Nos. 2019-1246, -1247

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

POWER INTEGRATIONS, INC.,

Plaintiff/Cross-Appellant,

v.

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC.,
FAIRCHILD SEMICONDUCTOR CORPORATION,

Defendants-Appellants.

On Appeal from the United States District Court
for the District of Delaware, No. 1:04-cv-01371-LPS, Judge Leonard P. Stark

BRIEF FOR *AMICUS CURIAE* INTEL CORPORATION IN SUPPORT OF DEFENDANTS-APPELLANTS

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February 8, 2019

CERTIFICATE OF INTEREST

Counsel for *Amicus Curiae* Intel Corporation certifies the following:

1. The full name of every party or *amicus* represented by me is:

Intel Corporation

2. The names of the real party in interest represented by me are:

Not applicable.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

None.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court (and who have not or will not enter an appearance in this case) are:

None.

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal:

Power Integrations, Inc v. Fairchild Semiconductor et al., No. 1:08-cv-00309-LPS (D. Del.).

Dated: February 8, 2019

/s/ William F. Lee

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INTEREST OF *AMICUS CURIAE*[1]

Headquartered in the United States, Intel Corporation is a global leader in the design and manufacturing of semiconductor products, including hardware and software products for networking, telecommunications, cloud computing, artificial intelligence, autonomous driving, and other applications. Intel's research, development, manufacturing, and sales operations take place around the globe. Intel regularly designs products in this country for manufacture, distribution, and sale worldwide. Intel likewise designs products abroad for manufacture, distribution, and sale in the United States and elsewhere. Intel therefore has a strong interest in the legal standards governing liability and damages for research, development, manufacturing, and sales activities that cross national boundaries. Intel also has a significant interest in international trade frameworks.

As both a significant patent holder and a frequent patent-litigation defendant, Intel has a strong interest in the consistent application of patent damages law. Intel's product sales outside the United States generated over $50.2 billion in 2017—over

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[1] No counsel for any party authored this brief in whole or in part, and no person or entity other than *amici* and their counsel made a monetary contribution intended to fund the preparation or submission of this brief. Appellants consent to the filing of this brief, but Cross-Appellant does not. Pursuant to Fed. R. App. P. 29(a)(2), this brief is accompanied by a motion for leave to file.

80% of Intel's annual revenue.[2] Accordingly, any change to U.S. patent law permitting damages on worldwide sales as a remedy for domestic infringement under 35 U.S.C. § 271(a) could significantly affect Intel.

SUMMARY OF ARGUMENT

This Court has long held that a patentee cannot recover worldwide damages as a remedy for domestic patent infringement under 35 U.S.C. § 271(a). Businesses, including Intel, have relied on that bedrock principle in arranging their research, development, manufacturing, and sales operations. This Court's precedent correctly applies Congress's direction that U.S. patent law apply only domestically, and it should be maintained as a matter of *stare decisis*. The Supreme Court's decision in *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018), which arose in the special cross-border context addressed by 35 U.S.C. § 271(f), does not justify discarding this longstanding precedent.

Overruling this Court's precedent would be an unwarranted expansion of U.S. patent law into areas properly subject to regulation by other countries and would upset settled expectations that foreign activity is subject, if at all, to foreign patents and remedies. Moreover, expanding the scope of U.S. patent damages, as the district court did here, could have harmful repercussions for U.S. companies and consumers

[2] Intel 2017 Annual Report, at 76, *available at* https://s21.q4cdn.com/600692695/files/doc_financials/2017/annual/Intel_Annual_Report_Final_corrected.pdf.

if foreign governments treat the imposition of U.S. liability for foreign sales as a restriction on trade or seek to impose similar liability for U.S. sales of goods protected by foreign patents. Given the host of unintended policy consequences that could ensue from expanding the reach of U.S. patent law, the decision whether to overturn this Court's well-settled precedent should be left to Congress.

To the extent the Court does enlarge the scope of U.S. patent law to allow for some damages based on worldwide sales for infringement under § 271(a), the Court should reaffirm that lost profits damages require a robust causal link between the alleged lost foreign sales and any proven acts of infringement and further reaffirm that foreign sales may not be considered in any reasonable royalty calculation for infringement under § 271(a).

ARGUMENT

I. THIS COURT SHOULD NOT OVERRULE ITS PRECEDENT FORBIDDING DAMAGES FOR FOREIGN SALES UNDER 35 U.S.C. § 271(A).

A. Congress, The Supreme Court, And This Court Have Long Recognized That § 271(a) Is Strictly Limited To Domestic Acts Of Direct Infringement.

