2019-1246, 2019-1247

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 in No. 1:04-cv-01371-LPS, Honorable Leonard P. Stark, Chief Judge

BRIEF FOR DEFENDANTS-APPELLANTS

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February 1, 2019

CERTIFICATE OF INTEREST

Counsel for Petitioners certifies as follows:

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

Fairchild Semiconductor International, Inc.; Fairchild Semiconductor Corp.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

N/A

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:

Fairchild Semiconductor Corporation and Fairchild Semiconductor International, Inc. are 100% owned direct or indirect subsidiaries of ON Semiconductor Corporation. Except for ON Semiconductor Corporation, none of the foregoing entities or any other direct or indirect subsidiary of ON Semiconductor Corporation is publicly traded. The Vanguard Group, Inc. (a privately held company) owns 10% or more of the shares of ON Semiconductor Corporation.

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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. *See* Fed. Cir. R. 47. 4(a)(5) and 47.5(b).

Power Integrations, Inc v. Fairchild Semiconductor et al., USDC-D. Del. Case 04-1371-LPS.

Dated: February 1, 2019

Respectfully submitted,

By: */s/ Kathleen M. Sullivan*

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STATEMENT OF RELATED CASES

An appeal from the same civil action was previously before this Court. *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. Mar. 26, 2013) (Nos. 11-1218, -1238) (Reyna, J., joined by O'Malley, J. and Lourie, J.). Counsel is unaware of any other pending case that will directly affect or be directly affected by this court's decision in this pending appeal.

PRELIMINARY STATEMENT

This interlocutory appeal under 28 U.S.C. § 1292(b) arises from a decision of the U.S. District Court for the District of Delaware (Stark, J.) holding that it is no longer bound by this Court's decision in *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013) ("*Power Integrations I*") (Appx1946-2004), in light of the Supreme Court's intervening decision in *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018) ("*WesternGeco*"). That ruling is incorrect for either of two independent reasons.

First, *WesternGeco*, which permitted the potential recovery of foreign lost profits for infringement under 35 U.S.C. § 271(f)(2), did not disturb this Court's holding in *Power Integrations I* that a patent-holder may not recover damages based on foreign sales under 35 U.S.C. § 271(a), a completely different statutory subsection. As this Court correctly held in *Power Integrations I*, "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." 711 F.3d at 1371-72. The Supreme Court did not repudiate this principle in *WesternGeco*; it simply interpreted § 271(f)(2), a statute prohibiting the export from the United States of components with the intent that they be assembled into infringing products abroad, as covering conduct that was not such an instance of "entirely extraterritorial" production, use or sale. Nothing in that narrow statutory construction of § 271(f)(2) undermines the extraterritoriality holding of *Power Integrations I*.

Second, *WesternGeco* did not disturb this Court's holding in *Power Integrations I* that Appellee Power Integrations, Inc. ("Power Integrations") failed to prove a legally cognizable causal link between domestic infringement and its alleged lost worldwide sales. The only evidence of domestic infringing conduct in this case is a stipulation that Appellants Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corp. (together, "Fairchild") manufactured or sold in the United States infringing products totaling $765,724, a mere 2% of the global production of the accused products during the relevant time period. The evidence fails to support any contention that this limited amount of domestic manufacturing or sale caused the tens of millions of dollars in extraterritorial damages Power Integrations seeks to recover. Thus, even if extraterritorial sales were otherwise a permissible basis for damages here (they are not), this Court's proximate causation holding independently supports its mandate to the district court to conduct remand proceedings limited to damages from domestic acts of infringement.

JURISDICTION

The district court has jurisdiction under 28 U.S.C. § 1338(a). The district court entered the order on appeal on October 11, 2018, and certified it for interlocutory review under 28 U.S.C. § 1292(b). Appx6-7.

Fairchild timely filed its petition for leave to appeal to this Court on October 22, 2018. No. 19-103, ECF 1; *see* 28 U.S.C. § 1292(b); Fed. R. App. P. 5(a)(2). This Court granted leave to appeal on December 3, 2018. No. 19-103, ECF 14. This Court has jurisdiction pursuant to 28 U.S.C. § 1292(b)-(c).

STATEMENT OF THE ISSUE

Did *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018), which held that a patent holder may recover lost profits damages from foreign sales under 35 U.S.C. § 271(f)(2), implicitly overrule this Court's decision in *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), which held that Power Integrations may not recover damages from foreign sales under 35 U.S.C. § 271(a) where those foreign sales were not the direct, foreseeable result of domestic infringement?

STATEMENT OF THE CASE

A. Factual Background

Power Integrations and Fairchild manufacture and sell power supply controller chips for use in mobile-phone chargers. *See* Appx831-832; *Power Integrations I*, 711 F.3d at 1354. At the relevant times, Power Integrations' chips were manufactured in Japan by the conglomerates Oki and Matsushita. Appx917-918. The great bulk of Fairchild's chips (98%) were manufactured in Korea (Appx1212); it also operated a relatively small overflow manufacturing facility in Portland, Maine (*see* Appx1004, Appx1254, Appx1687-1688). At trial, Power

Integrations contended that, before Fairchild entered the market, Power Integrations was Samsung's exclusive supplier of power controller chips (Appx887-888), and that Fairchild secured approximately 40% of Samsung's business by offering its chips at a lower price (*see* Appx888-894, Appx977-978). As this Court would later observe, however (*see Power Integrations I*, 711 F.3d at 1374), Power Integrations had other competitors as well: Power Integrations' Vice President of Worldwide Sales Bruce Renouard admitted at trial that several other companies sold competing circuits to Samsung, including ON Semiconductor (Appx924),[1] ST Micro Electronics (Appx926), and others (Appx928-929).

In 2004, Power Integrations sued Fairchild in the U.S. District Court for the District of Delaware, alleging infringement of four U.S. patents related to electronic device power supplies: U.S. Patent Nos. 4,811,075, 6,107,851, 6,229,366, and 6,249,876. *See* Appx87-154; *Power Integrations I*, 711 F.3d at 1354. The '075 patent discloses a type of transistor that is used in power supplies. *Id.* at 1360. The other three patents disclose new types of circuitry that are used in power supplies to ameliorate problems associated with electromagnetic interference and "inrush current" (the initial flood of current that occurs when a power supply first turns on). *Id.* at 1358-60. Power Integrations asserted claims

[1] ON Semiconductor acquired Fairchild in 2015, after the period relevant to this appeal.

both for direct infringement (based on Fairchild's own manufacture and sale of accused chips) and for induced infringement (based on an allegation that Fairchild had caused charger companies to incorporate Fairchild chips in products manufactured abroad that were later imported into the United States). *See id.* at 1374-76.

B. The District Court Proceedings

At trial, a jury found that certain Fairchild chips infringed the asserted patents by incorporating the claimed transistor and circuitry. *See id.* at 1354; Appx1922-1926. Power Integrations asserted "comingled theories of direct and induced infringement," *Power Integrations I*, 711 F.3d at 1376, and the general verdict form did not ask the jury to specify whether it had found direct infringement or induced infringement (*see* Appx1922-1926).

The parties stipulated at trial that, "between February 2004 and October 2005, Fairchild manufactured 2.73 million FSD210HD devices a[t] the fabrication facility in Portland, Maine using the SDG4 process for a total revenue to Fairchild of $547,724." Appx1004; *see* Appx1500-1501. Additionally, Fairchild admitted that it sold approximately $218,000 worth of its chips in the United States. Appx1500-1501. It is thus undisputed that Fairchild made or sold in the United States accused devices worth a total of $765,724. Appx1939. Given the jury's infringement findings, this Court deemed this agreement "essentially a stipulation to direct infringement" under 35 U.S.C. § 271(a). *Power Integrations I*, 711 F.3d at 1377.[2]

With regard to damages, Power Integrations did not limit itself to domestic injuries, but presented evidence based upon *worldwide* sales calculations. *See id.* at 1370-71. Power Integrations' damages expert Richard Troxel testified that the jury should award a total of $38,010,462 in damages: $14,981,828 in lost profits due to lost sales; $1,952,893 in past lost profits due to price erosion; $13,018,379 in future lost profits due to price erosion; and a lump-sum reasonable royalty of $8,057,362. Appx1015; *see Power Integrations I*, 711 F.3d at 1372.[3] As Mr. Troxel testified (Appx1015), these amounts were "based on worldwide sales" of Power Integrations and Fairchild products to Samsung and other third-party manufacturers of electronic devices: The lost profits awards encompass profits that Power Integrations supposedly lost or anticipated losing from such sales around the globe (Appx1017, Appx1039-1049), and the reasonable royalty was likewise calculated on a base of Fairchild's worldwide sales (Appx1062). Mr. Troxel explained that he used worldwide sales because:

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[2] Adding the stipulated value of the domestically manufactured chips to the admitted value of chips sold within the United States yields the $765,724 figure, resolving the uncertainty that this Court noted in *Power Integrations I*, 711 F.3d at 1376 n.6.

[3] Mr. Troxel testified that the lost profits figures relate to the '851 and '876 patents, while the reasonable royalty pertains to the '075 and '366 patents. Appx1017.

> I think that's how [] Power Integrations has been damaged. When Samsung buys a power supply from Dongyang [a Korean supplier], they're not going to buy one for use outside the United States, and another one for use inside the United States on cell phones.
>
> I mean, it seems to me just logically that if Power Integrations lost that sale to Dongyang, they're going to lose all the sales worldwide on that same [] for that part. So it seems to me that's how they were hurt, that the injury occurred because they lost their worldwide sales.

