert, testified that he found approximately "fifty pieces of prior art," which he "filtered down to seven." When asked at trial whether "each and every one of those [seven] references . . . included [EP]ROMs," Dr. Horowitz responded, "Of course." More than 11 years passed between Martin's 1987 issuance and Power Integrations' filing of the '876 Patent in 1998. Yet no one during those 11 years tapped Martin's EPROM as a candidate for removal. One expert, who previously worked for Philips Electronics, testified that no one in the industry, including Philips, was able to come up with the patented invention.

Power Integrations also provided evidence of commercial success of the '876 Patent. Various witnesses testified to the overwhelming success of the patented products, and they uniformly attributed this success to the patented features. Power Integrations touted the patented features in its advertising and marketing materials, as did Fairchild. One of Fairchild's data sheets, for example, exclaims in bold, "Low EMI through Frequency modulation!". A Fairchild engineer testified that Fairchild added

“frequency scaling” functionality because it was “more effective” to reduce EMI and “because it was required by the customers.” Power Integrations has received a number of awards for its innovations. It characterizes its invention as collapsing customers’ demands “into a sexy power supply, something small.”

Significantly, Fairchild competed with Power Integrations by reverse engineering and copying of Power Integrations’ products. One Fairchild engineer testified to “looking at the circuit” of the ’876 Patent while developing the accused products. He testified that Fairchild obtained Power Integrations’ products and datasheets for “benchmarking,” which he said is “the same” as reverse engineering. Internal documents indicate that Fairchild kept track of at least some of its efforts to reverse engineer Power Integrations’ products. The record indicates that Fairchild fostered a corporate culture of copying, which was not limited to the ’876 Patent.

Considering Martin in light of the evidence in the record, the jury in the validity trial returned a general verdict that claim 1 of the ’876 Patent would not have been obvious. Although the ultimate conclusion of obviousness is an issue of law, we must “presume that the jury resolved the underlying factual disputes in favor of the verdict winner and leave those presumed findings undisturbed if they are supported by substantial evidence.” *Starceski v. Westinghouse Elec. Corp.*, 54 F.3d 1089, 1100 (3d Cir.1995). Objective evidence of secondary considerations is a factual dispute underlying obviousness. *Para-Ordnance*, 73 F.3d at 1088. We are thus bound to assume that the jury resolved the evidence of secondary considerations in favor of Power Integrations.

Having reviewed the record, we find substantial evidence of objective considerations of non-obviousness to support the jury's conclusion that claim 1 of Power Integrations' '876 Patent would not have been obvious to the ordinarily skilled artisan. Consequently, the district court was correct to deny Fairchild's motion for judgment as a matter of law.

#### DAMAGES

The district court bifurcated Power Integrations' infringement suit into two jury trials: the first addressing issues of infringement and damages, including willfulness, and the second addressing validity of Power Integrations' patents. Before the trial on infringement and damages, the parties agreed to a stipulation that Fairchild made or sold within the United States, or imported into the United States, a number of accused devices having a total value of \$765,724. At trial, counsel for Power Integrations read this stipulation into evidence prior to testimony of Power Integrations' damages expert. Ultimately, the jury found that Fairchild had willfully infringed all asserted patents and awarded past lost profits due to lost sales (\$14,981,828) and price erosion (\$1,952,893), future lost profits due to price erosion (\$13,018,379), and a lump sum reasonable royalty (\$4,028,681), for a total damages award of \$33,981,781. In the trial on validity, the jury found all asserted claims valid.

After the trial on infringement and damages, Fairchild moved for remittitur, JMOL, or in the alternative, a new trial on damages. In its motion, Fairchild contended that the jury's damages award was contrary to law and unsupported by evidence. Specifically, Fairchild asserted that the jury's award was based on worldwide sales and therefore

improperly rooted in Fairchild's extraterritorial use of the patented inventions.

The district court agreed with Fairchild and ruled that the total amount of the jury's damages award was contrary to law. The court nevertheless found that, because the jury heard evidence involving third-party sales in the United States, a portion of the award was supportable and appropriate under a theory of infringement by inducement. The court noted that Power Integrations had presented an inducement theory at trial, and pointed to evidence of Fairchild's intent to cause infringement in the United States. Based on this theory of inducement, the district court granted Fairchild's motion for remittitur and reduced the jury's damages award by 82%. The remaining 18%, the court said, represented U.S. sales for which Fairchild was liable by way of inducement. The court thus remitted the jury's original \$33 million award by 82% resulting in a total award to Power Integrations of \$6,116,720.58.

Concurrent with its order of remittitur, the district court issued a permanent injunction covering all asserted patent claims, and granted Fairchild's motion for a new trial on willfulness given this court's then-recent decision in *Seagate*, 497 F.3d 1360. Following a bench retrial of the willfulness issue held during June 2009, the district court found that Fairchild's infringement was willful in view of *Seagate*. In January 2011, the district court awarded Power Integrations enhanced damages for willful infringement by doubling the remitted damages award of \$6,116,720.58, for a total award of \$12,233,441.16, not including interest.

In reaching its determination of damages, the district court made two threshold decisions. First, the district court found that the jury's total damages award of over 33 million dollars was contrary to law. Second, the district court granted Fairchild's motion for remittitur and reduced the worldwide damages award by 82% based on a theory of induced infringement.

#### F. JURY AWARD

On cross-appeal, Power Integrations asserts error in the district court's determination that the jury's original damages award was contrary to law. Accordingly, Power Integrations asks us to reinstate the jury's original award as supported by both law and evidence.

In response, Fairchild makes two separate arguments. First, Fairchild argues that the district court correctly determined that the jury's damages award was based on worldwide sales and thus contrary to law. Second, Fairchild argues that in formulating its award the jury relied on inadmissible expert testimony.

We first consider whether the jury's original award has a valid basis in law.

##### 1. WORLDWIDE SALES

Power Integrations argues that the jury's original award of worldwide damages was legally appropriate. Specifically, Power Integrations argues that it was foreseeable that Fairchild's infringement in the United States would cause Power Integrations to lose sales in foreign markets. Thus, Power Integrations argues, the law supports an award of damages for the lost foreign sales which Power Integrations would have made but for Fairchild's domestic infringement.



As legal authority for its position, Power Integrations recites established law that once a patentee demonstrates an underlying act of domestic infringement, the patentee is entitled to receive full compensation for “any damages” suffered as a result of the infringement.<sup>5</sup> *Gen. Motors Corp. v. Devel Corp.*, 461 U.S. 648, 654–55, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1983). According to Power Integrations, this principle of “full compensation” has no inherent, per se geographical limits. Power Integrations cites this court’s decision in *Rite-Hite*, where we explained that “[i]f a particular injury was or should have been reasonably foreseeable by an infringing competitor in the relevant market, broadly defined, that injury is generally compensable absent a persuasive reason to the contrary,” 56 F.3d at 1546, and urges us here to incorporate Fairchild’s foreign sales as part of “the relevant market.”