Direct infringement of a U.S. patent occurs when a person "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." 35

U.S.C. § 271(a).[3] The plain text shows that Congress intended to regulate domestic activity alone: it "is hard to imagine a starker expression of territorial limits." Holbrook, *Boundaries, Extraterritoriality, and Patent Infringement Damages*, 92 Notre Dame L. Rev. 1745, 1779 (2017) (explaining that § 271(a) "has very explicit territorial restrictions" and that "[a]ny remedy under § 284 would be linked to these territorial limits"). The statutory language is consistent with the longstanding "general rule under United States patent law that no infringement occurs when a patented product is made and sold in another country." *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 441 (2007).

Indeed, the "presumption that United States law governs domestically but does not rule the world applies with particular force in patent law." *Microsoft*, 550 U.S. at 454-455. That is because the Patent Act is, by nature, territorial: it grants "the right to exclude others from making, using, offering for sale, or selling the invention ***throughout the United States***." 35 U.S.C. § 154(a)(1). "When an inventor receives a U.S. patent, that patent provides no protection abroad." *Impression Prods., Inc. v. Lexmark Int'l, Inc.*, 137 S. Ct. 1523, 1538 (2017) (Ginsburg, J., concurring in part and dissenting in part). The U.S. patent system "makes no claim to extraterritorial effect; 'these acts of Congress do not, and were

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[3] Emphases are added except where otherwise noted.

not intended to, operate beyond the limits of the United States.'" *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) (quoting *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1856)). Accordingly, "foreign law alone, not United States law," governs the manufacture, use, and sale "of patented inventions in foreign countries." *Microsoft*, 550 U.S. at 456.

Congress created a single precise and express exception to this general rule—35 U.S.C. § 271(f)—which makes it an act of infringement to supply from the United States a component of a patented invention "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." *Microsoft*, 550 U.S. at 441-442, 444 (§ 271(f) is "an exception to the general rule that our patent law does not apply extraterritorially" and "expands the definition of infringement"). Section 271(f) is a unique provision enacted to close a perceived loophole in U.S. patent law. *See WesternGeco*, 138 S. Ct. at 2138 (§ 271(f) "was a direct response to a gap in our patent law" (internal quotation marks omitted)). It is the Patent Act's only provision that expressly premises infringement (at least in part) on actions intended to have foreign effects, and therefore manifests Congress's intent to overcome the presumption against extraterritorial application of U.S. law. *See Morrison v. National Australia Bank Ltd.*, 561 U.S. 247, 255 (2010) ("When a statute gives no clear indication of an extraterritorial application, it has none.").

Congress has manifested no similar intent to overcome the presumption against extraterritoriality in § 271(a), which speaks entirely to activity "within the United States" and does not envision any foreign involvement. And unlike § 271(f), which is a unique provision of limited applicability, § 271(a) is a "general infringement provision [that] covers most infringements that occur within the United States." *WesternGeco*, 138 S. Ct. at 2134.

Congress's refusal to expand direct infringement liability under § 271(a) to include extraterritorial conduct is even more significant given the Supreme Court's longstanding rule that foreign conduct is not direct infringement. The Supreme Court held over a century ago that the sale of drills in Canada was not infringement because "no part of the transaction occurr[ed] within the United States." *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915). The Court explained that the "right conferred by a patent under our law is confined to the United States and its territories, and infringement of this right cannot be predicated of acts wholly done in a foreign country." *Id.* (citation omitted); *see also Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113, 1117 (Fed. Cir. 2004) ("[As] the U.S. Supreme Court explained nearly 150 years ago in *Brown v. Duchesne*, … the U.S. patent laws 'do not, and were not intended to, operate beyond the limits of the United States.'").

Despite numerous amendments to the Patent Act over the past century, Congress has never (other than in the specific circumstances governed by § 271(f)) modified this longstanding rule, providing strong evidence that Congress approves of it. *See Monessen Sw. Ry. Co. v. Morgan*, 486 U.S. 330, 338 (1988) ("Congress' failure to disturb a consistent judicial interpretation of a statute may provide some indication that Congress at least acquiesces in, and apparently affirms, that [interpretation]." (internal quotation marks omitted)). Notably, when Congress did want to expand infringement to reach certain infringing acts abroad, it enacted a separate exception—§ 271(f)—rather than amending the general direct infringement provision. *See Slattery v. United States*, 635 F.3d 1298, 1325 (Fed. Cir. 2011) ("a narrow statutory exception, crafted in response to specific judicial decisions, demonstrates Congress's awareness of those decisions" and thus "lends powerful support to the continued viability of the larger rule" (internal quotation marks omitted)). Congress's decision not to change the domestic scope of § 271(a) reflects that the statute already "provides the basis for drawing the needed line" of "[w]hat constitutes a territorial connection that brings an action within the reach" of U.S. patent law, namely "making *or* using *or* selling in the United States or importing into the United States" an infringing good. *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1306 (Fed. Cir. 2015) (emphases in original).

B. Congress, The Supreme Court, And This Court Have Also Long Recognized That Damages For § 271(a) Infringement Are Limited To Domestic Sales.