Appx1040; *see* Appx1070-1071.

Power Integrations' damages theory was that "Samsung, and customers like it, would only purchase power supply controller chips that they could use worldwide because it would be inefficient and impractical to track the final destinations of the cell phone chargers into which they are incorporated," and that therefore, "if Samsung could not have used the infringing products in the United States, it would not have purchased any products at all from Fairchild, but rather continued to buy 100% of the patented chips from Power Integrations." 11-1218 Power Integrations Reply (ECF 37), at 6; *see, e.g.*, 11-1218 Power Integrations Br. (ECF 31) at 44, 46; Appx2009-2010; Appx2023-2024. In short, Power Integrations' damages theory is that Fairchild won customers' worldwide business by incorporating Power Integrations' U.S.-patented technologies into all the chips it manufactured anywhere in the world.

Power Integrations presented no evidence that Fairchild's acts of manufacture or sale in the United States caused Power Integrations to suffer worldwide injuries. To the contrary, Mr. Troxel expressly *disclaimed* any theory that worldwide sales were attributable to any act of direct infringement in the United States. Specifically, Mr. Troxel testified (Appx1016, Appx1041, Appx1051, Appx1062) to an alternative damages figure ($7,641,974) that he based on an assumption that 18% of "the end products using the Fairchild parts … come into the United States" as a result of Fairchild's alleged inducement of infringement by third parties, s*ee Power Integrations I*, 711 F.3d at 1374. Mr. Troxel admitted (Appx1060-1070) that the $30 million difference between his main, "worldwide" damages figure and his alternative figure represented damages that were "***not*** related to parts that were manufactured in the United States," that were "***not*** related to parts that were sold in the United States," and that "were ***not*** related to parts that were imported into the United States" (emphases added). In other words, Mr. Troxel admitted that the great bulk of the claimed damages had no causal connection to any act of direct patent infringement in the United States.

The jury awarded Power Integrations nearly $34 million in damages (Appx1927-1928), nearly fifty times the value of the chips that Fairchild made or sold in the United States. The jury particularized its $33,981,781 damages award as representing $14,981,828 in lost profits due to lost sales; $1,952,893 in past lost profits due to price erosion; $13,018,379 in future lost profits due to price erosion; and a lump-sum reasonable royalty of $4,028,681. Appx1927; *Power Integrations*

I, 711 F.3d at 1369. These figures matched precisely the amounts proffered by Mr. Troxel (Appx1015) except that the jury awarded only (but precisely) 50% of Mr. Troxel's proposed reasonable royalty (*see* Appx1927).

On Fairchild's motion, the district court granted a remittitur based on its conclusion that the jury had impermissibly awarded damages based on worldwide sales. Appx1929-1943; *see Power Integrations I*, 711 F.3d at 1370. The court ruled that only 18% of the damages verdict was supportable, based on the theory that Fairchild had induced infringement by Samsung and Mr. Troxel's testimony that 18% of Samsung's mobile phone sales occurred in the United States. Appx1939-1941; *Power Integrations I*, 711 F.3d at 1369-70. The district court accordingly reduced the jury's damages verdict by 82% to $6,116,720.58. Appx1943.[4]

C. The Prior Appeal

Both parties appealed, and this Court issued a precedential opinion vacating the district court's judgment in relevant part. *Power Integrations I*, 711 F.3d 1348 (Appx1946-2004). The Court held that Fairchild's manufacturing and sales activity that took place entirely *outside* the United States "is not infringement at

[4] The district court subsequently doubled the remitted damages award to $12,233,441.16, based on a finding of willful infringement. Appx1944; *Power Integrations I*, 711 F.3d at 1355.

all" and could not supply the basis for damages. *Id.* at 1371 (citing *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1856)).

This Court also agreed with Fairchild that "there was no basis upon which a reasonable jury could find Fairchild liable for induced infringement." *Id*. at 1376. The Court held that Power Integrations had failed to present substantial evidence from which a jury could reasonably conclude that any third party engaged in the direct infringement that would be necessary to hold Fairchild liable on a theory of induced infringement. *See id.* at 1374-76; *Limelight Networks, Inc. v. Akamai Techs., Inc.*, 572 U.S. 915, 921 (2014) ("liability for inducement must be predicated on direct infringement") (citing *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 341 (1961)). Specifically, the Court explained that the record "demonstrates no direct connection between Samsung's worldwide sales of mobile phones and sales of Fairchild's infringing power circuits," 711 F.3d at 1375, and further contained no basis for Mr. Troxel's "pure speculation" that "the 18% of Samsung's mobile phones sold in the United States included chargers incorporating Fairchild's infringing circuits," *id*. at 1376. The Court thus concluded that "[t]here is no evidence that the imports of Samsung products included chargers, nor is there evidence that any included chargers incorporated Fairchild's infringing circuits," *id.*; vacated the district court's remitted damages award as based on an unsupported inducement theory, *id.*; and remanded solely for "a new trial on damages resulting from Fairchild's direct infringement," *id.* at 1381.

This Court did sustain the judgment insofar as the jury found, based on the parties' stipulation and Fairchild's admission, that Fairchild had committed acts of direct infringement via domestic manufacture, sale, or importation of accused devices worth $765,724. *Id.* at 1377. The question therefore became whether those limited acts of domestic direct infringement could support the jury's award of $34 million in worldwide damages. This Court held that they could not, and that Power Integrations is not "entitled to compensatory damages for injury caused by infringing activity that occurred outside the territory of the United States." *Id.* at 1371. As the Court explained, "[o]ur patent laws allow specifically 'damages adequate to compensate *for the infringement*,'" *id.* (emphasis in original; quoting 35 U.S.C. § 284), and "do *not* … provide compensation for a defendant's *foreign* exploitation of a patented invention, which is not infringement at all." *Id.* (emphases added). Thus, "the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement." *Id*. at 1371-72. Because Power Integrations' worldwide damages admittedly were not "rooted in Fairchild's activity in the United States," but were instead "based on worldwide sales," this Court held that those damages were not recoverable under § 271(a) and § 284 as a matter of law. *Id.* at 1372.

Separately, this Court ruled that the district court had abused its discretion in admitting Mr. Troxel's expert damages testimony, which "was both unreliable and based on insufficient data." *Id.* at 1374. The Court ruled that Mr. Troxel's testimony had been founded upon data "derived from a manifestly unreliable source," *id.* at 1373, and that he had made unfounded assumptions and offered an opinion "built on speculation," *id.* at 1374. His "layered assumptions lack the hallmarks of genuinely useful expert testimony" and served only and improperly to "muddle the jury's fact-finding." *Id.* (citation omitted). The Court thus held that Mr. Troxel's testimony is inadmissible. *Id.*

Having vacated the damages award, this Court remanded the case to the district court for a new trial on "the proper amount of damages for Fairchild's direct infringement." *Id.* at 1377. But the Court mandated that the new damages trial on remand would be limited to damages that are "supported by substantial evidence *in the existing record*." *Id.* (emphasis added); *see id.* at 1381 (accounting for post-verdict sales limited to those "which are substantially related to the direct infringement by Fairchild which the district court finds supported by the existing record"). The Court "anticipate[d] that Fairchild's liability for direct infringement will be commensurate in scope with the accused domestic activity to which Fairchild stipulated." *Id.* at 1377.[5]

On remand, the parties and the district court resolved certain remanded liability issues in a manner consistent with this Court's directives, leaving only damages for very limited direct infringement within the United States to be retried.

D. The Supreme Court's *WesternGeco* Decision

Prior to the contemplated damages retrial, the Supreme Court issued its opinion in *WesternGeco*, 138 S. Ct. 2129. In that case, ION Geophysical Corporation had manufactured in the United States the components of an ocean surveying system. *Id.* at 2135. It then exported those components to its customers abroad, who "combined the components to create a surveying system indistinguishable from WesternGeco's" patented system. *Id.* WesternGeco sued for patent infringement under 35 U.S.C. § 271(f)(2), claiming that it had lost surveying contracts to ION's foreign customers, and seeking to recover the profits it lost as a result as damages under 35 U.S.C. § 284. *Id.* A jury found

[5] Power Integrations filed a petition for a writ of *certiorari* from the denial of damages resulting from Fairchild's foreign conduct, arguing that this Court's decision violated the principle that a patent holder is entitled to "full compensation for patent infringement," and had "[f]undamentally [m]isconceive[d]" the rule against extraterritorial application of the patent laws. Pet. for Writ of Cert. at 15, 20, *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 571 U.S. 1125 (2014) (No. 13-269). Power Integrations did not seek to challenge this Court's other holdings, including its inducement ruling. The Supreme Court denied the petition on January 13, 2014. 571 U.S. at 1125.

infringement and awarded $93.4 million in lost profits. *Id.* ION moved to set aside the verdict, asserting that the profits lost to foreign customers for foreign surveying work were not recoverable. *Id.* This Court held on appeal that, as a matter of law, profits lost on sales that took place outside of the United States were not recoverable pursuant to § 271(f)(2). *WesternGeco LLC v. ION Geophysical Corp.*, 791 F.3d 1340, 1351 (Fed. Cir. 2015).