Power Integrations’ argument that the broad principles of “full compensation,” extend to cover Fairchild’s worldwide sales is not persuasive. It is

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<sup>5</sup> Our patent damages statute mandates, “[u]pon finding for the claimant the court shall award the claimant damages *adequate to compensate for the infringement*, but in no event less than a reasonable royalty.” 35 U.S.C. § 284 (emphasis added). “Congress sought [by the statute] to ensure that the patent owner would in fact receive full compensation for ‘any damages’ he suffered as a result of the infringement.” *Gen. Motors Corp.*, 461 U.S. at 654–55, 103 S.Ct. 2058. Thus, “when a wrong has been done, and the law gives a remedy, . . . [t]he injured party is to be placed, as near as may be, in the situation he would have occupied if the wrong had not been committed.” *Albemarle Paper Co. v. Moody*, 422 U.S. 405, 418–19, 95 S.Ct. 2362, 45 L.Ed.2d 280 (1975) (quoting *Wicker v. Hoppock*, 73 U.S. (6 Wall.) 94, 99, 18 L.Ed. 752 (1867)).

axiomatic that U.S. patent law does not operate extraterritorially to prohibit infringement abroad. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972), *superseded by statute*, Patent Law Amendments Acts of 1984, Pub. L. No. 98-622, 98 Stat. 3383 (codified at 35 U.S.C. § 271(f)), *as recognized in Microsoft Corp. v. AT & T Corp.*, 550 U.S. 437, 127 S.Ct. 1746, 167 L.Ed.2d 737 (2007); *see also Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195, 15 L.Ed. 595 (1856) (“Our patent system makes no claim to extraterritorial effect; these acts of Congress do not, and were not intended to, operate beyond the limits of the United States . . . .” (internal quotation marks omitted)). Even indirect infringement, which can encompass conduct occurring elsewhere, *see Merial Ltd. v. Cipla Ltd.*, 681 F.3d 1283, 1302–03 (Fed.Cir.2012), requires underlying direct infringement in the United States, *Deepsouth*, 406 U.S. at 531, 92 S.Ct. 1700. Our patent laws allow specifically “damages adequate to compensate for the infringement.” 35 U.S.C. § 284 (emphasis added). They do not thereby provide compensation for a defendant’s foreign exploitation of a patented invention, which is not infringement at all. *Brown*, 60 U.S. at 195 (“And the use of it outside of the jurisdiction of the United States is not an infringement of his rights, and he has no claim to any compensation for the profit or advantage the party may derive from it.”).

Power Integrations’ “foreseeability” theory of worldwide damages sets the presumption against extraterritoriality in interesting juxtaposition with the principle of full compensation. Nevertheless, Power Integrations’ argument is not novel, and in the end, it is

not persuasive. Regardless of how the argument is framed under the facts of this case, the underlying question here remains whether Power Integrations is entitled to compensatory damages for injury caused by infringing activity that occurred outside the territory of the United States. The answer is no.

Power Integrations is incorrect 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. 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. To the contrary, 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. *Cf. Morrison v. Nat'l Australia Bank Ltd.*, —U.S. —, 130 S.Ct. 2869, 2884, 177 L.Ed.2d 535 (2010) (“But the presumption against extraterritorial application would be a craven watchdog indeed if it retreated to its kennel whenever *some* domestic activity is involved in the case.”).

The district court determined that the jury had “clearly adopted the measure of damages posed by Power Integrations expert, Dr. Troxel” in reaching the combined damages award of over \$33 million. In view of this determination, the district court correctly concluded that there was “no legal basis that supports the jury award in the amount of \$33 million” because

Dr. Troxel's estimate of \$30 million in damages was not "rooted in Fairchild's activity in the United States." Indeed, Dr. Troxel testified on cross-examination that he did not quantify an amount of damages based on any offer for sale by Fairchild in the United States. We find neither compelling facts nor a reasonable justification for finding that Power Integrations is entitled to "full compensation" in the form of damages based on loss of sales in foreign markets which it claims were a foreseeable result of infringing conduct in the United States. *See F. Hoffmann-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 166, 124 S.Ct. 2359, 159 L.Ed.2d 226 (2004) (finding it unreasonable to apply the law at issue to conduct that is significantly foreign, "*insofar as that conduct causes independent foreign harm and that foreign harm alone gives rise to the plaintiff's claim*").

We thus reject Power Integrations' argument that there exists a legal basis sufficient to uphold the jury's original damages award, which was based on worldwide sales and hold that the district court correctly decided that the jury's original damages award was contrary to law.

## 2. EXPERT TESTIMONY ON DAMAGES

Fairchild additionally challenges the evidentiary basis of the jury's award, which was based on a damages estimate provided at trial by Power Integrations' damages expert Dr. Troxel. Dr. Troxel formulated his estimate based on a document describing worldwide shipments of mobile phones during the third quarters of 2004 and 2005. Although the document relates generally to worldwide sales of mobile phones from all vendors, it contains more detailed information for some vendors, including

Samsung. Specifically, Dr. Troxel relied on a table in the document that indicates that during the third quarter of 2005, Samsung shipped 26.8 million phones worldwide, up from 22.7 million phones during the third quarter in 2004. Dr. Troxel used the worldwide sales data for Samsung's mobile phones to estimate sales of the accused power circuits, which Samsung incorporated into its mobile phone chargers.

On appeal, Fairchild argues that Dr. Troxel's testimony was speculative and his data inadmissible. In Fairchild's view, Dr. Troxel's methodology suffered from layered assumptions and unwarranted speculation. Fairchild insists that Dr. Troxel made two speculative leaps in his analysis: First, he assumed that each Samsung mobile phone included a charger. Second, he assumed that each of these chargers incorporated an infringing power circuit. Fairchild further argues that the document on which Dr. Troxel relied for Samsung's sales data was an unauthenticated hearsay "press release" retrieved from the Internet. In sum, Fairchild argues that Dr. Troxel's testimony, in view of his methodology and data sources, was uniquely unreliable and legally inadmissible.

Power Integrations responds that Dr. Troxel's methodology was reasonable and his data source reliable. According to Power Integrations, Dr. Troxel's methodology did not require any more speculation than is usually permitted in calculating compensatory damages. Power Integrations further argues that because the document on which Dr. Troxel relied in his expert analysis would be reasonably relied upon by experts in his field, the document need not be independently admissible.

In determining damages, a jury may rely on expert testimony. 35 U.S.C. § 284. District courts, as gatekeepers, must nevertheless ensure that all expert testimony is rooted in firm scientific or technical ground. *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 589–90, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993); *Kumho Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 148, 119 S.Ct. 1167, 143 L.Ed.2d 238 (1999). To that end, the Federal Rules of Evidence require that an expert’s testimony be the product of reliable principles and methods applied to sufficient facts or data. Fed.R.Evid. 702(b),(c). The trial judge must ensure that the expert has “reliably applied the principles and methods to the facts of the case.” *Id.* at 702(d). Data relied on by the expert “need not be admissible for the opinion to be admitted” if experts in the field would reasonably rely on such data. Fed.R.Evid. 703. The trial judge must have considerable leeway in deciding how to determine whether the expert’s testimony is sufficiently reliable. *Kumho Tire*, 526 U.S. at 152, 119 S.Ct. 1167.

Here, Dr. Troxel’s damages testimony was unreliable in several respects. Initially, the source of the documents on which Dr. Troxel relied for his estimate of Samsung’s worldwide sales is unclear. When asked whether the provider of the documents “found [them] off the internet,” Dr. Troxel responded, “I can only assume so.” Power Integrations’ only response to the questionable source of Dr. Troxel’s sales documents is that Dr. Troxel “was a qualified expert, and he found the [documents] and other materials he considered, while researching the case.” We disagree with Power Integrations that the source and reliability of data relied upon by an expert is

otherwise immaterial. Our rules of evidence require that an expert's testimony be "the product of reliable principles and methods" applied to "sufficient facts or data." Fed.R.Evid. 702(b), (c). Thus, while an expert's data need not be admissible, the data cannot be derived from a manifestly unreliable source. *See Montgomery County v. Microvote Corp.*, 320 F.3d 440, 448 (3d Cir.2003) (finding expert's data source unreliable where "some of the things that were shown to [the expert] he didn't seem to know where they were from or what the source of them were"); *cf. Emigh v. Consol. Rail Corp.*, 710 F.Supp. 608, 612 (W.D.Pa.1989) ("[W]hen the underlying source is so unreliable as to render it more prejudicial than probative, . . . Rule 703 cannot be used as a backdoor to get the evidence before the jury.").