Section 271(a)'s territorial limitations have long been understood to govern the scope of infringement damages as well. Congress authorized damages "to compensate for ***the infringement***" (35 U.S.C. § 284), which under § 271(a) is expressly limited to acts "within the United States" or "import[ation] into the United States." And for over 150 years, Congress has consistently abstained from giving any indication that § 284 (or its predecessors) has extraterritorial reach, thereby signifying approval of the existing interpretation. *See Monessen*, 486 U.S. at 338.

Thus, as the Supreme Court explained in 1856, U.S. patent laws "secure to the inventor a just remuneration from those who derive a profit or advantage ***within the United States*** from his genius and mental labors." *Brown*, 60 U.S. (19 How.) at 195. Accordingly, use of patented technology "outside of the jurisdiction of the United States is not an infringement of [the patentee's] rights," and the patentee "has no claim to any compensation for the profit or advantage the party may derive from it." *Id.* at 195-196; *accord Dowagiac*, 235 U.S. at 650 (holding that "there could be no recovery of either profits or damages" because "no part of the [infringing] transaction occurr[ed] within the United States"); *Birdsall v. Coolidge*, 93 U.S. 64, 64 (1876) ("[D]amages shall be the result of the injury alleged and proved, and …

the amount awarded shall be precisely commensurate with the injury suffered, neither more nor less[.]”).

More recently, this Court has made clear that damages for infringement under § 271(a) are limited to domestic sales of the infringing product and do not extend to foreign sales of the same product. *See Carnegie Mellon*, 807 F.3d at 1307 (explaining that it “is not enough to use the sales as a direct measure of the royalty except as to sales that are domestic”). As the Court explained, “given the ease of finding cross-border causal connections, anything less” than limiting royalties to infringing units made, used, or sold domestically “would make too little of the presumption against extraterritoriality that must inform our application of the patent laws to damages.” *Id.*; *see also Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1372 (Fed. Cir. 2013) (finding no “reasonable justification” for allowing “damages based on loss of sales in foreign markets” premised on “infringing conduct in the United States”).[4]

[4] Other patent infringement remedies, such as injunctive relief, are likewise strictly confined to U.S. territory. Patentees may not seek injunctions against foreign sales, which are not infringement and therefore not excluded by a U.S. patent. *See Spine Sols., Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1320-1321 (Fed. Cir. 2010) (vacating extraterritorial portion of injunction because “overseas sales of the [infringing] products cannot infringe any U.S. patent”); *Johns Hopkins Univ. v. CellPro, Inc.*, 152 F.3d 1342, 1366 (Fed. Cir. 1998) (vacating injunction against foreign sales because “neither export from the United States nor use in a foreign country of a product covered by a United States patent constitutes infringement”). Expanding infringement damages extraterritorially would create the

Nothing in the Supreme Court's *WesternGeco* decision disturbs the settled understanding of the scope of available patent damages for domestic infringement under § 271(a). *WesternGeco* arose in the special context of infringement under § 271(f)(2), which expressly envisions foreign consequences. *See* 35 U.S.C. § 271(f)(2) (creating infringement liability for "suppl[ying] … from the United States any component of a patented invention … 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"); *see WesternGeco*, 138 S. Ct. at 2134 ("[A] company can be liable for patent infringement if it ships components of a patented invention overseas to be assembled there."). The Supreme Court nowhere suggested in *WesternGeco* that its interpretation of Congress's specific enactment of a foreign-oriented infringement remedy altered over a century of precedent barring damages for overseas sales in cases of traditional direct infringement under § 271(a).

The established understanding of the limited reach of § 271(a) direct infringement—and damages remedies for that infringement—should not be upended without express congressional action, particularly given that expanding U.S. patent remedies to reach overseas actions would threaten a host of significant policy

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anomalous result of allowing patentees to obtain overseas damages *ex post* for foreign sales that could not have been enjoined *ex ante*.

consequences. *See infra* Part II. In contexts like this, the *stare decisis* interests in maintaining the established application of statutory remedies are at their height. *See Halliburton Co. v. Erica P. John Fund, Inc.*, 573 U.S. 258, 274 (2014) ("The principle of *stare decisis* has special force in respect to statutory interpretation because Congress remains free to alter what we have done." (internal quotation marks omitted)); *Hilton v. South Carolina Pub. Railways Comm'n*, 502 U.S. 197, 202 (1991) ("*Stare decisis* has added force when the legislature, in the public sphere, and citizens, in the private realm, have acted in reliance on a previous decision, for in this instance overruling the decision would dislodge settled rights and expectations or require an extensive legislative response.").

II. EXPANDING THE REACH OF U.S. PATENT DAMAGES WOULD ADVERSELY AFFECT AMERICAN BUSINESSES AND RAISE SERIOUS POLICY QUESTIONS THAT CONGRESS, NOT THE COURTS, SHOULD ADDRESS.