The Supreme Court granted *certiorari*, and issued a decision reversing and remanding. *WesternGeco*, 138 S. Ct. at 2139. Drawing on its settled jurisprudence regarding the extraterritorial application of U.S. law, the Court explained that it had "established a two-step framework for deciding questions of extraterritoriality." *Id.* at 2136. "The first step asks 'whether the presumption against extraterritoriality has been rebutted.'" *Id.* (quoting *RJR Nabisco, Inc. v. European Community*, 136 S. Ct. 2090, 2101 (2016)). If the presumption is not rebutted, "the second step of our framework asks 'whether the case involves a domestic application of the statute.'" *Id.* (quoting *RJR Nabisco*, 136 S. Ct. at 2101). The latter determination is made "by identifying the statute's 'focus' and asking whether the conduct relevant to that focus occurred in United States territory." *Id.* (citation and internal quotation marks omitted). A statute's "focus" is "'the object of its solicitude,' which can include the conduct it 'seeks to regulate,' as well as the parties and interests it 'seeks to protect' or vindicate." *Id.*

at 2137 (quoting *Morrison v. Nat'l Australia Bank*, 561 U.S. 247, 267 (2010); alterations and some internal quotation marks omitted). "'If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application' of the statute, 'even if other conduct occurred abroad.'" *Id.* (quoting *RJR Nabisco*, 136 S. Ct. at 2101). Conversely, "if the relevant conduct occurred in another country, 'then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory.'" *Id.* (quoting *RJR Nabisco*, 136 S. Ct. at 2101).

The Court proceeded to apply this two-step analysis to determine whether the award of foreign lost profits to WesternGeco as a § 284 damages remedy for ION's infringement under § 271(f)(2) would offend the presumption against extraterritoriality. At step one, the Court declined to decide whether Congress, in enacting § 271(f)(2), had rebutted the presumption against extraterritoriality by expressly providing that U.S. patent law applied to foreign sales. 138 S. Ct. at 2136-37. Deciding the case instead under step two, the Court confined its inquiry to the question whether the case on its facts involved a domestic application of § 271(f)(2), and concluded that it did, employing a narrow statutory interpretation of that particular subsection. *Id.* at 2137-38.

The Court explained that, "[t]o determine the focus of § 284 in a given case, we must look to the type of infringement that occurred." *Id.* at 2137. In

WesternGeco, the only "provision at issue" and the sole "basis for WesternGeco's infringement claim and the lost-profits damages that it received" was the form of infringement defined by § 271(f)(2). *Id*. at 2135, 2137. The Court thus "limit[ed] [its] analysis to § 271(f)(2)," *id.* at 2137 n.2, and expressly restricted its ultimate holding to that subsection: "as we hold today, [infringement recovery] can include lost foreign profits *when the patent owner proves infringement under § 271(f)(2)*." *Id*. at 2139 (emphasis added).

In so restricting its analysis, the Court declined invitations to issue a broader ruling that would have extended to other subsections of § 271. For instance, the Solicitor General argued that *Power Integrations I* was wrongly decided and that this Court had committed an "analytical error" in applying the extraterritoriality analysis to § 271(a).[6] Power Integrations itself also appeared as an *amicus*, and—having failed to secure review of *Power Integrations I* itself—proceeded to argue that the Supreme Court should use *WesternGeco* as a vehicle to overrule that decision by holding that extraterritorial damages may be awarded regardless of the

[6] Br. for U.S. at 19, *WesternGeco LLC v. ION Geophysical Corp*., 138 S. Ct. 2129 (2018) (No. 16-1101) (Dec. 6, 2017). The Solicitor General advanced a similar argument in its merits-stage amicus brief, without calling out *Power Integrations I* by name as supposedly erroneous. *See* Br. for U.S. at 13-14, 25, *WesternGeco LLC v. ION Geophysical Corp*., 138 S. Ct. 2129 (2018) (No. 16-1101) (March 2, 2018).

form of infringement alleged in a given case.[7] Other *amici* also raised expansive theories that would have had the Court extend liability for foreign damages outside the context of claims under § 271(f)(2).[8]

Conspicuously declining to adopt the Solicitor General's and other *amici*'s arguments for such a broad ruling, the Supreme Court expressly limited its analysis to § 271(f)(2).[9] That subsection provides that a defendant "shall be liable as an infringer" if it "supplies" certain components of a patented invention "in or from the United States" with the intent that they "will be combined outside the United States in a manner that would infringe the patent if such combination occurred within the United States." 35 U.S.C. § 271(f)(2). The Supreme Court explained that the "focus" of § 271(f)(2) is "[t]he conduct that [it] regulates," namely "the domestic act of 'suppl[ying] in or from the United States'" particular components of a patented product with the requisite intent that they be combined outside of the

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7 *See* Br. for Power Integrations, Inc. at 3, 13-15, *WesternGeco LLC v. ION Geophysical Corp*., 138 S. Ct. 2129 (2018) (No. 16-1101) (asserting that the case implicated "all forms of patent infringement under § 271" and arguing for a broad rule allowing recovery of "foreseeable" extraterritorial damages).

8 *See, e.g.*, Br. of N.Y. Intellectual Property Law Ass'n at 15-19, *WesternGeco LLC v. ION Geophysical Corp*., 138 S. Ct. 2129 (2018) (No. 16-1011) (arguing that the presumption against extraterritorial application of U.S. law does not apply to § 284 at all); Br. of Stephen Yelderman, at 8-10, *WesternGeco LLC v. ION Geophysical Corp*., 138 S. Ct. 2129 (2018) (No. 16-1011) (arguing that *Power Integrations I* was wrongly decided).

9 Indeed, the Court did not even extend its ruling to the whole of § 271(f), making clear that its analysis applied only to § 271(f)(2) and not to its sister provision § 271(f)(1). *See WesternGeco*, 138 S. Ct. at 2137 n.2.

United States in a manner that would constitute infringement if it occurred domestically. *WesternGeco*, 138 S. Ct. at 2137-38 (quoting 35 U.S.C. § 271(f)(2)). Thus, "the focus of § 284, in a case involving infringement under § 271(f)(2), is on the act of exporting components from the United States"; since that act necessarily occurs domestically, applying the statute to that conduct does not violate the presumption against extraterritoriality. *Id.* at 2138 (noting that "it was ION's *domestic* act of supplying the components that infringed WesternGeco's patents" (emphasis added)).

The Court rejected ION's argument that the case "involve[d] an extraterritorial application of § 284 simply because lost-profits damages occurred extraterritorially, and foreign conduct subsequent to ION's infringement was necessary to give rise to the injury." *Id.* (alteration, citation, and internal quotation marks omitted). The Court explained that, in the context of § 271(f)(2), the "overseas events" on which ION had relied—the foreign combinations that ION had intended its customers to make, and those customers' entry into surveying contracts in which they would use the completed systems—"were merely incidental to the infringement," and "d[id] not have 'primacy' for purposes of the extraterritoriality analysis." *Id.* (quoting *Morrison*, 561 U.S. at 267).

Based on this narrow analysis of § 271(f)(2)'s particular text and purpose, the Supreme Court concluded that, "[t]aken together, § 271(f)(2) and § 284 allow the patent owner to recover for lost foreign profits" because the conduct regulated by § 271(f)(2) (exportation from the United States) necessarily has a domestic situs. *Id*. at 2139. But, in keeping with the limited scope of its decision, the Court noted that it "d[id] not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases." *Id.* at 2139 n.3.

E. The District Court's Order And § 1292(b) Certification

Following the issuance of *WesternGeco*, Power Integrations asked the district court to reinstate the jury verdict on the ground that *WesternGeco* had effected an intervening change in the law that vitiated this Court's 2013 mandate in *Power Integrations I*. The district court declined to go so far as to reinstate the verdict, but issued an order (Appx1-5) "constru[ing] Power's briefing as a motion for relief from judgment filed pursuant to Federal Rule of Civil Procedure 60(b)(6)" and granting such relief in part (Appx3).

Specifically, the district court ordered that the new damages trial will "not be as narrow as the trial the Federal Circuit instructed the Court to conduct. Rather than limiting Power to seeking U.S. damages, the Court will permit Power to seek recovery of worldwide damages." Appx4. The court stated, with little analysis, that *WesternGeco* had "implicitly overruled" this Court's decision in *Power Integrations I*, and asserted without explanation that *WesternGeco*'s reasoning "has equal applicability to the direct infringement allegations pending here, as governed by § 271(a), as it did to the supplying a component infringement claim at issue in *WesternGeco*." Appx3.

The district court recognized that this aspect of its order would mean allowing Power Integrations to pursue "a broader damages claim than [this Court's 2013] mandate authorizes the [c]ourt to allow." Appx4. The district court proceeded to rule that an interlocutory appeal of that determination would be appropriate, concluding that its order "is controlling in that it sets out the scope of the trial," that "[t]here are substantial grounds on which the Federal Circuit could well disagree" with the district court's conclusion that the mandate is not binding, and that "it would materially advance the conclusion of this litigation" for this Court to address the continuing validity of its mandate and thus to head off the possibility of holding multiple additional trials. Appx4-5. The district court accordingly certified an interlocutory appeal under 28 U.S.C. § 1292(b) and stayed the trial proceedings. Appx4-5.

The district court's order expressly rejected Power Integrations' arguments that *WesternGeco* had overruled other aspects of *Power Integrations I*, in particular this Court's holding that the record lacked legally sufficient evidence of induced infringement. Appx4. The court thus refused Power Integrations' request to reinstate the jury's original verdict, and ordered that at the upcoming damages retrial Power Integrations would not be "permitted to press its claim for induced infringement." *Id*. The district court did not suggest that the statutory requisites for an interlocutory appeal are satisfied with respect to the inducement issue.

The district court issued a second order on October 11, 2018, in which it restated and readopted its prior conclusions. Appx6-7.