While Dr. Troxel's data source was unreliable, so was his methodology. Here, Dr. Troxel made two speculative leaps. First, the document on which Dr. Troxel relied for his worldwide damages estimate indicated worldwide shipments of Samsung's mobile phones. As Dr. Troxel testified, however, the infringing power circuits were found in mobile phone chargers, not in mobile phones. Dr. Troxel's sales document does not mention chargers or otherwise indicate sales of chargers. His analysis assumed that each of Samsung's phones shipped with a charger. While Power Integrations is quick to point out that Dr. Troxel's assumption was not unreasonable, the document relied upon by Dr. Troxel does not specify the nature of the shipments, nor does it provide any reliable link which might indicate that the shipped phones included chargers. Without more, we cannot

safely assume that all of these shipments must have included a charger.

Dr. Troxel's second speculative step was when he assumed from his document not only that each of Samsung's shipments included a charger, but that each of these chargers incorporated an infringing power circuit. Dr. Troxel's sales document lists no model numbers or other indicia from which he could reasonably infer that chargers assumed to be included incorporated Fairchild's infringing power circuits. Power Integrations' Vice President of Worldwide Sales testified at trial that several other companies sold competing power circuits to Samsung. Further, Power Integrations retained more than 50% of Samsung's business. Thus, the data indicate that at least some of Samsung's chargers could have incorporated the competing power circuits or Power Integrations' own circuits, which do not infringe. Dr. Troxel had no way to distinguish between infringing and noninfringing chargers, and his assumption that all chargers incorporated an infringing power circuit was speculation.

In the end, we are left with an expert opinion derived from unreliable data and built on speculation. Without more, Dr. Troxel's testimony and data regarding worldwide shipments of Samsung's mobile phones are too far removed from the facts of this case, which involves Fairchild's infringing power circuits. Dr. Troxel's layered assumptions lack the hallmarks of genuinely useful expert testimony. *Kumho Tire*, 526 U.S. at 156, 119 S.Ct. 1167. Such unreliable testimony frustrates a primary goal of expert testimony in any case, which is meant to place experience from professional specialization at the jury's disposal, not



muddle the jury's fact-finding with unreliability and speculation.

For these reasons, we find that the district court abused its discretion in admitting Dr. Troxel's testimony, which was both unreliable and based on insufficient data. In 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.

#### G. REMITTITUR

Upon rejecting the jury's original damages award, the district court considered "the alternatives presented at trial," and accepted Power Integrations' argument that 18% of the infringing devices sold worldwide are eventually imported into the United States by unnamed third parties. Although in such cases the unnamed third parties—not Fairchild—would directly infringe the patents, the court found that the jury had grounds to find Fairchild liable under a theory of infringement by inducement. As evidence of Fairchild's intent to induce infringement, the district court cited Power Integrations' evidence that Fairchild had indemnified its largest offshore customers for potential infringement in the United States, including Fairchild's "joint defense agreement with Samsung and one of [Samsung's] largest cell phone charger subcontractors, Dongyang."

Based on its review, the district court determined that sufficient evidence existed to support a portion of the jury's award "to the extent it was based on inducement of infringement." *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 589 F.Supp.2d 505, 512 (D.Del.2008). The court based its determination on testimony from Power Integrations' expert that 18% of Samsung's worldwide sales were

eventually imported into the United States. “[T]his figure,” the court said, “necessarily means that 82% are not imported into the United States.” *Id.* Accordingly, the court “reduce[d] the jury’s damages award by 82%, representing that portion of the infringing products not imported into the United States.” *Id.*

The 18% domestic sales figure which the district court adopted is based in the testimony of Dr. Troxel, Power Intergrations’ expert. To support his testimony that 18% of Samsung’s mobile phones sold worldwide are imported into the United States, Dr. Troxel relied on a combination of two documents: The first document, which we discuss above in relation to the jury’s award, indicates worldwide shipments of Samsung mobile phones for the third quarters of 2004 and 2005. The second document indicates total sales of Samsung mobile phones in the United States during the third quarter of 2005. Like the first document, the data in the second document relate only to mobile phones, and not to chargers or power circuits. Combining the data in these two documents, Dr. Troxel calculated the percentage of Samsung’s worldwide sales during the third quarter of 2005 that represented mobile phones eventually sold in the United States.

On appeal, Fairchild argues that the district court improperly relied on Dr. Troxel’s estimates in formulating its remitted damages award. Specifically, Fairchild argues that Dr. Troxel’s testimony regarding domestic infringing sales was speculative, based on hearsay internet articles, and ultimately inadmissible. Thus, Fairchild argues that Dr. Troxel’s testimony regarding third-party domestic sales was not sufficient to sustain the district court’s remitted damages award. Fairchild further argues that the evidence does not

support an award of damages for infringement by inducement, which requires both specific intent and underlying direct infringement. Accordingly, while Fairchild agrees with the district court that the original jury award was contrary to law and unsupported by the evidence, Fairchild argues that the district court's remitted damages award was similarly improper.

The district court's decision to base its remittitur on the 18% figure provided by Dr. Troxel gives credence to the saying that a tainted data base produces flawed results. Setting aside whether the decision to grant remittitur was correct, the evidence on the record does not support the district court's decision to base its remitted damages award on a percentage of Samsung's worldwide sales of mobile phones.

First, the district court erred when it relied on Samsung's worldwide sales of mobile phones as evidence, in value or quantity, of sales of Fairchild's infringing components. As we hold above with respect to the testimony of Dr. Troxel, such reliance is impermissibly speculative. The subject data include no indicators that could appropriately be used to identify infringing sales. Thus, the evidence demonstrates no direct connection between Samsung's worldwide sales of mobile phones and sales of Fairchild's infringing power circuits. See *Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus., Inc.*, 1 Fed.Appx. 879, 883–84 (Fed.Cir.2001) (“[I]n cases in which there is a question whether every sale leads to an instance of direct infringement, a patentee must ... establish the connection between sales and direct infringement.”).

Second, the district court erred when it accepted Dr. Troxel's assumption that 18% of Samsung's

worldwide sales, in value or quantity, were infringing sales made in the United States. Dr. Troxel based his assumption on a combination of his first document indicating worldwide sales of Samsung's mobile phones, and his second document indicating sales of the same in the United States. Arguably, Dr. Troxel's data indicate that during the relevant period 18% of Samsung's worldwide sales of mobile phones were sales in the United States. Nevertheless, the data do not support Dr. Troxel's assumption that the 18% of Samsung's mobile phones sold in the United States included chargers incorporating Fairchild's infringing circuits. In fact, evidence was presented that Samsung sold chargers that did not incorporate Fairchild's infringing circuits. As a result, Dr. Troxel's assumption that all purported U.S. sales included infringing circuits amounts to pure speculation. Although direct evidence of infringement is not required, we consistently require that the record demonstrate something more than speculation that infringing activity has occurred. *See E-Pass Techs., Inc. v. 3Com Corp.*, 473 F.3d 1213, 1222 (Fed.Cir.2007) ("[I]t requires too speculative a leap to conclude that any customer actually performed the claimed method.").

In sum, Dr. Troxel did not present evidence linking Samsung's mobile phone sales data to Fairchild's infringing power circuits, other than to say that Fairchild sold its infringing components to Samsung. There is no evidence that the imports of Samsung products included chargers, nor is there evidence that any included chargers incorporated Fairchild's infringing circuits. Accordingly, the amount of the district court's remittitur is not supported by

substantial evidence, and we hold that the district court erred in relying on Dr. Troxel's inherently speculative 18% figure.

For the reasons above, we find that Power Integrations adduced insufficient evidence of induced infringement to sustain the district court's award of damages under that theory. Because there was no basis upon which a reasonable jury could find Fairchild liable for induced infringement, we vacate the district court's damages award.