Courts "must proceed cautiously when … asked to extend patent rights into areas wholly unforeseen by Congress." *Parker v. Flook*, 437 U.S. 584, 596 (1978); *see also Microsoft*, 550 U.S. at 442 ("Our decision leaves to Congress' informed judgment any adjustment of § 271(f) it deems necessary or proper."); *Deepsouth*, 406 U.S. at 531 ("We would require a clear and certain signal from Congress before approving the position of a litigant who … argues that the beachhead of privilege is wider, and the area of public use narrower, than courts had previously thought.").

Given the enormous stake that companies like Intel have invested in innovation and business infrastructure over the long term, this Court has similarly cautioned against disrupting "the settled expectations of the inventing and investing communities." *Ariad Pharms., Inc. v. Eli Lilly & Co.*, 598 F.3d 1336, 1347 (Fed. Cir. 2010) (en banc) ("If the law of written description is to be changed, contrary to sound policy and the uniform holdings of this court, the settled expectations of the inventing and investing communities, and PTO practice, such a decision would require good reason and would rest with Congress."); *see also Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 724 (2002) (advising "that courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community").

This case demonstrates the wisdom of such caution. Overruling this Court's precedent regarding the unavailability of foreign damages for direct infringement under § 271(a) would harm American economic policy and disrupt the settled expectations of companies like Intel that operate on a global scale and have invested heavily in U.S. innovation and business infrastructure. It would also raise a host of serious policy concerns that are the domain of the legislative and executive branches of government, not the courts.

A. Creating A Global Damages Regime For Domestic Direct Infringement Would Harm American Economic Policy, Including By Putting U.S. Companies At A Competitive Disadvantage.

The United States currently offers domestic and foreign companies attractive reasons for conducting business here, including a large and educated talent pool, strong research institutions, and a culture of innovation. But also important is the United States' well-developed and predictable set of intellectual property rules, which are supported by the courts' strong regard for *stare decisis*. Indeed, intellectual property laws often play a significant role in determining where companies choose to operate. *E.g.*, Shinneman, Note, *Owning Global Knowledge: The Rise of Open Innovation and the Future of Patent Law*, 35 Brook. J. Int'l L. 935, 947-948 (2010) ("[S]tudies indicate that companies act strategically in choosing where to operate abroad, taking account of national intellectual property regimes to determine what types of R&D to carry out."). Expanding U.S. patent law to permit recovery of overseas damages for domestic acts of infringement would both upset long-settled expectations and undermine the United States' reputation as a jurisdiction with a stable and predictable intellectual property regime.

Companies that currently operate in the United States have reasonably relied on the century-old rule that remedies for direct infringement do not take account of foreign conduct. Shared expectations about the territorial scope of damages are sufficiently well settled that patent litigants are often able to stipulate to the number of accused products at issue. *E.g.*, *ABT Sys., LLC v. Emerson Elec. Co.*, No. 4:11CV00374 AGF, 2013 WL 5567713, at *4 (E.D. Mo. Oct. 9, 2013) ("the number of infringing products to which the reasonable royalty rate was to be applied was stipulated to by the parties"). In this very case, "the parties agreed to a stipulation" concerning the value of the products "made or sold within the United States, or imported into the United States." *Power Integrations*, 711 F.3d at 1369. But for Power Integrations' attempt to dramatically expand the scope of patent damages law, that stipulation should have set the parameters for the parties' dispute over monetary remedies for any domestic infringement proven.

Intel similarly often reaches such stipulations with opposing parties when it is involved in U.S. patent litigation. In one recent case, for example, Intel and an opposing party agreed to "[t]he total number of accused microprocessors made in, sold in, or imported into the United States" during the damages period. *AVM Techs. LLC v. Intel Corp.*, No. 15-cv-33 (RGA), D.I. 713 at 1514-1515 (D. Del. May 5, 2017). The stipulation excluded from the litigation a substantial number of units of the same Intel products—including over 40% of certain microprocessors manufactured during the relevant period—because they were not made, sold, or imported into the United States.[5] The parties' agreement expedited trial proceedings

[5] Even with the stipulated number of units, the patentee sought ***$2 billion*** in damages. *See* Greene, *Intel Claims Victory In $2B Circuit Patent Jury Trial*,

and obviated unnecessary disputes over foreign sales of the same microprocessor products. Expanding companies' potential damages exposure to include worldwide sales would upend this common understanding of existing law and would invite protracted disputes over which products are subject to U.S. patent remedies.

The consequences of such a dramatic change in law could be severe. Under the district court's approach, a company that manufactures or sells a small volume of products in the United States, or conducts research and development in the United States, could potentially be liable for damages on a much larger, worldwide scale. That would inappropriately provide compensation to the patent owner for much more than the actual, limited acts of domestic infringement, upending both the purpose and the well-established scope of U.S. patent damages law.