Both parties filed timely petitions for leave to appeal in this Court. This Court granted both petitions. No. 19-103, ECF 14. As to Fairchild's petition, this Court ruled that "the issue of whether *WesternGeco* … implicitly overruled *Power Integrations* is a controlling question of law as to which there is substantial ground for difference of opinion and for which an immediate appeal may materially advance the ultimate termination of the litigation, and warrants immediate review under § 1292(b)." *Id.* at 2. As to Power Integrations' petition, which Fairchild opposed on grounds that the inducement question did not satisfy the statutory requirements for interlocutory review (No. 19-102, ECF 8), the Court determined "to allow the merits briefs to address any issue fairly included in the district court's orders even if it was not the particular question formulated by the district court, and for Fairchild to argue in its merits briefs why § 1292(b) review over certain issues is improper or why the court should decline to address those issues." *Id.* at 3. Fairchild continues to oppose Power Integrations' putative cross-appeal both on procedural grounds and on the merits, and will address those issues more fully in its response to Power Integrations' briefing on cross-appeal.

SUMMARY OF ARGUMENT

The question presented by Fairchild's petition for leave to appeal must be answered in the negative. The Supreme Court expressly limited *WesternGeco* to the narrow context of 35 U.S.C. § 271(f)(2), so that decision can have no bearing on this Court's holding in *Power Integrations I* that § 271(a) provided no basis on the record here to award infringement damages based on worldwide sales. And even if this Court were to apply *WesternGeco*'s analysis to § 271(a), it would not change *Power Integrations I*'s result: Whereas § 271(f)(2)'s "focus" is on the prohibited act of exporting components of an invention from the United States with the intention that they be combined abroad, § 271(a)'s "focus" is on (as relevant here) the manufacture and sale of complete inventions.

Thus, in *WesternGeco*, all the conduct that was relevant to the statutory "focus" occurred in the United States when the defendant exported its components intending that they be combined abroad. But in this case, the vast majority of the conduct relevant to § 271(a)'s "focus" took place abroad: the evidence overwhelmingly concerned Fairchild's manufacture of chips in Korea and sales to a Korean customer. To award damages for those foreign sales would be to extend U.S. patent law into another country's jurisdiction, in contravention of the presumption against extraterritoriality. Congress has not authorized such an extension, and the risks to international comity are so profound that there is little prospect that it would ever do so. This Court ought not take such a step where Congress has chosen not to tread.

Even if it were hypothetically possible in another case for an award of damages in a § 271(a) case to be based on foreign sales, the district court still erred in repudiating this Court's mandate in this case for the independent reason that *WesternGeco* expressly declined to disturb the requirement to prove that damages were *caused* by domestic infringement. Thus, irrespective of its extraterritoriality holding, *Power Integrations I*'s no-proximate-causation holding still stands—as do its rejection of Power Integrations' inducement theory, its exclusion of Mr. Troxel's expert testimony, and its order that the trial record on damages is closed.

On the existing record to which a new trial would be limited, a jury could not possibly find that Fairchild's manufacture of a miniscule number of chips at an overflow facility in Maine or trivial domestic sales caused it to sell many millions of Korean-manufactured chips in Korea and elsewhere abroad. Power Integrations' expert admitted as much. Power Integrations therefore contends that the Korean-manufactured chips *themselves* infringe its U.S. patents, but that theory reflects a fundamental misunderstanding of the Patent Act. Chips that were made and sold only abroad, and which never entered the United States, cannot infringe a

U.S. patent under § 271(a), and therefore cannot support an award of "damages adequate to compensate *for the infringement*" under § 284. A damages award premised on § 271(a) must be based on *conduct* occurring in the United States, and here all the conduct relevant to the foreign-made chips occurred abroad. A reasonable jury could not find otherwise, and so could not find the requisite causal link between Fairchild's domestic activity and its foreign sales.

The district court thus erred as a matter of law and abused its discretion in granting relief under Fed. R. Civ. P. 60(b). Its order should be reversed, and this Court should clarify that *WesternGeco* did not overrule *Power Integrations I*.

STANDARD OF REVIEW

The district court's order granting relief under Fed. R. Civ. P. 60(b) is reviewed for abuse of discretion. *Lazare Kaplan Int'l, Inc. v. Photoscribe Techs., Inc.*, 714 F.3d 1289, 1293 (Fed. Cir. 2013) (reversing order granting such relief). Such an abuse occurs where (for example) an order is based on "erroneous conclusions of law." *Id.* (quoting *Fiskars, Inc. v. Hunt Mfg. Co.*, 279 F.3d 1378, 1381 (Fed. Cir. 2002)). Application of this Court's own prior mandate "is properly considered a question of law, reviewable de novo." *Laitram Corp. v. NEC Corp.*, 115 F.3d 947, 950 (Fed. Cir. 1997). Application of the JMOL standard is likewise a question of law considered de novo on appeal. *MobileMedia Ideas LLC v. Apple Inc.*, 780 F.3d 1159, 1164 (Fed. Cir. 2015) (applying Third Circuit law).

ARGUMENT

WesternGeco is not controlling here. Despite numerous calls to do so, the Supreme Court did not reach beyond § 271(f)(2), and its rationale is limited to the particular contours of that subsection. The Court thus did not address whether foreign lost profits are available for infringement under the other subsections of § 271. In particular, the decision expresses no opinion on whether damages from foreign sales are available for infringement under § 271(a) for making, using, selling, offering to sell, or importing a patented invention within the United States. Moreover, nothing in *WesternGeco* displaced standard rules of proximate causation in patent law, and this Court's prior holding that the record here lacks legally sufficient evidence that any domestic acts of infringement caused Power Integrations to suffer damages abroad provides independent reason to leave this Court's earlier mandate in place as the law of this case.

I. *WESTERNGECO* DID NOT OVERRULE *POWER INTEGRATIONS I* AS TO EXTRATERRITORIALITY

The district court erred in holding that *WesternGeco* "implicitly overruled" this Court's decision in *Power Integrations I*. *First*, *WesternGeco* was expressly limited to cases brought under ***§ 271(f)(2)***, and thus did not reach or decide the issue in *Power Integrations I* whether damages from foreign sales or manufacture are available under ***§ 271(a)***. The mandate rule thus requires that *Power Integrations I* remains the law of the case. *Second*, even if *WesternGeco* were not so limited, applying the exact same extraterritoriality analysis that the Court applied in *WesternGeco* to § 271(f)(2) dictates the opposite outcome here as to § 271(a). *Third*, there would be disastrous practical consequences if this Court were to extend *WesternGeco* to cases brought under § 271(a), which would effectively turn the presumption against the extraterritorial application of U.S. patent law on its head. Any such change in settled law should be left to Congress.

A. *WesternGeco* Expressly Limited Its Holding To Actions Under § 271(f)(2) And Did Not Reach Actions Under § 271(a)

The Supreme Court's decision in *WesternGeco* arose under § 271(f)(2), which imposes infringement liability on anyone who, with the requisite state of mind, "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." 35 U.S.C. § 271(f)(2) (emphasis added). Petitioner WesternGeco expressly limited the question presented in its case to § 271(f),[10] and the Supreme Court did not expand the question presented either in granting the petition or in deciding the case.

To the contrary, and despite the Solicitor General's and others' repeated invitations to issue a ruling broad enough to reach § 271(a), and thus to overrule *Power Integrations I* (*see supra* notes 6-8), the Supreme Court *expressly* limited

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[10] *See* Pet. for Cert. at i, *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018) (No. 16-1101); Br. for Pet'r at i, *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018) (No. 16-1101).

WesternGeco to § 271(f)(2). The Court explained that the extraterritoriality analysis required it to "look to the type of infringement that occurred." *WesternGeco*, 138 S. Ct. at 2137. Because "the provision at issue [t]here" and the sole "basis for WesternGeco's infringement claim and the lost-profits damages that it received" was § 271(f)(2), the Court explicitly "limit[ed] [its] analysis to § 271(f)(2)." *Id*. at 2135, 2137 & n.2. The Court even declined to address § 271(f)(1), the sister provision to the one that was at issue. *See id.* at 2137 nn.1 & 2. The Court thus limited its holding to the single subsection on which WesternGeco had relied: "as we hold today, [infringement recovery] can include lost foreign profits when the patent owner proves infringement ***under § 271(f)(2)***." *Id*. at 2138 (emphasis added).

These express limitations on the scope of the Supreme Court's holding make clear that *WesternGeco* does not address or decide the issue that this Court resolved in *Power Integrations I* concerning infringement ***under 35 U.S.C. § 271(a)***. *See Power Integrations I*, 711 F.3d at 1376-77. Section 271(a) provides that one infringes a patent if one "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." 35 U.S.C.