#### H. DIRECT INFRINGEMENT

Before the trial on infringement and damages, the parties agreed to a stipulation that Fairchild made or sold within the United States, or imported into the United States, accused devices having a total value of \$765,724.<sup>6</sup> The parties' stipulation relates to Fairchild's own manufacture, sale, or importation, which on a finding of infringement would amount to stipulated direct infringement. Fairchild noted the stipulation before the district court in its motion for remittitur, JMOL, or a new trial on damages, and again notes the stipulation in its brief on appeal. At trial, counsel for Power Integrations read the parties'

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<sup>6</sup> While the parties on appeal do not dispute that \$765,724 is the correct value of the accused products included in their stipulation, we note an ambiguity in the record: The stipulation to which the parties have directed us, and which was read into evidence at trial, specifies that between February 2004 and October 2005 Fairchild manufactured, using a particular process, 2.73 million units of a particular accused device at a fabrication facility in Portland, Maine for a total revenue to Fairchild of \$547,724. On remand, the district court should review and evaluate this discrepancy.

stipulation into evidence prior to testimony of Power Integrations' damages expert Dr. Troxel. Power Integrations ultimately argued at trial that Fairchild was liable for infringing activity beyond the scope of the stipulation, based on comingled theories of direct and induced infringement.

The jury returned a general verdict awarding Power Integrations a total of \$33,981,781 in damages. The jury's total award was divided into individual awards for past lost profits due to lost sales (\$14,981,828), past and future lost profits due to price erosion (\$1,952,893 and \$13,018,379), and a lump sum reasonable royalty (\$4,028,681). Although the district court instructed the jury on both direct and indirect infringement, the verdict form did not specify whether the jury's award was based on a finding of direct infringement, infringement by inducement, or both. In its order of remittitur, however, the district court made clear that its remitted award, representing 18% of the jury's original damages award, was based on Power Integrations' theory of induced infringement.

As we have already concluded, the record contains insufficient evidence to support Fairchild's liability for induced infringement. The record, however, does reflect evidence that would support a finding of Fairchild's liability for direct infringement. Fairchild stipulated that it made or sold within the United States, or imported into the United States, accused devices worth \$765,724. This stipulation to Fairchild's domestic activity was read into evidence and considered by the jury in the infringement trial. Following the jury's infringement verdict, Fairchild's stipulation became essentially a stipulation to direct infringement. Thus, the record supports a finding of

Fairchild's liability for direct infringement, at least with respect to the products included in the stipulation.

Where, as here, the jury returns a general verdict, we must "presume[] the existence of fact findings implied from the jury's having reached that verdict." *Starceski v. Westinghouse Elec. Corp.*, 54 F.3d 1089, 1100 (3d Cir.1995) (quoting *R.R. Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1516 (Fed.Cir.1984)). Infringement and damages are findings of fact, and we review a jury's findings on both issues for substantial evidence. *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1309–10 (Fed.Cir.2009). Here, we must presume that the jury's original \$33 million award was based on a finding of direct infringement, and we must honor's the jury's determination of damages to the extent supported by substantial evidence. See U.S. Const. amend. VII; *Starceski*, 54 F.3d at 1100.

Based on the foregoing, we affirm the jury's implicit finding that Fairchild is liable to Power Integrations for direct infringement. See *Starceski*, 54 F.3d at 1100. We find the issue of damages from Fairchild's direct infringement "so distinct and separable from the others that a trial of it alone may be had without injustice." See *Gasoline Prods.*, 283 U.S. at 500, 51 S.Ct. 513. On remand, therefore, the district court shall hold a new trial to determine the proper amount of damages for Fairchild's direct infringement that is supported by substantial evidence in the existing record. We anticipate that Fairchild's liability for direct infringement will be commensurate in scope with the accused domestic activity to which Fairchild stipulated. Nevertheless, the parties on appeal have not briefed this issue, and we acknowledge that the district court is

most fit to make this determination in the first instance.

#### I. PRICE EROSION

Before the trial on infringement and damages, Fairchild moved the district court for partial summary judgment on the issue of pre-suit damages. In its motion, Fairchild asserted that Power Integrations had failed to mark its patented products in accordance with 35 U.S.C. § 287, the patent marking statute. Therefore, Fairchild argued, the marking statute precluded Power Integrations from relying on *any* “economic or market data prior to the date” Fairchild was notified of its infringement.<sup>7</sup>

The district court granted Fairchild’s motion for partial summary judgment. The court specifically “grant[ed] Fairchild’s request that all actual damages calculations be based on conditions occurring on or after the October 20, 2004 notice date.” *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, No. 04–CV–1371, ECF No. 265 (D.Del. Jun. 2, 2006). By its ruling, the court prohibited Power Integrations from introducing evidence that Fairchild’s pre-notice infringing sales had depressed the market price of the patented products, thus reducing Power Integrations’ profits on sales *after* the notice date.

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<sup>7</sup> We refer to the date Power Integrations first notified Fairchild of its alleged infringement as “the date of notice” or “the notice date.” Here, the district court determined and the parties do not dispute that the notice date is October 20, 2004, the date on which Power Integrations first filed suit against Fairchild. *See* 35 U.S.C. § 287(a) (“Filing of an action for infringement shall constitute such notice.”); *see also U.S. Philips Corp. v. Iwasaki Elec. Co. Ltd.*, 505 F.3d 1371, 1374 (Fed.Cir.2007).



Power Integrations cross-appeals the district court's decision to exclude evidence of pre-notice price erosion for the purpose of calculating damages from Fairchild's post-notice infringement. Power Integrations urges that, while the marking statute precludes recovery of damages for infringement before the notice date, the statute does not require courts to ignore pre-notice price erosion when calculating damages for post-notice infringement. Thus, Power Integrations argues the district court erred in excluding evidence of pre-notice market data for use in calculating damages for Fairchild's infringement that occurred after the notice date. According to Power Integrations, the court should have admitted evidence regarding price changes from the start of Fairchild's infringing activity for use in determining compensation for Fairchild's post-notice infringements. Power Integrations suggests that, when assessing compensable price erosion for post-notice infringements, we must assess market conditions at the time Fairchild's infringing products first entered the market.

Lost revenue caused by a reduction in the market price of a patented good due to infringement is a legitimate element of compensatory damages. Indeed, an "infringer's activities do more than divert sales to the infringer. They also depress the price [of the patented product]. Competition drives price toward marginal cost." *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig.*, 831 F.Supp. 1354, 1384 (N.D.Ill.1993), *aff'd.*, 71 F.3d 1573 (Fed.Cir.1995). Because the patentee is entitled to what she would have made "had the Infringer not infringed," *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476,

507, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964), damages for infringement may account for both lost sales and reduction of prices due to infringing competition, *see Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 551, 6 S.Ct. 934, 29 L.Ed. 954 (1886) (“Reduction of prices, and consequent loss of profits, enforced by infringing competition, is a proper ground for awarding damages.”). We thus recognize the economic principle of “price erosion” in calculating compensatory damages for patent infringement. *See Crystal Semiconductor Corp. v. TriTech Microelectronics Int’l, Inc.*, 246 F.3d 1336, 1357 (Fed.Cir.2001).

The patent marking statute limits recoverable damages where a patentee fails to mark her patented products. 35 U.S.C. § 287; *see also Wine Ry. Appliance Co. v. Enter. Ry. Equip. Co.*, 297 U.S. 387, 397, 56 S.Ct. 528, 80 L.Ed. 736 (1936) (“All these acts reveal the purpose to require that marks be put on patented articles for the information of the public.”). Where a patentee does not appropriately mark her products, she may not recover damages for infringement occurring before notice to the infringer.<sup>8</sup>

The marking statute provides a temporal limitation on *damages* for infringement. It does not define—nor does it redefine—acts of infringement. That task is left

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<sup>8</sup> The marking statute provides, with respect to damages,

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.*

35 U.S.C. § 287(a) (emphasis added).

to 35 U.S.C. § 271(a), which provides that “whoever without authority makes, uses, offers to sell, or sells any patented invention . . . infringes the patent.” 35 U.S.C. § 271(a). While the marking statute limits recovery of damages for infringement occurring before the “infringer was notified *of the infringement*,” the statute refers to the pre-notice infringing activity as “infringement.” 35 U.S.C. § 287(a) (emphasis added). Indeed, pre-notice infringement is still infringement. What differs is that a patentee may not recover damages for such pre-notice infringement.