This case illustrates the risks. The parties agreed 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." *Power Integrations*, 711 F.3d at 1369. Despite modest domestic conduct of less than $800,000 in total value, the jury awarded Power Integrations nearly ***$34 million***, based on Power Integrations' demand for "worldwide damages," including "lost foreign sales." *Id.* at 1367-1370. The case shows the importance of maintaining the existing and established rule—if

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available at https://www.law360.com/articles/922745/intel-claims-victory-in-2b-circuit-patent-jury-trial.

limits on extraterritorial infringement damages were lifted, damages awards would balloon far beyond the value of activity actually rooted in the United States.

Deviation from this Court's precedent would also put U.S.-based companies at a significant competitive disadvantage compared to foreign companies and would disincentivize other companies from establishing operations here. Companies would naturally be hesitant to invest in facilities in the United States if doing so subjected their foreign manufacturing and sales to U.S. patent remedies. And such a rule also would pose unique problems for U.S. companies that operate on a global scale. Intel, for example, manufactures products in facilities worldwide.[6] While some products designed abroad may ultimately be sold or assembled in the United States, many will never enter the country and will instead be shipped to foreign customers who incorporate Intel's products into end-user devices assembled and sold abroad. But under the district court's impermissibly broad reading of the law, these products could theoretically be swept into a U.S. damages analysis, even though they are not made, used, sold, or offered for sale in the United States, or ever imported into the United States. Such an overbroad application of the patent damages statute would create perverse incentives for U.S. companies to move facilities overseas. *See* Chisum, *Normative and Empirical Territoriality in*

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6 *See* Global Manufacture at Intel, *available at* https://www.intel.com/content/www/us/en/architecture-and-technology/global-manufacturing.html.

Intellectual Property: Lessons from Patent Law, 37 Va. J. Int'l L. 603, 607 (1997) (arguing that giving extraterritorial effect to patents creates an "incentive for U.S. companies who compete in foreign markets to move their manufacturing facilities abroad"); *cf.* Samuelson, *Intellectual Property Arbitrage: How Foreign Rules Can Affect Domestic Protections*, 71 U. Chi. L. Rev. 223, 225 (2004) (excess "[patent] [p]rotection in one or a small number of nations necessarily creates a voluntary outflow of profit from the country's own users to foreign innovators without a reciprocal inflow from foreign users to domestic innovators").

The district court's rule, if adopted by this Court, could have a particularly acute effect on investment in research and development in the United States. Imagine that two competitors are researching and developing similar products—Company A in the United States and Company B abroad. Both companies subsequently manufacture the products in overseas factories for sale to non-U.S. markets. A U.S. patentee that sues both companies could recover nothing from Company B, but under the district court's rule could potentially recover worldwide damages from Company A if it built prototypes or models of the accused products here, even if the company did not use, sell, or offer to sell a single product in the United States, or import any such products into the United States. Such a scenario offers a stark choice: "Keep your key activities in the United States and subject yourself to aggressive patent holders and worldwide damages [or] [a]lternatively, move abroad and limit your liability accordingly." Chao, *Patent Imperialism*, 109 Nw. U.L. Rev. Online 77, 88 (2014) (explaining why such "disparate treatment provides troubling incentives for companies that conduct their affairs in the United States").

Foreign companies wishing to benefit from the United States' fertile research and development culture would be particularly discouraged, with significant costs to the United States. A National Science Foundation report shows that foreign companies invested $18 billion in U.S.-based research and development in 2016—more than the Department of Defense.[7] Under this Court's existing precedent, the foreign manufacture and sale of products resulting from such research and development is not subject to U.S. patent law. *See Carnegie Mellon*, 807 F.3d at 1306-1311; *see also Microsoft*, 550 U.S. at 441. But the district court's ruling threatens that regime. Exposing foreign manufacturing and sales to regulation by U.S. patent law based on such a thin connection to the United States disincentivizes investment here. The unfortunate result is that companies deciding where to invest may choose to put their research and development dollars elsewhere, while companies that are already in the United States may contemplate relocation to jurisdictions that do not turn private plaintiffs into global patent police. *See* Chao,

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[7] *See* National Science Foundation InfoBrief (Sept. 2018), *available at* https://nsf.gov/statistics/2018/nsf18312/nsf18312.pdf.

109 Nw. U.L. Rev. Online at 89 ("Given a sufficiently hostile patent environment, companies may well decide to move their research, development and sales facilities offshore as well.").

B. Subjecting Sales In Other Nations To U.S. Patent Damages Raises Significant Comity Concerns And Threatens Inconsistent And Duplicative Judgments Among Jurisdictions.

Every country is entitled to set its own laws governing patents. *See Microsoft*, 550 U.S. at 455 ("Foreign conduct is generally the domain of foreign law and … foreign law may embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions." (internal quotation marks and brackets omitted)). Many countries adopt patent laws that are broader or, more often, narrower than those in the United States. The patent-issuing bodies in other countries also often have differing views of what subject matter is patentable. The presumption against exterritoriality is based on international comity and the respect that is given to other nations' prerogatives to make their own policy choices and to create their own intellectual property regimes. Imposing U.S. patent law globally is contrary to this well-settled comity interest and would likely result in "unintended clashes between our laws and those of other nations which could result in international discord." *E.E.O.C. v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991).