§ 271(a). Given the opinion's express limitations, *WesternGeco* does not apply to § 271(a) on the record here.[11]

Contrary to the district court's conclusion (Appx2), *WesternGeco* also cannot constitute a "'contrary and applicable decision of the law'" that "implicitly overruled *Power Integrations*" (quoting *Banks v. United States*, 741 F.3d 1268, 1276 (Fed. Cir. 2014)). While there exists an exception to the "law of the case" doctrine where the governing law has changed, that exception applies only in the event of an actual "conflict with a subsequent decision by this court sitting en banc or by the Supreme Court." *E-Pass Techs., Inc. v. 3Com Corp*, 473 F.3d 1213, 1219 (Fed. Cir. 2007). The exception is thus inapplicable where (as here) the prior decision and the intervening case concern "different statutory schemes." *See Cal. Fed. Bank v. United States*, 395 F.3d 1263, 1275 (Fed. Cir. 2005); *see also TFWS, Inc. v. Franchot*, 572 F.3d 186, 192 (4th Cir. 2009) (subsequent Supreme Court

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[11] Commentators have reached the same conclusion. For example, Professor Timothy Holbrook has noted that, in "focus[ing] exclusively on § 271(f)(2)" and declining to issue a more sweeping decision, *WesternGeco* "rejected the approach urged by the petitioner and the Solicitor General that would have ignored the infringement provision at issue." Timothy Holbrook, *WesternGeco's Implications for Patent Law and Beyond*, PatentlyO (June 24, 2018), https://bit.ly/2IXg7IZ. Professor Holbrook also notes that the Supreme Court "declined to overrule *Power Integrations*" despite "the petitioner's and Solicitor General's arguments." *Id.*; *see also, e.g.*, Bruce J. Rose & Fanny Patel, *Supreme Court Holds Patent Owners Can Recover Lost Foreign Profits*, 30 No. 9 Intell. Prop. & Tech. L.J. 12, 13 (2018) ("However, this decision does nothing to expand the damages universe for infringement under Section 271(a), the main avenue of alleging infringement in patent cases.").

decision on related but non-identical issue did not change controlling law). Because *WesternGeco* does not address the statutory provision at issue here, it has no effect on the law governing this case.

Moreover, the Supreme Court has made clear that it "does not normally overturn, or … dramatically limit, earlier authority *sub silentio*." *Shalala v. Ill. Council on Long Term Care, Inc.*, 529 U.S. 1, 18 (2000). Here, the Supreme Court was not merely silent on whether *WesternGeco* was meant to reach beyond § 271(f)(2)—as shown above, the Court clearly and expressly limited the decision's scope.[12] Moreover, a judicial disposition does not implicitly resolve an issue not expressly addressed unless that issue must have been "decided by *necessary* implication," *Laitram*, 115 F.3d at 951 (emphasis in original), and it cannot be said that the scope of § 271(a) direct-infringement damages is a "necessary implication" of *WesternGeco*'s ruling on the scope of § 271(f)(2) infringement-by-exportation damages. In short, there is "no indication that the Court sought to overrule" *Power Integrations I* when it issued *WesternGeco*, and no basis to find conflict between the two decisions. *SpeedTrack, Inc. v. Office Depot, Inc.*, 791 F.3d 1317, 1328 (Fed. Cir. 2015). And just as Congress should not be understood to have legislated extraterritorially without a clear statement to

[12] The Court, moreover, declined the opportunity to overrule *Power Integrations I* when it denied certiorari in this case. 571 U.S. at 1125.

that effect, the Supreme Court should not be understood to extend a statute's reach to foreign conduct in the absence of a definitive holding. There is no such holding here, and accordingly this Court should continue to recognize its prior decision in this case as binding precedent. *See, e.g.*, *E-Pass*, 473 F.3d at 1219.

B. *WesternGeco*'s Own Analysis, As Applied To § 271(a), Supports The Extraterritoriality Ruling In *Power Integrations I*

Even if *WesternGeco* were applicable here, it is not contrary to *Power Integrations I*. When applied to infringement damages sought under § 284 and § 271(a) on the record here, *WesternGeco*'s extraterritoriality analysis dictates the exact same result that this Court reached in *Power Integrations I*. The district court's conclusion (Appx3) that *WesternGeco* "implicitly overruled *Power Integrations*" is thus also wrong on the merits.

Specifically, § 271(a) and § 271(f)(2) involve materially different "focuses," and therefore the same extraterritoriality analysis yields opposite results. *WesternGeco* simply applied the well-settled step two of the Supreme Court's extraterritoriality framework to damages sought under § 284 for infringement under § 271(f)(2), and found that the exportation conduct that was the "focus" of § 271(f)(2) in *WesternGeco* was domestic, permitting the recovery of damages from merely "incidental" foreign activity. 138 S. Ct. at 2138. But as explained below, applying that exact same step-two analysis here dictates the opposite outcome: the manufacture and sales conduct that is the "focus" of § 271(a) in this case is overwhelmingly foreign, and thus Power Integrations may not recover damages from that "primary" foreign activity.

As the Supreme Court explained in *WesternGeco*, step two of the framework the Supreme Court developed in cases like *Morrison* and *RJR Nabisco* asks "whether the case involves a domestic application of the statute" by "identifying the statute's 'focus'" and then "asking whether the conduct relevant to that focus occurred in United States territory." 138 S. Ct. at 2136 (quoting *RJR Nabisco*, 136 S. Ct. at 2101; internal quotation marks omitted). The relevant statute's "focus" is determined by looking to "the object[] of the statute's solicitude," *i.e.*, the conduct "that the statute seeks to regulate." *Morrison*, 561 U.S. at 267 (quoted in *WesternGeco*, 138 S. Ct. at 2137). If the conduct relevant to that "focus" occurred within the United States, "then the case involves a permissible domestic application of the statue." *WesternGeco*, 138 S. Ct. at 2137. But if the relevant conduct occurred outside of U.S. jurisdiction, the case involves an extraterritorial application of the statute that is impermissible absent a clear statement of congressional intent to allow for such an application. *See id.*

Applying this analysis in the § 271(f)(2) context, the Supreme Court began with § 284, whose focus is on "the infringement" for which the statute provides a damages remedy. *Id*. But since § 271 "identifies several ways that a patent can be infringed," determining "the focus of § 284 in a given case" requires a court to "look to the type of infringement that occurred" in that case. *Id.* The "type of infringement" at issue represents the conduct that §§ 284 and 271 in combination seek to regulate.

In *WesternGeco*, the "type of infringement" that the Patent Act sought to regulate was that specified in § 271(f)(2). That statutory subsection "'expands the definition of infringement to include *supplying from the United States* a patented invention's components,'" and thus "addresses the act of *exporting*" those components out of the United States and into another country for assembly and use. *Id.* at 2134 (quoting *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 444-45 (2007); emphases added).[13] It reflects and furthers Congress's interests in regulating "'components that are manufactured in the United States but assembled overseas,'" and in thereby "protect[ing] against '*domestic entities who export components … from the United States*.'" *Id.* at 2138 (quoting *Life Tech. Corp. v. Promega Corp.*, 137 S. Ct. 734, 743 (2017), and *WesternGeco I*, 791 F.3d at 1351; emphasis added). Thus, "the focus of § 284, in a case involving infringement

[13] As specifically relevant in *WesternGeco*, § 271(f)(2) "provides that a company 'shall be liable as an infringer' if it 'supplies' certain components of a patented invention 'in or from the United States' with the intent that they 'will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States.'" 138 S. Ct. at 2137-38 (quoting 35 U.S.C. § 271(f)(2)).

under § 271(f)(2), is on *the act of exporting components from the United States*." *Id.* (emphasis added).

The act of exportation regulated by § 271(f)(2) necessarily occurs in the United States, and thus takes place domestically. But while that *domestic* act of infringing exportation commences in the United States, it is by its nature directed out of the country. Thus, in a § 271(f)(2) case, certain "overseas events"—namely, the intended extraterritorial combination of the exported components "in a manner that would infringe the patent if such combination occurred within the United States,'" 35 U.S.C. § 271(f)(2)—are considered merely "incidental to the infringement." *WesternGeco*, 138 S. Ct. at 2138. That is, such events are an expected and subordinate byproduct of the exportation that § 271(f)(2) defines as infringement. Those acts "do not have 'primacy' for purposes of the extraterritoriality analysis," *id.* (quoting *Morrison*, 561 U.S. at 267), and therefore do not trigger extraterritoriality concerns.[14]

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[14] The statutory history shows that Congress intended for § 271(f) damages to reach the results of overseas events that are incidental to acts of infringing exportation. Congress enacted § 271(f) in response to the Supreme Court's holding in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), that § 271(a) does not "operate beyond the limits of the United States," and does not create infringement liability based on exportation of a patented invention's disassembled components. *Id.* at 531-32. Congress reacted by enacting § 271(f) to fill that "gap in the enforceability of patent rights," *Life Tech.*, 137 S. Ct. at 743, stressing its concern that *Deepsouth*'s holding had enabled "subterfuge" and "weaken[ed] confidence in patents among businesses and investors" by limiting patent protection. S. Rep. No. 98-663, at 3. Congress thus specifically intended

The very same extraterritoriality analysis yields the opposite conclusion when applied to § 271(a) on a record like the one here. The "focus" of that provision—*i.e.*, the conduct relevant to its regulatory purpose—is (as relevant here) "mak[ing]" or "sell[ing] any patented invention." 35 U.S.C. § 271(a). This conclusion follows from the Supreme Court's approach in *WesternGeco*: Just as § 271(f)(2)'s "focus" is on exportation of components because that is what the provision "seeks to regulate," *see* 138 S. Ct. at 2137-38, so the "focus" of § 271(a) (as relevant here) is on *making or selling complete inventions* because that is what § 271(a) "seeks to regulate." *See also, e.g.*, *Morrison*, 561 U.S. at 267 (Exchange Act's "focus" was on the "transactions" that the statute sought to "regulate," not on antecedent deceptive acts); *E.E.O.C. v. Arabian Am. Oil Co.*, 499 U.S. 244, 249, 255 (1991) (Civil Rights Act Title VII's "focus" was on employment practices regulated by the statute, not on antecedent act of hiring).