In *Wang*, we were faced with a similar situation. There, the patentee’s failure to mark its patented products precluded recovery of damages for infringement prior to notice. There were, however, post-notice infringing sales for which damages were legally recoverable, and the district court endeavored to determine a reasonable royalty rate for these post-notice sales. The district court determined that the date of a hypothetical royalty negotiation should be the date of notice rather than “the earlier date, the date on which the patents issued and infringement of the invention technically began, but for which plaintiffs are barred by 35 U.S.C. § 287 from seeking damages.” We reversed on appeal because “the court confused limitation on damages due to lack of notice with determination of the time when damages first began to accrue, and it is the latter which is controlling in a hypothetical royalty determination.” *Wang Labs., Inc. v. Toshiba Corp.*, 993 F.2d 858, 870 (Fed.Cir.1993).

We thus acknowledged in *Wang* that while the marking statute precludes recovery of damages for pre-notice infringement, we must assess damages for post-notice infringement relative to market conditions

at the point in time when infringement began.<sup>9</sup> Even the infringer's pre-notice infringing activity is part of her whole infringement, and it is the whole of her infringement which we must consider in calculating damages for legally compensable post-notice infringement. To the extent an infringer's pre-notice infringement erodes the market price of a patented product, that price erosion is relevant in determining for each post-notice act of infringement what the patentee would have made *but for the infringement*. See *Aro*, 377 U.S. at 507, 84 S.Ct. 1526 (asking what the patentee would have made “had the [i]nfringer *not infringed*” (emphasis added)); *Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 1543 (Fed.Cir.1987) (“In a market with only two viable competitors, one may infer that the patentee would have made the infringer's sales or charged higher prices but for the infringing competition.”). Accordingly, we hold that a price erosion analysis relating to damages arising from post-notice infringement must measure price changes against *infringement-free* market conditions, and thus the proper starting point of such a price erosion analysis is the date of first infringement.

The district court's decision to exclude Power Integrations' evidence of pre-notice price erosion was incorrect as a matter of law. We thus reverse the

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<sup>9</sup> Indeed, the marking statute's temporal limitation on damages does not legitimize pre-notice infringement. That infringing activity, quite definitely, remains an intrusion on the patentee's exclusive right. Rather, the marking statute operates precisely to preclude recovery of each quantum of damage—that is, each lost sale or reasonable royalty payment—that arises from an act of pre-notice infringement.

district court's grant of partial summary judgment for Fairchild. In the new trial on damages for direct infringement, the district court shall admit Power Integrations' evidence of pre-notice price erosion that is relevant in calculating damages for Fairchild's post-notice direct infringement.

#### J. ACCOUNTING

Following both jury trials, Power Integrations moved the district court for an accounting of Fairchild's postverdict infringing sales. The district court denied the motion due to Power Integrations' failure to request an accounting either in its amended complaint or in the parties' joint pretrial order. The district court acknowledged some ambiguity as to whether Fairchild had agreed to an accounting earlier in litigation; nevertheless, the court found that Power Integrations had not "preserved its rights to an accounting by expressly requesting one in either its Amended Complaint or the Final Pretrial Order." *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, No. 04-CV-1371, 2008 WL 5263899, at \*1 (D.Del. Dec. 12, 2008).

Power Integrations cross-appeals the district court's denial of its post-trial motion for an accounting. Power Integrations contends that our decision in *Finjan, Inc. v. Secure Computing Corp.*, 626 F.3d 1197, 1213 (Fed.Cir.2010), requires an accounting of post-verdict damages.

In Fairchild's view, *Finjan* does not control here. Unlike in *Finjan*, Fairchild argues, the timing of Power Integrations' motion for a post-verdict accounting is extremely prejudicial. Fairchild insists that Power Integrations' request for an accounting is a veiled attempt to remedy its deficient damages case.

Fairchild urges us not to give Power Integrations a “second bite at the apple.”

Despite Fairchild’s objection, our decision in *Finjan* is on point. There, Finjan challenged the district court’s decision to deny Finjan an accounting for post-judgment damages. *Id.* at 1212. The defendants argued that Finjan had waived its right to an accounting because Finjan’s complaint sought only “such damages as it shall prove at trial.” *Id.* at 1213. We found that “nothing in this statement forfeited the right to prove damages for sales that occurred after trial,” and accordingly, we rejected the defendant’s waiver argument. *Id.* We noted that Finjan’s complaint additionally sought “[s]uch further and other relief as the Court and/or jury may deem proper and just,” and we found no prejudice from the timing of Finjan’s motion. *Id.* “Therefore,” we held, “the district court should have awarded compensation for any infringement prior to the injunction.” *Id.*

Power Integrations is correct that it was entitled to an accounting for Fairchild’s post-verdict infringement.<sup>10</sup> We see nothing in the record to

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<sup>10</sup> See *Finjan*, 626 F.3d at 1212–13; see also 35 U.S.C. § 284 (2012) (“When damages are not found by a jury, the court *shall* assess them.”) (emphasis added); *Ecolab, Inc. v. FMC Corp.*, 569 F.3d 1335, 1353, *amended on reh’g in part*, 366 Fed.Appx. 154 (Fed.Cir.2009) (“To the extent that an accounting is so required—e.g. to calculate and award damages for post-verdict sales—the district court should order an accounting on remand.”); *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 582 F.3d 1288, 1303 (Fed.Cir.2009) (“A damages award for pre-verdict sales of the infringing product does not fully compensate the patentee because it fails to account for post-verdict sales of repair parts.”); *Carborundum Co. v. Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 882

suggest that Power Integrations waived its right to a post-verdict accounting. In its complaint, Power Integrations requested, among other things, “money damages sustained as a result of defendants’ infringement.” This statement contains no temporal limit on the damages requested. Power Integrations’ complaint further requested “such other and further relief as this Court finds just and proper.” As in *Finjan*, this open-ended request confirms that Power Integrations intended no waiver of any appropriate remedy. In any event, Power Integrations’ purported waiver was unclear enough that the district court found it “ambiguous” whether Fairchild had actually agreed at some point to an accounting. Based on the foregoing, we cannot see how Power Integrations waived its right to an accounting.

We reverse the district court’s denial of Power Integrations’ motion for an accounting. We are nevertheless sympathetic to Fairchild’s insistence that

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(Fed.Cir.1995) (explaining that patentee is “not fully compensated” if “damages award did not include future lost sales.”); accord *Edwards Lifesciences AG v. CoreValve, Inc.*, No. 08–91–GMS, 2011 WL 446203, at \*16 (D.Del. Feb. 7, 2011), *aff’d in part, remanded in part*, 699 F.3d 1305 (Fed.Cir.2012) (“The court will grant . . . an accounting of the number of [infringing] devices made, used, sold . . . through the date of the order accompanying this memorandum.”); *TruePosition Inc. v. Andrew Corp.*, No. Civ. 05–747–SLR, 2009 WL 1651042, at \*1 n. 2 (D.Del. June 10, 2009), *aff’d*, 389 Fed.Appx. 1000 (Fed.Cir.2010) (“The court permitted additional discovery . . . to complete a post-trial accounting of damages.”); *Becton Dickinson & Co. v. Tyco Healthcare Grp. LP*, No. 02–1694 GMS, 2008 WL 4745882, at \*5 (D.Del. Oct. 29, 2008) (“BD’s request for a post-verdict accounting of damages and interest that BD has incurred from the sale of [the infringing devices] . . . since October 7, 2007, is GRANTED.”).

a reversal on this issue should not give Power Integrations “a second bite at the apple.” Accordingly, the district court on remand shall limit the scope of its accounting to those post-verdict infringing sales, if any, which are substantially related to the direct infringement by Fairchild which the district court finds supported by the existing record. *See* Fed.R.Civ.P. 59 (“The court may, on motion, grant a new trial on all or some of the issues . . .”); *cf. Gasoline Prods.*, 283 U.S. at 500, 51 S.Ct. 513 (explaining that partial new trial is permissible if “issue to be retried is so distinct and separable from the others that a trial of it alone may be had without injustice”). At this point, Power Integrations has had a full and fair opportunity to develop the record, and its right to a post-verdict accounting is not an unlimited after-hours hunting license.