Expansion of U.S. patent law would also threaten to impinge upon the valid policy decisions of other countries. *See* The Hon. Jimmie V. Reyna, *The Tariff and the Patent: A New Intersection*, 62 Am. U. L. Rev. 779, 784 (2013) (discussing the "international significance" and "international implications" of U.S. patent law and Federal Circuit decisions). For example, under the change in law approved by the district court here, a patent owner could recover damages in U.S. courts based on foreign sales that the foreign jurisdiction would not recognize as infringing. *See* Chao, 109 Nw. U.L. Rev. Online at 87 (discussing how, if extraterritorial damages are permitted, "[c]ompanies will be able to seek damages based on U.S. law against products made and sold abroad by asserting U.S. patents and suing in U.S. courts … even if the other country has refused to award a patent for a particular invention"). Such a system would effectively allow U.S. patent law to burden (or perhaps tax, for a private party's benefit) the foreign sale of goods made in a foreign country that do not infringe under that country's law.

This encroachment on the legal regimes of other countries could result in retaliation against U.S. companies operating abroad or involved in foreign litigation, through either adverse regulatory or judicial treatment. U.S. companies, including Intel, are increasingly involved in complex, multi-jurisdictional patent litigations with parallel cases in multiple countries. Moreover, foreign countries could seek to impose extraterritorial damages remedies of their own, with the effect that goods made or sold entirely in the United States might suddenly become subject to foreign patent damages. In such a scenario, companies that legally design, manufacture, or sell goods within the United States would become hostages to a foreign country's determination of what is patentable and what infringement remedies are appropriate.

Further, expanding the U.S. patent laws to allow for foreign damages based on domestic acts of infringement could lead to duplicative recoveries on a global scale. Patent owners often sue the same company on counterpart patents in multiple jurisdictions. If the patent owner is permitted to recover foreign damages from U.S. courts, then the patent owner may ultimately recover damages in both jurisdictions for the same act of sale or manufacture. *See* Holbrook, 92 Notre Dame L. Rev. at 1789 ("[A]llowing damages for extraterritorial conduct creates a greater risk for a patentee to obtain double recovery, once through the United States and again through another country whose laws could also govern the infringing conduct.").

For example, two other major patent jurisdictions—China and Germany—provide statutory remedies for patent infringement that include damages. In China, a patentee may be compensated for "actual losses caused by the infringement." Patent Law of the People's Republic of China, art. 65 (further recognizing that "compensation may be determined according to the benefits acquired by the infringer" or, alternatively, the "reasonably multiplied amount of the royalties of that patent”);[8] *see also* Hu, *Determining Damages for Patent Infringement in China*, 47 Int’l Rev. of Intell. Prop. & Competition L. 5, 13-19 (2016) (describing methods of calculating damages for patent infringement in Chinese law). Likewise, in Germany, damages may be awarded in the form of lost profits, reasonable royalties, or the defendant’s profits. *See* German Patent Law § 139(2); *see also* Cotter, *Comparative Patent Remedies: A Legal And Economic Analysis* 258 & n.148 (2013); Hurst, *Conference Report-U.S. & German Bench and Bar Gathering: “A New Bridge Across the Atlantic”: The Future of American Patent Litigation*, 14 German L.J. 269, 270 (2013) (recognizing that, in Germany, “[d]amages are awarded generally through a calculation of lost profits”).[9]

Expanding the reach of U.S. patent laws as the district court did here would dramatically increase the likelihood that patentees will obtain patent damages under § 284 for conduct that is already adequately—and more appropriately—addressed under foreign law. And U.S. courts, for good reason, are usually hesitant to invite

[8] An official English translation of the Patent Law of the People’s Republic of China is available at http://english.sipo.gov.cn/laws/lawsregulations/201101/t20110119_566244.html.

[9] It is no answer to say that foreign jurisdictions could adopt mechanisms for avoiding double recovery, not least because the foreign counterpart patent may be held by a different entity. *See* Holbrook, 92 Notre Dame L. Rev. at 1790 (“Another dynamic that a U.S. court would need to consider is the risk of double exposure to liability for the accused infringer. If the patent is owned by a different entity in the foreign jurisdiction, then in theory the accused infringer could be obligated to pay infringement damages to two different parties.”).

such conflict among legal systems without a clear sign from Congress that it intends a statute to apply in such a way. *See RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090, 2107 (2016) (recognizing that "potential for international controversy [] militates against recognizing foreign-injury claims without clear direction from Congress" and that "where such a risk is evident, the need to enforce the presumption is at its apex"). Congress has given no such indication here.