Because the "focus" in an action where § 284 damages are sought for § 271(a) infringement is on "mak[ing]" and "sell[ing]" U.S.-patented inventions, the key question for the extraterritoriality analysis is whether the claimed damages

§ 271(f) to reach beyond § 271(a)'s territorial boundaries, and to protect against the particular extraterritorial events that are incidental to the prohibited domestic acts of exportation. But "§ 271(f) does not … change the nature of § 271(a) liability, as it provides a separate cause of action," *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1252 n.2 (Fed. Cir. 2000), and thus leaves in place the preexisting territorial limitations on § 271(a) damages.

were caused by a domestic act of making or selling, or a foreign one. If the relevant making or selling occurred in the United States, then the Patent Act may permissibly regulate that conduct; but "if the relevant conduct occurred in another country, 'then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in the U.S. territory.'" *WesternGeco*, 138 S. Ct. at 2137 (quoting *RJR Nabisco*, 136 S. Ct. at 2101).

Here, if that exact same analysis is applied, the manufacturing and sales that constitute the "relevant conduct" under § 271(a) "occurred in another country." *Id.* As this Court correctly concluded, it was Fairchild's *foreign* manufacturing and sales activity (and *not* its domestic conduct) that allegedly caused Power Integrations' foreign damages. *See Power Integrations I*, 711 F.3d at 1372 (alleged damages were "rooted in" foreign conduct, not in "Fairchild's activity in the United States"); *see also* Appx1938 (district court finding that alleged damages "w[ere] not related to parts that were manufactured, used, or sold in the United States by Fairchild, and w[ere] not based on parts that were imported into the United States by Fairchild or anyone else") (emphasis omitted). Thus, as this Court ruled, the question in this case is "whether Power Integrations is entitled to compensatory damages for injury caused by infringing activity that occurred outside the territory of the United States." *Power Integrations I*, 711 F.3d at 1371. "The answer is no," *id.*, because to allow recovery of such damages would constitute an "impermissible extraterritorial application" of §§ 284 and 271(a), *WesternGeco*, 138 S. Ct. at 2137 (quoting *RJR Nabisco*, 136 S. Ct. at 2101).

Power Integrations cannot avoid this conclusion by asserting that the extraterritorial sales and manufacture in this case are merely "incidental" to the conduct regulated by §§ 284 and 271(a). Such an argument succeeded in *WesternGeco* only because the plaintiff there had invoked § 271(f)(2), the "focus" of which is *exportation* of a patented device's components with an intent that they be combined abroad. *See WesternGeco*, 138 S. Ct. at 2138. In that context, the intended combination of the exported components is properly characterized as "merely incidental" to the antecedent act of infringement-by-exportation. *Id.* And injuries that occur by way of such "incidental" events may fairly be said to have been caused by the unlawful exportation itself.

Under § 271(a), in contrast, sale and manufacture are not "incidental" to the focus of the statute; they ***are*** the focus of the statute. If those activities (the "relevant conduct" for § 271(a)) take place abroad, then applying § 271(a) to them would "involve[] an impermissible extraterritorial application regardless of any other conduct that occurred in the U.S. territory." *WesternGeco*, 138 S. Ct. at 2137 (citation and internal quotation marks omitted). Indeed, by limiting direct infringement to conduct that occurs "within the United States," § 271(a) expressly *disclaims* any intent to regulate manufacturing and sales activities that occur abroad. Therefore, to support a claim for damages, the "relevant conduct" in a § 271(a) case must be completed within the United States—the statute contemplates neither exportation nor any incidental foreign activity. Damages resulting from the *foreign* sale of a device manufactured abroad cannot be attributed to an antecedent act of domestic infringement under § 271(a) as they could be under § 271(f)(2) because the *foreign* sale is the "relevant conduct" that must be the focus of the extraterritoriality analysis. *Cf. Morrison*, 561 U.S. at 267 (Exchange Act did not regulate foreign transactions); *Arabian Am. Oil Co.*, 499 U.S. at 249, 255 (Title VII did not regulate foreign employment practices).

If anything, it is Fairchild's *de minimis* domestic operations that might be called "incidental" on the record here to its much larger worldwide activity—not the other way around. *WesternGeco* does not permit Power Integrations to use a miniscule number of chips manufactured at a domestic plant or trivial domestic sales to capture damages based on all of Fairchild's noninfringing foreign sales.

C. Overruling *Power Integrations I* As To § 271(a) Would Have Drastic Negative Policy Consequences

In the years since this Court issued *Power Integrations I*, neither the Supreme Court nor Congress has shown any inclination to overturn it by authorizing extraterritorial damages in a § 271(a) case. In the absence of any such clear statement, this Court should not overrule its own precedent, for to do so would risk significant negative policy and economic consequences. The traditional territorial limits on U.S. patent law exist to avoid just such problems.

First, a rule allowing damages based on extraterritorial manufacture and sale of U.S.-patented inventions would create new and unnecessary conflicts with foreign law. "'Foreign conduct is [generally] the domain of foreign law,' and in the [patent context], in particular, 'foreign law may embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions.'" *Microsoft*, 550 U.S. at 455 (citation omitted). Indeed, the United States has long been a party to international agreements that require "effective and appropriate means for the enforcement of trade-related intellectual property rights" that take into account the substantial "differences in national legal systems." World Trade Organization, Agreement on Trade-Related Aspects of Intellectual Property Rights, *adopted*, 1869 U.N.T.S. 299, 320 (Dec. 8, 1994).

Allowing the award of worldwide sales damages under § 271(a) would undermine international comity by enabling patent-holders to circumvent foreign patent regimes whose rules are more restrictive than ours. An inventor who never bothered to obtain a foreign patent, or who could not do so, or whose rights in another country have expired, could nonetheless sue in the United States under a U.S. patent for damages for foreign conduct. Similarly, another country's patent examiner might issue a patent with a narrower scope than that issued in the United

States; a rule permitting recovery of extraterritorial damages in the United States would allow recovery based on claims that the foreign country disallowed. Even where a U.S. patent-holder also holds equivalent foreign patents, the damages available for infringement abroad are frequently far less generous than those available in the United States.[15]

Extending § 271(a) to permit worldwide-damages recovery thus would result in a kind of "patent imperialism" in which patent-holders leverage U.S. patent rights in U.S. courts to recover relief for foreign conduct that is foreclosed in the country where that conduct occurred. *See* Bernard Chao, *Patent Imperialism*, 109 Nw. U. L. Rev. 77, 86-87 (2014). Such a result would undermine other nations' patent regimes, interfering with their ability to decide what products may be made and sold (and on what terms) within their jurisdictions. And if the United States

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[15] Between 2012 and 2016, the median patent-infringement damages award in the United States was $5.8 million; in cases that proceeded past summary judgment, the figure was $8.9 million. PriceWaterhouseCoopers, *2017 Patent Litigation Study: Change on the horizon?* at 9 (May 2017), https://pwc.to/2HZ2Orr. As one point of comparison, the average recovery in French patent cases in 2015 appears to have been "well under €100,000." Thomas F. Cotter, *Patent Damages in France*, Comparative Patent Remedies (Oct. 5, 2016), https://bit.ly/2pDTp0X; *see also, e.g.*, Nicolas van Zeebroeck & Stuart Graham, *Comparing Patent Litigation Across Europe: A First Look*, 17 Stan. Tech. L. Rev. 655 (2014); Xiaowu Li & Don Wang, *Chinese Patent Law's Statutory Damages Provision: The One Size That Fits None*, 26 Wash. Int'l L.J. 209, 211 (2017) (the "average damages awarded in patent infringement cases in China from 2006 to 2013 [was] a mere RMB 118,266.00 (approximately $18,253.00)").

were to adopt such a worldwide-damages regime, other nations would likely adopt reciprocal or even retaliatory measures.

Second, permitting damages awards under § 271(a) based on conduct occurring wholly abroad would create a serious danger of duplicative recoveries and overcompensation. A patent-holder with both a U.S. and a foreign patent could sue twice seeking damages for the same foreign conduct, and the foreign court might permit a second recovery even if the U.S. court would not. A similar problem would arise if U.S. and foreign rights in the same invention were held by different entities. Both might sue for damages based on the same foreign conduct, in which case the infringer could be forced to pay twice for the same overseas conduct. Or if instead foreign law happened to protect the infringer from a second suit, the holder of the foreign patent could be left without recovery for infringement—yet another potential source of international discord.

A rule allowing damages under § 271(a) based on entirely foreign conduct would also create a grave risk of overcompensation because it would increase the scale of available damages. For example, the record here shows that Fairchild manufactured and sold at least 98% of the devices at issue in this litigation overseas (Appx1212)—meaning that just 2% of its production and sales took place domestically, presumably leading to just 2% of Power Integrations' purported lost sales. Allowing Power Integrations to obtain worldwide damages based on such limited domestic conduct would amount to a fifty-fold increase in its recovery.

Third, the threat of multinational patent damages from a single lawsuit before a U.S. jury under § 271(a) would discourage inventors and innovators from undertaking any activity in the United States that could arguably create exposure to such liability. *See, e.g.*, Douglas Melamed, *Over-Rewarding Patenting: You Get What You Pay For*, 39 Harv. J.L. & Pub. Pol'y 59, 60 (2016) ("[E]xcessive remedies for patent infringement not only overcompensate patent holders, but also reduce both product output and invention itself."). Many companies in a variety of cutting-edge fields would face powerful pressure to move out of the United States if this Court were to overturn *Power Integrations I* and create a bonanza for patent awards based on global sales. The Patent Act exists to encourage investment and innovation in the United States, not to scare it away.

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For all these reasons, this Court should hold that *Power Integrations I* remains good law notwithstanding *WesternGeco*.