#### CONCLUSION

In accordance with the foregoing, we affirm the district court’s ruling on obviousness. We reverse the district court’s construction of the “soft start circuit” limitations in claim 4 of the ’851 Patent and in claims 9 and 14 of the ’366 Patent. We remand for the district court to construe those claims and determine what effects, if any, the new constructions have on the validity of those patents and on Fairchild’s infringement thereof. We vacate the district court’s award of damages based on infringement by inducement, and we remand for a new trial on damages resulting from Fairchild’s direct infringement. We order an accounting limited to postverdict infringing sales related to Fairchild’s direct infringement. Finally, we vacate the district court’s finding of willful infringement, and we remand with instructions to



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reassess willfulness in view of our other holdings in this case.

**AFFIRMED-IN-PART, REVERSED-IN-PART, VACATED-IN-PART, AND REMANDED**

COSTS

Each party shall bear its own costs.

UNITED STATES DISTRICT COURT,  
D. DELAWARE

**POWER INTEGRATIONS, INC.,**  
**a Delaware corporation,**  
**Plaintiff,**

**v.**

**FAIRCHILD SEMICONDUCTOR**  
**INTERNATIONAL, INC., a Delaware corporation,**  
**and Fairchild Semiconductor Corporation, a**  
**Delaware corporation, Defendants.**

**C.A. No. 04–1371–JJF.**

Dec. 12, 2008.

589 F. Supp. 2d 505

***MEMORANDUM OPINION***

FARNAN, District Judge.

Pending before the Court is a Motion For Remitter [sic], Judgment As A Matter Of Law, Or, In The Alternative, New Trial Concerning Damages (D.I. 613) filed by Defendants, Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation (collectively, “Fairchild”). For the reasons set forth below the Court will grant the Motion to the extent that it requests a remittitur and reduce the amount of damages awarded to Power Integrations to \$6,116,720.58, an amount representing 82% of the jury’s damages verdict.

**BACKGROUND**

The background relevant to this action has been set forth by the Court in previous decisions rendered in this case. (D.I. 231, 683). By way of summary, a jury

returned a verdict in favor of Power Integrations, Inc. (“Power Integrations”) on the issues of infringement and willful infringement. The jury awarded Power Integrations damages in the total amount of \$33,981,781, representing: (1) \$14,981,828 in lost profits from lost sales related to the ’876 and ’851 patent only, (2) \$1,952,893 in past lost profits from price erosion, (3) \$13,018,379 in future lost profits from price erosion, and (4) \$4,028,681 in reasonable royalties.

A second, different jury also returned a verdict in favor of Power Integrations on the validity of the patents-in-suit. Inequitable conduct was tried before the Court, and the Court concluded that Fairchild failed to establish that the patents were unenforceable due to inequitable conduct. (D.I. 683, 684).

### **STANDARD OF REVIEW**

#### **I. Judgment As A Matter Of Law**

To prevail on a renewed motion for judgment as a matter of law following a jury trial, the moving party “must show that the jury’s findings, presumed or express are not supported by substantial evidence or, if they were, that the legal conclusions implied [by] the jury’s verdict cannot in law be supported by those findings.” *Pannu v. Iolab Corp.*, 155 F.3d 1344, 1348 (Fed.Cir.1998) (citations omitted). In assessing the sufficiency of the evidence, the court must give the non-moving party, “as [the] verdict winner, the benefit of all logical inferences that could be drawn from the evidence presented, resolve all conflicts in the evidence in his favor, and in general, view the record in the light most favorable to him.” *Williamson v. Consolidated Rail Corp.*, 926 F.2d 1344, 1348 (3d Cir.), *reh’g en banc denied*, 1991 U.S.App. LEXIS 16758 (3d Cir.1991); *Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d

888, 893 (Fed.Cir.1984).

The court may not evaluate the credibility of the witnesses, may not weigh the evidence, and may not substitute its view of the evidence for the jury's view. *Price v. Delaware Dept. of Correction*, 40 F.Supp.2d 544, 550 (D.Del.1999). Rather, the court must determine whether the evidence reasonably supports the jury's verdict. *Dawn Equip. Co. v. Kentucky Farms, Inc.*, 140 F.3d 1009, 1014 (Fed.Cir.1998). Motions for judgment as a matter of law are granted "sparingly" and only in those circumstances in which "the record is critically deficient of the minimum quantum of evidence in support of the verdict." *Johnson v. Campbell*, 332 F.3d 199, 204 (3d Cir.2003).

## **II. New Trial**

Pursuant to Federal Rule of Civil Procedure 59(a), a new trial may be granted on all or part of the issues "for any of the reasons for which new trials have heretofore been granted in actions at law in the courts of the United States." Unlike a motion for judgment as a matter of law, the trial court is not required to construe the evidence in the light most favorable to the verdict winner when considering whether a new trial is warranted.

The decision to grant a new trial lies within the discretion of the trial court. In exercising this discretion, the trial court should consider the nature and character of the trial, including its complexity. *Lind v. Schenley Industries, Inc.*, 278 F.2d 79, 89 (3d Cir.), *cert. denied*, 364 U.S. 835, 81 S.Ct. 58, 5 L.Ed.2d 60 (1960). Although the jury's verdict should be scrutinized by the trial court more carefully in long, complex cases dealing with material outside the normal experience of most jurors, *id.*, the court should not

substitute its view of the evidence for that of the jury's assessment. A new trial should only be granted when allowing a verdict to stand would result in a miscarriage of justice. *Williamson v. Consolidated Rail Corp.*, 926 F.2d 1344, 1352 (3d Cir.1991). In other words, a court should not disturb a verdict unless the verdict, "on the record, cries out to be overturned or shocks [the court's] conscience." *Id.* at 1353 (citing *EEOC v. Delaware Dep't of Health & Social Serv.*, 865 F.2d 1408, 1413 (3d Cir.1989)).

### **III. Remittitur**

When a jury's verdict is so grossly excessive as to shock the conscience, a trial court may, in the alternative to a new trial, order a remittitur. *Williams v. Martin Marietta Alumina, Inc.*, 817 F.2d 1030, 1038 (3d Cir.1987). A verdict shocks the conscience when it bears no rational relationship to the evidence presented at trial. *Gumbs v. Pueblo Int'l, Inc.*, 823 F.2d 768, 773 (3d Cir.1987). Although the decision to grant a remittitur lies within the discretion of the district court, a trial court may not reduce the damages award merely because it would have granted a lesser amount than that which the jury granted. If remittitur is appropriate, the trial court should reduce the damage award to the highest amount the jury could have properly awarded based on the relevant evidence. *IPPV Enter. LLC v. Echostar Comms. Corp.*, 191 F.Supp.2d 530, 572 (D.Del.2002).

### **DISCUSSION**

By its Motion, Fairchild contends that the damages awarded by the jury are legally incorrect and without evidentiary support. Specifically, Fairchild contends that Power Integrations cannot recover damages for infringement of a patent that occurred entirely outside

of the United States, yet the jury improperly awarded Power Integrations “worldwide” damages, which were not caused by any conduct by any party within the United States. In support of its argument, Fairchild directs the Court to the text of 35 U.S.C. § 271(a), and the Supreme Court’s recent decision in *Microsoft Corp. v. AT & T Corp.*, 550 U.S. 437, 127 S.Ct. 1746, 1750, 167 L.Ed.2d 737 (2007), as well as nearly 150 years of Supreme Court precedent.