Finally, while the imposition of U.S. law abroad always raises concerns of international comity, asserting U.S. patent law abroad could also have severe trade implications. Intellectual property is often a key issue at the center of trade negotiations and requires appropriate respect and accommodation for each country's intellectual property laws. Indeed, existing international trade agreements recognize that providing "effective and appropriate means for the enforcement of trade-related intellectual property rights" requires "taking into account differences in national legal systems." Agreement on Trade-Related Aspects of Intellectual Property Rights, *adopted by United States*, Dec. 8, 1994, 1869 U.N.T.S. 299, 300 (1998).

Upsetting the already delicate issue of international trade negotiations through judicial expansion of U.S. patent remedies is of deep concern to U.S. companies, including Intel. Semiconductors have, for many years, been one of the United States' largest exports. In 2015, the United States exported semiconductors worth nearly $42 billion, which "represented the top U.S. high-tech export by value and the fourth-largest overall export by value," behind only civilian aircraft, petroleum products, and automobiles. *See* Congressional Research Service, *U.S. Semiconductor Manufacturing: Industry Trends, Global Competition, Federal Policy*, at 11 (June 27, 2016). As a company that develops, manufactures, and sells its products globally, "Intel strongly supports robust free trade agreements (FTAs), which open up foreign markets and level the playing field so that U.S. businesses can keep growing."[10] Expansion of U.S. patent remedies to cover foreign sales could have significant and unforeseen consequences for sensitive trade issues, which further calls for deference to the legislative and executive branches.

III. AT A MINIMUM, THIS COURT SHOULD REAFFIRM THAT PATENTEES MUST ESTABLISH A STRONG CAUSAL LINK BETWEEN DOMESTIC INFRINGING ACTS AND ANY FOREIGN LOST PROFITS RECOVERY AND THAT FOREIGN SALES MAY NOT BE CONSIDERED IN A REASONABLE ROYALTY CALCULATION.

For the reasons discussed above, this Court should maintain its existing precedent barring the recovery of foreign damages for domestic acts of infringement, unless and until Congress decides to alter it. But if the Court does elect to make foreign lost profits available under § 271(a), it should reaffirm that: (1) lost profits damages require a robust causal link between the alleged lost foreign sales and any proven acts of domestic infringement, and extraterritorial conduct usually cuts off

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10 Intel, Global Trade Policy, *available at* https://www.intel.com/content/www/us/en/policy/policy-trade.html.

any causal chain between domestic infringement and foreign loss; and (2) foreign sales of goods should not be considered in a reasonable royalty calculation.

A. Foreign Lost Profits Should Be Recoverable Only Where The Patentee Establishes A Robust Causal Link Between Foreign Lost Sales And Acts Of Domestic Infringement.

Lost profits damages seek to vindicate a patent owner's interest in capturing the monopoly value of excluding competitors from the market. *See* Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 Wm. & Mary L. Rev. 655, 655 (2009). Accordingly, they "[g]iv[e] patentees the profits they would have made absent the infringement," thus putting them "in the same position as if they had had an injunction in place all along." *Id.* at 657; *see also Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964) ("The question to be asked in determining [lost profits] damages is how much had the Patent Holder and Licensee suffered by the infringement. And that question is primarily: had the Infringer not infringed, what would Patent Holder-Licensee have made?" (internal quotation marks and brackets omitted)).

Because calculating the profits that a patent owner would have made absent infringement is inherently speculative, "courts have insisted on strict standards of proof for entitlement to lost profits." Lemley, 51 Wm. & Mary L. Rev. at 656. A patent owner "must prove a causal relation between the infringement and its loss of profits," *BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc.*, 1 F.3d 1214, 1218 (Fed.

Cir. 1993), by specifically demonstrating "a reasonable probability that, '***but for***' the infringement, it would have made the sales that were made by the infringer," *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc). This causal link is further limited by traditional notions of proximate cause and foreseeability. *Id.* at 1546.

The most common way of proving the but-for causal link for lost profits is to establish the four *Panduit* factors: "(1) demand for the patented product; (2) absence of acceptable non-infringing alternatives; (3) manufacturing and marketing capability to exploit the demand; and (4) the amount of profit [the patentee] would have made." *Mentor Graphics Corp. v. EVE-USA, Inc.*, 851 F.3d 1275, 1285 (Fed. Cir. 2017) (citing *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978)). These factors "are not easy to prove." *Id.*; *see also* Seaman, *Reconsidering the* Georgia-Pacific *Standard for Reasonable Royalty Patent Damages*, 2010 B.Y.U. L. Rev. 1661, 1675 (describing the difficulty of establishing the four *Panduit* factors).