II. *WESTERNGECO* DID NOT OVERRULE *POWER INTEGRATIONS I* AS TO PROXIMATE CAUSATION

Even if *WesternGeco* overruled *Power Integrations I* as to the potential availability of extraterritorial damages under § 271(a) (it did not), *WesternGeco* did not overturn the long-settled law of causation as applied to patent law, and causation principles provide independent ground to reaffirm the Court's earlier mandate. The Supreme Court stated clearly that its opinion "do[es] not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in a particular case." *WesternGeco*, 138 S. Ct. at 2139 n.3. Here, Power Integrations failed to prove any causal relationship between any domestic infringing conduct under § 271(a) and its claimed lost worldwide sales. Thus this case presents no exceptional circumstances warranting departure from the Court's earlier holding 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." 711 F.3d at 1371-72.

A. *WesternGeco* Did Not Alter The Requirement That Damages Must Have Been Caused By Domestic Infringement

WesternGeco did not overrule the independent requirement that, to be recoverable under § 284, damages must be both factually and proximately caused by an act of domestic infringement as defined under § 271. Patent infringement is a species of tort, *Schillinger v. United States*, 155 U.S. 163, 169-70 (1894), and principles of proximate causation therefore apply, *see Staub v. Proctor Hosp.*, 562 U.S. 411, 417 (2011) (courts presume that "when Congress creates a federal tort it adopts the background of general tort law").[16] Thus, an injury is compensable under § 284 only if an act of infringement was a "but for" cause of damage (*i.e.*, the damage "proceed[ed] from the act of patent infringement") as well as a *proximate* cause of damage (*i.e.*, the damage "was or should have been reasonably foreseeable," and was not a merely "remote consequence[]" of infringement). *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1546 (Fed. Cir. 1995) (en banc); *see also Bank of Am. Corp. v. City of Miami, Fla*., 137 S. Ct. 1296, 1299 (2017) (proximate-cause analysis asks "whether the harm alleged has a sufficiently close connection to the conduct the statute prohibits"); *King Instruments Corp. v. Perego*, 65 F.3d 941, 948 n.3 (Fed. Cir. 1995) ("Compensatory (or actual) 'damages' are generally those which are the natural result of the harmful act in question.").

WesternGeco expressly declined to alter these long-settled rules. To the contrary, the Supreme Court stated clearly that its opinion "do[es] not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in a particular case." 138 S. Ct. at 2139 n.3. Both causation requirements therefore survive *WesternGeco* even if the extraterritoriality rule does not.

[16] Power Integrations acknowledged as much in its *WesternGeco* amicus brief. *See* Br. for Power Integrations, *supra* note 7, at 7.

B. No Reasonable Jury Could Find That Fairchild's Domestic Conduct Caused Power Integrations To Lose Foreign Sales

The settled law of causation independently supports this Court's judgment in *Power Integrations I*, because the record evidence does not support a finding that the foreign sales for which Power Integrations seeks recovery were caused by any act of domestic infringement. At the threshold, because this Court held that "there was no basis upon which a reasonable jury could find Fairchild liable for induced infringement," *Power Integrations I*, 711 F.3d at 1376; *see supra* at 10, Power Integrations cannot defend a worldwide damages recovery (or any damages recovery at all) on a theory of induced infringement.[17] Further, this Court has held that the testimony of Power Integrations' sole damages expert Mr. Troxel must be excluded from trial, 711 F.3d at 1372-74, and has limited Power Integrations to "evidence in the existing record," thereby foreclosing introduction of new damages evidence to replace Mr. Troxel's stricken speculation, *id.* at 1377, 1381.

Consequently, the *only* conduct for which Power Integrations may be compensated in this case is Fairchild's *domestic* manufacture and sale of chips, found earlier to be worth just $765,724 (*see* Appx1004, Appx1500-1501). That figure represents just 2% of the $34 million jury award, and it is undisputed that Fairchild manufactured or sold no more than about 2% of the accused products in

[17] The district court correctly determined to adhere to this Court's rejection of Power Integrations' inducement theory. Appx4. Fairchild reserves its defense of that ruling for its brief in response to Power Integrations' putative cross-appeal.

the United States (Appx1208, Appx1212). Thus, to recover the worldwide damages encompassed by the jury's verdict, Power Integrations would have been required to prove that every dollar's worth of domestic infringing conduct was somehow the factual and proximate cause of *fifty dollars*' worth of injuries suffered abroad. Even setting the extraterritoriality problem to one side, Power Integrations cannot make any such showing.

1. Fairchild's Manufacture And Sale Of Chips In The United States Did Not Cause Its Foreign Sales

In theory, a patent-holder might seek to prove that domestic infringement caused foreign damages by showing that each act of manufacture, sale, or use in the United States caused the defendant to make additional (noninfringing) sales abroad, thereby resulting in additional compensable injuries to the plaintiff.[18] But Power Integrations did not even attempt to make any such showing in this case. To the contrary, Mr. Troxel candidly admitted at trial that his "worldwide" damages calculation "was ***not*** related to parts that were manufactured in the United States," "was ***not*** related to parts that were sold in the United States," and "w[as] ***not*** related to parts that were imported into the United States." Appx1069-1070

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18 *Cf. Am. Seating Co. v. USSC Grp., Inc.*, 514 F.3d 1262, 1268 (Fed. Cir. 2008) ("A patentee may recover lost profits on unpatented components sold with a patented item, a convoyed sale, if both the patented and unpatented products 'together were considered to be components of a single assembly or parts of a complete machine, or they together constituted a functional unit.'") (quoting *Rite-Hite*, 56 F.3d at 1550)).

(emphases added). Given those admissions, this Court held (711 F.3d at 1372) that the district had correctly concluded that the claimed "worldwide" damages "w[ere] ***not*** related to parts that were manufactured, used, or sold in the United States by Fairchild," and "w[ere] ***not*** based on parts that were imported into the United States by Fairchild or anyone else" (Appx1938 (emphasis altered)). Instead, the "worldwide" damages were related only to Fairchild's *foreign* manufacturing and *foreign* sales—neither of which infringed any U.S. patent.

Power Integrations fares no better in attempting to show a causal link between Fairchild's domestic conduct and its foreign sales by asserting (Appx2010) that "U.S. activity was required for Fairchild to win Samsung's business," citing as an example that "Fairchild manufactured infringing chips in the United States to meet the needs of Samsung Wireless cell phone subcontractors." The testimony it cited does ***not*** show that U.S. manufacturing "was required for Fairchild to win Samsung's business"—it shows, at most, that Fairchild began manufacturing a tiny fraction of its parts at its Portland overflow plant in order to fully satisfy demand and achieve its ultimate 40% market share (*see* Appx888-894, Appx977-978, Appx1241, Appx1254).[19] There is no evidence

[19] Power Integrations also asserts that Fairchild "offered infringing products to Samsung with the involvement of its U.S. sales force" (Appx2010), but the cited testimony shows only that Fairchild employee Tom Beaver visited Samsung "*in Korea*" regarding "*flat-panel TVs*" (Appx1000 (emphases added)). It thus has

that Fairchild would have lost any significant number of foreign sales (let alone ***all*** of them) if it had not located an overflow facility in the United States, in which it manufactured 2% of its global production.

Even if there were such evidence, it would be legally deficient: To include noninfringing sales in the damages calculation for an infringing sale, the noninfringing products "must be functionally related to the patented product and losses must be reasonably foreseeable"; "[b]eing sold together merely for 'convenience or business advantage' is not enough" to satisfy this proximate-causation requirement. *Warsaw Orthopedic, Inc. v. NuVasive, Inc.*, 778 F.3d 1365, 1375 (Fed. Cir. 2015) (citing *Rite-Hite*, 56 F.3d at 1546-50, and quoting *Am. Seating*, 514 F.3d at 1268).[20] "If the [noninfringing] sale has a use independent of the patented device, that suggests a non-functional relationship." *Id.* Here, the foreign noninfringing products are not "functionally related" to the domestically manufactured products in the relevant sense: The products were not sold together as "components of a single assembly or parts of a complete machine." *Am. Seating*, 514 F.3d at 1268 (quoting *Rite-Hite*, 56 F.3d at 1550). Even under Power Integrations' theory (which, again, is unsupported by any admissible evidence),

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nothing to do with either conduct in the United States or global sales of mobile-phone chargers, let alone a link between the two.

[20] The Supreme Court vacated *Warsaw* on other grounds, 136 S. Ct. 893 (2016), but this Court reinstated its opinion in relevant part on remand, 824 F.3d 1344 (Fed. Cir. 2016).

there was at most an element of "convenience or business strategy" in selling chips manufactured in both Korea and the United States, and a causation theory based on such mere convenience or strategy must be "excluded by *American Seating*." *Warsaw Orthopedic*, 778 F.3d at 1376 (citing *Am. Seating*, 514 F.3d at 1268).

There is, in short, no legally cognizable causal link between Fairchild's domestic manufacturing and sales and the overseas conduct on which the Power Integrations' "worldwide" damages theory is based. Power Integrations' claim for recovery of such damages should be excluded from trial.

2. Power Integrations Cannot Recover Damages Caused Only By Noninfringing Foreign Conduct

Lacking a causal connection between Fairchild's foreign sales and the domestic conduct found to infringe under § 271(a), Power Integrations offers an alternative theory that "Fairchild could not have sold *any* of its accused products, *worldwide*, if they were not capable of being sold and used in the U.S." (Appx2023 (emphasis added)). In other words, Power Integrations contends that Fairchild could not have sold its products abroad if they did not practice Power Integrations' U.S. patents.