In this case, the jury clearly adopted the measure of damages posed by Power Integrations’ expert, Dr. Troxel. Dr. Troxel testified at trial, that his calculations were based on a worldwide sales measure of damages. However, Power Integrations contends that this worldwide sales measure of damages does not equate to infringement activities that occurred outside the United States. Rather, Power Integrations contends that it presented evidence of Fairchild’s infringement within the United States, “including direct sales or offers to sell infringing parts in the United States, the manufacturing of infringing parts in the United States and offers for sale from the United States that result in actual sales abroad, and inducing and contributing to importation of infringing parts into the United States by, among other things, affirmatively indemnifying foreign customers like Samsung against U.S. infringement claims.” (D.I. 646 at 10-11). Relying on the Federal Circuit’s decision in *Rite-Hite v. Kelley*, 56 F.3d 1538 (Fed.Cir.1995), Power Integrations contends that this evidence supports the jury’s verdict, because compensatory damages under 35 U.S.C. § 284 are broadly construed to include reasonably foreseeable damages resulting from lost sales of a competitive product.

As a threshold matter, the Court notes that its previous decisions pertaining to this issue have not directly addressed the substance of the questions presented here. The Court's first ruling was made in the context of discovery and the liberal discovery policies under the Federal Rules of Civil Procedure. (D.I. 54). The Court's later rulings merely expressed the Court's view that questions of fact remained on the issues, such that the Court preferred a full trial on the merits of the issue before making a ruling. (D.I. 266, 384). Having had a full exposition of the evidence through trial, the Court is, at this juncture, able to evaluate whether Power Integrations has established its entitlement to the jury's award of damages which is based on a worldwide sales figure.

In pertinent part, Section 271(a) provides:

whoever without authority makes, uses, offers to sell, or sells any patented invention, *within the United States*, or *imports into the United States* any patented invention during the term of the patent therefor, infringes the patent.

35 U.S.C. § 271(a) (emphasis added). Section 284 also provides, in relevant part:

Upon a finding for the claimant the court shall award the claimant damages to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer . . . .

35 U.S.C. § 284. It is well-established that our patent laws only operate domestically, such that the use of a patented article outside the United States does not constitute an act of infringement, and a patentee has no right to compensation for the profit or advantage

derived from such foreign use. *Microsoft*, 127 S.Ct. at 1758; *Brown v. Duchesne*, 60 U.S. 183, 195–196, 19 How. 183, 15 L.Ed. 595 (1856).

That having been said, the Supreme Court has also recognized that an award of “damages adequate to compensate for infringement” under Section 284 is to be broadly construed to allow for “full compensation for any damages [the complainant can prove] he suffered as a result of the infringement.” *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654–655, 103 S.Ct. 2058, 76 L.Ed.2d 211 (1983). The Supreme Court has further explained that Section 284 damages are measured by the patentee’s loss due to the infringement, and not upon the infringer’s gain:

“[D]amages” [that] may be recovered [under § 284] have been defined by this Court as “compensation for the pecuniary loss he (the patentee) has suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts.” They have been said to constitute “the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred.” The question to be asked in determining damages is “how much had the Patent Holder . . . suffered by the infringement. And that question (is) primarily: had the Infringer not infringed, what would [the] Patent Holder . . . have made?”

*Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964) (citations omitted). Recognizing the Supreme Court’s broad approach to damages and balancing that approach with “the reasonable limits of liability



encompassed by general principles of law,” the Federal Circuit concluded that a “reasonable, objective foreseeability” test should be applied to patent damages. As the Federal Circuit explained:

If a particular injury was or should have been reasonably foreseeable by an infringing competitor in the relevant market, broadly defined, that injury is generally compensable absent a persuasive reason to the contrary . . . . Being responsible for lost sales of a competitive product is surely foreseeable; such losses constitute the full compensation set forth by Congress, as interpreted by the Supreme Court, while staying well within the traditional meaning of proximate cause.

*Rite-Hite*, 56 F.3d at 1546–47.

Although Fairchild attempts to pit the Supreme Court’s decision in *Microsoft* and the years of Supreme Court precedent preceding it against the *Rite Hite* decision, the Court does not believe the cases are at odds with one another. In addition, the Court does not read the parties’ briefs as waging a genuine dispute concerning these basic legal principles. Rather, the Court views the heart of the parties’ disagreement to be the characterization of the evidence adduced at trial.

Power Integrations focuses the Court on the evidence concerning Fairchild’s infringing activity in the United States and contends that from this evidence, it was appropriate for the jury to award damages based on a worldwide loss of sales and profits from price erosion. Stated another way, Power Integrations contends that based on Fairchild’s infringement in the United States, it was foreseeable that Power Integrations would lose sales worldwide.

The weakness of Power Integrations' argument is that the worldwide sales measure of damages encompasses Fairchild's activities outside the United States which cannot be considered infringing under *Microsoft*. In other words, the amount of damages testified to by Dr. Troxel and adopted by the jury is not actually rooted in Fairchild's infringing activity in the United States as Dr. Troxel made clear on cross-examination. Dr. Troxel's estimate of \$30 million in damages was *not* related to parts that were manufactured, used, or sold in the United States by Fairchild, and was *not* based on parts that were imported into the United States by Fairchild or anyone else. In addition, Dr. Troxel testified on cross-examination that he did *not* quantify an amount of damages caused by Fairchild based on any offer for sale by Fairchild in the United States. Thus, while the testimony may have been sufficient to establish infringing activity by Fairchild in the United States, the Court concludes that the damages estimates offered by Dr. Troxel exceeded that scope. (Tr. 10/4/06 at 838:1-840:20).

Having concluded that no legal basis supports the jury award for damages in the amount of \$33 million, the Court must consider the alternatives presented at trial. Fairchild concedes that it made, sold or imported \$765,724 worth of accused devices in the United States, and Fairchild contends that the Court should apply the jury determined royalty rate of 15% to this amount for a total award of \$114,858.60. Fairchild argues alternatively, that the Court should reduce the \$33 million in damages by 82%. Fairchild's argument in this regard is based on Power Integrations' argument at trial that 18% of the devices sold outside the United

States are later imported into the United States by unnamed third parties. Accepting Power Integrations' argument, Fairchild contends that this necessarily means that 82% of Fairchild's devices are never imported into the United States, and therefore, Power Integrations' \$30 million in damages should be reduced by 82%.

Power Integrations contends that its use of an 18% figure is reasonable and properly based on an extrapolation of data concerning the number of cell phones imported into the United States. Power Integrations contends that reasonable jurors could justly infer that the percentage of cell phones imported into the United States approximates the percentage of chargers imported.

Power Integrations' importation argument rests largely on the theory of inducement of infringement under 35 U.S.C. 271(b).<sup>1</sup> To establish liability for inducing infringement, a plaintiff must establish that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement. The plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringement. These requirements may be shown by direct or circumstantial evidence. *See Metabolite Labs., Inc. v. Lab. Corp. of*

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<sup>1</sup> Power Integrations also raises an argument based on contributory infringement; however, the Court need not address that argument in light of the Court's conclusion regarding inducement of infringement.

*Am. Holdings*, 370 F.3d 1354, 1365 (Fed.Cir. 2004).

In this case Power Integrations introduced evidence that Fairchild indemnified its largest off-shore customers for potential infringement into the United States, including entering into a joint defense agreement with Samsung and one of its largest cell phone charger subcontractors, Dongyang. (PX 178; Tr. 10/4/06 at 923:22–926:6). Power Integrations also introduced sufficient evidence to demonstrate that companies like Samsung import Fairchild’s accused devices into the United States, and that Fairchild was aware of this importation. (Tr. 10/5/06 at 1015:2–20; 10/4/06 at 751:21–754:13, 735:5–20, 768:4–24; D.I. 613 at 12). Construing this evidence in the light most favorable to Power Integrations and drawing all reasonable inferences from that evidence in support of Power Integrations, the Court concludes that the jury’s verdict, to the extent it was based on inducement of infringement, was supported by the evidence. The Court further concludes, based on the record evidence, that there is a sufficient evidentiary basis to support Power Integrations’ argument that 18% of Fairchild’s infringing products are imported into the United States. However, the Court also agrees with Fairchild that acceptance of this figure necessarily means that 82% are not imported into the United States. Accordingly, the Court will reduce the jury’s damages award by 82%, representing that portion of the infringing products not imported into the United States.