Proving a causal link between an infringer's domestic acts and the patent owner's lost profits is even more difficult when the allegedly lost sales would have occurred overseas. As an initial matter, the patent owner's monopoly over its invention does not extend to the foreign market where profits were allegedly lost. *See* 35 U.S.C. § 154(a)(1). Such a claim therefore poses thorny causal questions, such as how infringing activity in the United States could cause a U.S. patent holder to lose sales in a foreign country, when the patent does not preclude the infringer itself from manufacturing and selling its infringing product in that same foreign country. While a defendant that makes some infringing products in the United States may also make similar products in other countries, the former does not ***cause*** the latter. The fact that domestic and foreign manufacture might share certain common origins (such as R&D activities) does not mean that domestic infringement causes the foreign sales. *Cf. Morrison*, 561 U.S. at 266 (recognizing that "it is a rare case of prohibited extraterritorial application that lacks all contact with the territory of the United States" and that "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").

Indeed, given the inherently attenuated connection between foreign activity and domestic infringement, this Court has appropriately recognized that "the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement." *Power Integrations*, 711 F.3d at 1371-1372. That basic observation remains true, even if the Court elects to recognize a possibility of recovering foreign lost profits for infringement under § 271(a). Accordingly, if the Court does expand U.S. patent remedies to permit lost damages for foreign sales, it should reaffirm the robust causal link that patent owners must establish to obtain such damages.[11]

B. This Court Should Make Clear That Foreign Sales May Not Be Considered In Reasonable Royalty Calculations For Domestic Infringement.

Although this case does not involve reasonable royalties, this Court should make clear that any ruling regarding the possible recovery of foreign lost profits does not extend to reasonable royalties. Reasonable royalties are intended to compensate a patent owner "***for the use*** made of the invention by the infringer." 35 U.S.C. § 284. Thus, where the underlying infringement occurs under § 271(a), any royalty awarded under § 284 must be limited to amounts that compensate for the specific, proven acts of domestic infringement—and no more. *See ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010) ("[T]he trial court must carefully tie proof of damages to the claimed invention's footprint in the market place."); *see also Birdsall*, 93 U.S. at 64 (the damages awarded "shall be precisely commensurate with the injury suffered, neither more nor less").

As a general rule, the "royalty base for reasonable royalty damages cannot include activities that do not constitute patent infringement, as patent damages are

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[11] Notably, in the context of infringement under § 271(f), the Supreme Court expressly abstained from resolving the extent to which proximate cause might limit lost profits from foreign sales. *See WesternGeco*, 138 S. Ct. at 2139 n.3 ("[W]e do not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases.").

limited to those 'adequate to compensate for the infringement.'" *AstraZeneca AB v. Apotex Corp.*, 782 F.3d 1324, 1343 (Fed. Cir. 2015) (quoting 35 U.S.C. § 284); *see also Enplas Display Device Corp. v. Seoul Semiconductor Co.*, 909 F.3d 398, 412 (Fed. Cir. 2018) (explaining that "§ 284 and our precedent proscribe awarding damages for non-infringing activity"). Applying that principle alongside the presumption against extraterritoriality, this Court has correctly held that royalties may not be awarded for products made and sold abroad. *See Carnegie Mellon*, 807 F.3d at 1308 (finding "no … applicable basis in § 271(a) to justify including" microchips sold outside the United States in a royalty base); *accord Dowagiac*, 235 U.S. at 650. Such foreign making or selling of products simply does not constitute an act of infringement; considering them in assessing a reasonable royalty for domestic infringement is therefore improper. *See Carnegie Mellon*, 807 F.3d at 1307 ("Although all of Marvell's sales are strongly enough tied to its domestic infringement as a causation matter to have been part of the hypothetical-negotiation agreement, that conclusion is not enough to use the sales as a direct measure of the royalty except as to sales that are domestic (where there is no domestic making or using and no importing).").

Again, nothing in the Supreme Court's decision in *WesternGeco* altered these fundamental principles. Thus, to the extent the Court does elect to amend established damages rules, it should at a minimum reaffirm that foreign manufacture and sales, which are by nature non-infringing, are not properly considered in reasonable royalty calculations.

CONCLUSION

The district court's order should be reversed.

Respectfully submitted,

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February 8, 2019

CERTIFICATE OF SERVICE

I hereby certify that, on this 8th day of February, 2019, I filed the foregoing Brief for *Amicus Curiae* Intel Corporation with the Clerk of the United States Court of Appeals for the Federal Circuit via the CM/ECF system, which will send notice of such filing to all registered CM/ECF users.

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CERTIFICATE OF COMPLIANCE

Pursuant to Fed. R. App. P. 32(g), the undersigned hereby certifies that this brief complies with the type-volume limitation of Federal Circuit Rule 32(a) and Fed. R. App. P. 29(a)(5).

1. Exclusive of the exempted portions of the brief, as provided in Fed. R. App. P. 32(f) and Fed. Cir. R. 32(b), the brief contains 6,875 words.

2. The brief has been prepared in proportionally spaced typeface using Microsoft Word 2010 in 14 point Times New Roman font. As permitted by Fed. R. App. P. 32(g), the undersigned has relied upon the word count feature of this word processing system in preparing this certificate.

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