### CONCLUSION

For the reasons discussed, the Court will grant Fairchild’s Motion For Remitter [sic], Judgment As A Matter Of Law, Or, In The Alternative, New Trial

Concerning Damages (D.I. 613) to the extent that it requests remittitur and reduce the jury's verdict to \$6,116,720.58, an amount representing an 82% reduction from the amount awarded by the jury.

An appropriate Order will be entered.

***ORDER***

At Wilmington, this 12 day of December 2008, for the reasons set forth in the Memorandum Opinion issued this date;

IT IS HEREBY ORDERED that Defendants' Motion For Remitter [sic], Judgment As A Matter Of Law, Or, In The Alternative, New Trial Concerning Damages (D.I. 613) is ***GRANTED*** to the extent that it requests a remittitur and ***DENIED*** in all other respects. Power Integrations' damages award is reduced to \$6,116,720.58.

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UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

2011-1218, -1238

POWER INTEGRATIONS, INC.,

Plaintiff-Cross Appellant,

v.

FAIRCHILD SEMICONDUCTOR  
INTERNATIONAL, INC. and FAIRCHILD  
SEMICONDUCTOR CORP.,

Defendants-Appellants.

Appeals from the United States District Court for the  
District of Delaware in case no. 04-CV-1371, Judge  
Leonard P. Stark.

**ORDER**

A combined petition for panel rehearing and for rehearing en banc having been filed by the Cross-Appellant, and the petition for rehearing, having been referred to the panel that heard the appeal, and thereafter the petition for rehearing en banc having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for panel rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on June 4, 2013.

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FOR THE COURT

/s/ Jan Horbaly

Jan Horbaly

Clerk

Dated: 05/28/2013

cc: Blair M. Jacobs

Frank E. Scherenbach

POWER INTEGRATIONS V FAIRCHILD SEMI,  
2011-1218, -1238

(DCT - 04-CV-1371)

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**35 U.S.C. § 101**

**§ 101. Inventions patentable**

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.



## 35 U.S.C. § 271

**§ 271. Infringement of patent**

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights

against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

(e)(1) 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 (other than a new animal drug or veterinary biological product (as those terms are used in the Federal Food, Drug, and Cosmetic Act and the Act of March 4, 1913) which is primarily manufactured using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques) 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.

(2) It shall be an act of infringement to submit—

(A) an application under section 505(j) of the Federal Food, Drug, and Cosmetic Act or described in section 505(b)(2) of such Act for a drug claimed in a patent or the use of which is claimed in a patent,

(B) an application under section 512 of such Act or under the Act of March 4, 1913 (21 U.S.C. 151-158) for a drug or veterinary biological product which is not primarily manufactured using recombinant DNA, recombinant RNA, hybridoma

technology, or other processes involving site specific genetic manipulation techniques and which is claimed in a patent or the use of which is claimed in a patent, or

(C)(i) with respect to a patent that is identified in the list of patents described in section 351(l)(3) of the Public Health Service Act (including as provided under section 351(l)(7) of such Act), an application seeking approval of a biological product, or

(ii) if the applicant for the application fails to provide the application and information required under section 351(l)(2)(A) of such Act, an application seeking approval of a biological product for a patent that could be identified pursuant to section 351(l)(3)(A)(i) of such Act,

if the purpose of such submission is to obtain approval under such Act to engage in the commercial manufacture, use, or sale of a drug, veterinary biological product, or biological product claimed in a patent or the use of which is claimed in a patent before the expiration of such patent.

(3) In any action for patent infringement brought under this section, no injunctive or other relief may be granted which would prohibit the making, using, offering to sell, or selling within the United States or importing into the United States of a patented invention under paragraph (1).

(4) For an act of infringement described in paragraph (2)—

(A) the court shall order the effective date of any approval of the drug or veterinary biological product involved in the infringement to be a date

which is not earlier than the date of the expiration of the patent which has been infringed,

(B) injunctive relief may be granted against an infringer to prevent the commercial manufacture, use, offer to sell, or sale within the United States or importation into the United States of an approved drug, veterinary biological product, or biological product,

(C) damages or other monetary relief may be awarded against an infringer only if there has been commercial manufacture, use, offer to sell, or sale within the United States or importation into the United States of an approved drug, veterinary biological product, or biological product, and

(D) the court shall order a permanent injunction prohibiting any infringement of the patent by the biological product involved in the infringement until a date which is not earlier than the date of the expiration of the patent that has been infringed under paragraph (2)(C), provided the patent is the subject of a final court decision, as defined in section 351(k)(6) of the Public Health Service Act, in an action for infringement of the patent under section 351(l)(6) of such Act, and the biological product has not yet been approved because of section 351(k)(7) of such Act.

The remedies prescribed by subparagraphs (A), (B), (C), and (D) are the only remedies which may be granted by a court for an act of infringement described in paragraph (2), except that a court may award attorney fees under section 285.

(5) Where a person has filed an application described in paragraph (2) that includes a certification

under subsection (b)(2)(A)(iv) or (j)(2)(A)(vii)(IV) of section 505 of the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 355), and neither the owner of the patent that is the subject of the certification nor the holder of the approved application under subsection (b) of such section for the drug that is claimed by the patent or a use of which is claimed by the patent brought an action for infringement of such patent before the expiration of 45 days after the date on which the notice given under subsection (b)(3) or (j)(2)(B) of such section was received, the courts of the United States shall, to the extent consistent with the Constitution, have subject matter jurisdiction in any action brought by such person under section 2201 of title 28 for a declaratory judgment that such patent is invalid or not infringed.

(6)(A) Subparagraph (B) applies, in lieu of paragraph (4), in the case of a patent—

(i) that is identified, as applicable, in the list of patents described in section 351(l)(4) of the Public Health Service Act or the lists of patents described in section 351(l)(5)(B) of such Act with respect to a biological product; and

(ii) for which an action for infringement of the patent with respect to the biological product—

(I) was brought after the expiration of the 30-day period described in subparagraph (A) or (B), as applicable, of section 351(l)(6) of such Act; or

(II) was brought before the expiration of the 30-day period described in subclause (I), but which was dismissed without prejudice or was not prosecuted to judgment in good faith.

(B) In an action for infringement of a patent described in subparagraph (A), the sole and exclusive remedy that may be granted by a court, upon a finding that the making, using, offering to sell, selling, or importation into the United States of the biological product that is the subject of the action infringed the patent, shall be a reasonable royalty.

(C) The owner of a patent that should have been included in the list described in section 351(l)(3)(A) of the Public Health Service Act, including as provided under section 351(l)(7) of such Act for a biological product, but was not timely included in such list, may not bring an action under this section for infringement of the patent with respect to the biological product.

(f)(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made

or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(g) Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent. In an action for infringement of a process patent, no remedy may be granted for infringement on account of the noncommercial use or retail sale of a product unless there is no adequate remedy under this title for infringement on account of the importation or other use, offer to sell, or sale of that product. A product which is made by a patented process will, for purposes of this title, not be considered to be so made after—

(1) it is materially changed by subsequent processes; or

(2) it becomes a trivial and nonessential component of another product.

(h) As used in this section, the term “whoever” includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.

(i) As used in this section, an “offer for sale” or an “offer to sell” by a person other than the patentee, or any designee of the patentee, is that in which the sale will occur before the expiration of the term of the patent.



**35 U.S.C. § 284****§ 284. Damages**

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.