But that is just a claim that Power Integrations should be compensated for *foreign* sales of a U.S.-patented invention, which "[are] not infringement at all." *Power Integrations I*, 711 F.3d at 1371 (citing *Brown*, 60 U.S. at 195). Since they do not infringe as a matter of law, such foreign sales are not compensable under

§ 284: That provision authorizes only damages "adequate to compensate *for the infringement*." 35 U.S.C. § 284 (emphasis added).

Power Integrations cannot solve this problem by contending that Fairchild's foreign-made and foreign-sold *products* "infringe" the patents (*see* Appx2010, Appx2023-2024). The "infringement" for which § 284 allows an award of damages must be one of the several types of *conduct* that are specifically identified and defined in § 271, *see WesternGeco*, 138 S. Ct. at 2137, so a device by itself "cannot infringe under any subsection of § 271," *Suprema, Inc. v. I.T.C.*, 796 F.3d 1338, 1347 (Fed. Cir. 2015) (en banc) (citing 35 U.S.C. § 271(a)-(c)).[21] Rather, "[t]he relevant portions of § 271 define persons' *actions* as infringement." *Id.* (emphasis in original). And an act of manufacture, sale or use cannot constitute infringement under § 271(a) unless it occurs in the United States. *See Power Integrations I*, 711 F.3d at 1371.

In sum, there is no evidence that Fairchild's foreign sales were caused by its U.S. manufacturing and sales operations (which were found to infringe), as opposed to its foreign practice of the patented technologies (which does not infringe to the extent it occurred in products that were made and sold abroad). And

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[21] Cases sometimes state informally that a product infringes a patent where the asserted patent claim "reads on the accused product," *Clare v. Chrysler Grp. LLC*, 819 F.3d 1323, 1326 (Fed. Cir. 2016), but to give rise to an infringement claim under § 271(a) a product that practices the patent must have been the object of one of the *actions* that the statute defines as infringing.

without such evidence, Power Integrations' claim for damages based on Fairchild's foreign sales has no predicate act of domestic infringement on which a § 284 damages claim could be based. In other words, there is no chain of causation connecting the claimed foreign damages to any compensable act of domestic infringement. Such damages must therefore be excluded from trial.

Judge Wallach reached the same conclusion in his dissenting opinions in *WesternGeco*—the reasoning of which was largely adopted by the Supreme Court. While Judge Wallach would have ruled that the lost foreign sales in *WesternGeco* were properly considered as part of the plaintiff's damages under § 271(f)(2), he explained that, under proximate-cause principles, "a party will not necessarily be able to recover damages equal to lost foreign sales simply because those lost sales would not have occurred 'but for' the domestic infringement." *WesternGeco L.L.C. v. ION Geophysical Corp.*, 837 F.3d 1358, 1365 (Fed. Cir. 2016) (Wallach, J., dissenting), *rev'd*, 138 S. Ct. 2129 (2018). Instead, "the appropriate measure of damages must bear some relation to the extent of the infringement in the United States." *Id.* at 1368. Therefore, "where the volume of non-infringing sales is independent of the extent of United States infringement, those sales should not be used as a measure of damages flowing from the domestic infringement." *Id.*

Applying these principles, Judge Wallach distinguished this case from *WesternGeco* on the specific ground that Power Integrations had failed to prove an "appropriate connection between the infringing activity and the resulting lost sales." *WesternGeco L.L.C. v. ION Geophysical Corp.*, 791 F.3d 1340, 1354, 1360 (Fed. Cir. 2015) (Wallach, J., dissenting), *vacated on other grounds*, 136 S. Ct. 2486 (2016). As Judge Wallach explained, Power Integrations has shown no more than a "tenuous connection between infringement and harm." *Id*. Indeed, Fairchild's noninfringing foreign sales were entirely "independent of the extent of United States infringement," such that an award of damages based on those sales would result in an award of damages bearing no "relation to the extent of the infringement in the United States." *WesternGeco*, 837 F.3d at 1368 (Wallach, J., dissenting). Foreign sales therefore "should not be used as a measure of damages flowing from the domestic infringement" in this case. *Id.*

C. Power Integrations' Effort To Relitigate Causation Is Barred By This Court's Mandate

Power Integrations' damages theory is thus legally faulty under well settled principles of proximate causation. But to the extent there is any remaining material dispute of fact, this Court has resolved it by affirming the district court's finding that Power Integrations' damages claim "was not 'rooted in Fairchild's activity in the United States.'" 711 F.3d at 1372 (quoting Appx1938). This Court thus *rejected* Power Integrations' claim that its purported "loss of sales in foreign markets" was a "foreseeable result of infringing conduct in the United States," finding "neither compelling facts nor a reasonable justification" in support of such a claim. *Id*. This Court, moreover, ruled that Power Integrations' expert damages testimony is inadmissible, *id*. at 1372-74, and foreclosed Power Integrations from introducing new evidence on remand to support any new theory that Fairchild's domestic conduct caused foreign injuries, *id.* at 1377, 1381.

These rulings are independent of the extraterritoriality principle discussed in Point I above. The district court (Appx1937) expressly cited and relied on *Rite-Hite*'s "reasonably foreseeable" formulation of the proximate-cause test, and ruled that it was not satisfied. Power Integrations appealed that ruling,[22] and this Court (again citing *Rite-Hite*) rejected its arguments. 711 F.3d at 1371-72. The question whether Power Integrations has met the proximate causation requirement has therefore been conclusively resolved in the negative in a portion of *Power Integrations I* separate from the extraterritoriality analysis.

"Under the mandate rule and the broader law-of-the-case doctrine, a court may only deviate from a decision in a prior appeal" in "'extraordinary circumstances'" such as where there has been a change in the law or a material change in the evidence. *ArcelorMittal France v. AK Steel Corp.*, 786 F.3d 885, 889 (Fed. Cir. 2015) (quoting *Pub. Interest Research Grp. v. Magnesium Elektron*, 123 F.3d 111, 116 (3d Cir. 1997)); *see E-Pass*, 473 F.3d at 1219. "But 'such departures are rare,'" *ArcelorMittal France*, 786 F.3d at 889 (quoting *Toro Co. v.*

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[22] *See* No. 11-1218 Power Integrations Br. (ECF 31), at 43-47.

White Consol. Indus., Inc., 383 F.3d 1326, 1336 (Fed. Cir. 2004)), and neither exception applies here: The law of causation has not changed (as *WesternGeco* made clear, 138 S. Ct. at 2139 n.3), and at this Court's instruction (*see* 711 F.3d at 1381) the parties have been foreclosed from admitting any new evidence into the record. The courts' prior resolution of the causation question is therefore unassailable. Power Integrations cannot properly reargue the issue now. *See, e.g.*, *Banks*, 741 F.3d at 1276-79 (rejecting attempt to reargue issue decided on prior appeal).

CONCLUSION

The order on appeal should be reversed. The Court should hold that *WesternGeco* does not overrule *Power Integrations I*. The case should be remanded with instructions to conduct a new trial consistent with this Court's prior mandate, limited to determining the amount of Power Integrations' damages from Fairchild's domestic infringing conduct based on evidence in the existing trial record.

DATED: February 1, 2019

Respectfully submitted,

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ADDENDUM

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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

POWER INTEGRATIONS, INC., Plaintiff, v. FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. and FAIRCHILD SEMICONDUCTOR CORPORATION, Defendants.	Civil Action No. 04-1371-LPS

MEMORANDUM ORDER

Power Integrations, Inc. ("Power") sued Defendants Fairchild Semiconductor International, Inc. and Fairchild Semiconductor Corporation ("Fairchild") in 2004 for infringement of four Power patents. At trial in October 2006, the jury was instructed on direct and induced infringement and returned a general verdict finding infringement. The jury also found Fairchild's infringement was willful and awarded Power approximately $34 million in worldwide damages. Post-trial, the Court granted Fairchild's motion for remittitur and reduced the jury's award by approximately 82%, to around $6 million, the amount of damages Power incurred just in the United States.

On appeal, the Court of Appeals for the Federal Circuit held that this Court had correctly decided to reduce damages because the jury's damages award was contrary to law for being based on worldwide sales. *See Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013) ("*Power Integrations*"). The Federal Circuit also found insufficient evidence to support a finding of induced infringement and concluded, therefore, that the jury's verdict must have been based on direct infringement – presumably based on the parties' stipulation of direct infringement. The Court remanded the case with instructions to conduct a new trial on damages for direct infringement alone. Power's petition for a writ of certiorari on the worldwide sales issue was denied.

In July 2015, in *WesternGeco L.L.C. v. ION Geophysical Corp.* (Fed. Cir. 2015), 791 F.3d 1340, 1350-51 (Fed. Cir. 2015) ("*WesternGeco I*"), the Federal Circuit described *Power Integrations* as "[t]he leading case on lost profits for foreign conduct" and, relying on the *Power Integrations* precedent, denied a patentee recovery of worldwide damages for patent infringement. Then, on June 22, 2018, the Supreme Court reversed the Federal Circuit's decision in *WesternGeco I*, holding instead that "worldwide" patent damages for infringement under 35 U.S.C. § 271(f)(2), relating to supplying components from the U.S. to be combined outside the U.S. in a manner that would be infringing in the U.S., may be awarded. *See WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018) ("*WesternGeco II*").

Through briefing and a telephonic hearing, the parties have advised the Court of their competing views as to the impact of the Supreme Court's decision in *WesternGeco II* on the damages trial this Court must now conduct on remand. (*See, e.g.*, D.I. 971, 973, 976, 977, 980, 982)

1. In the Court's view, the Supreme Court's *WesternGeco II* decision implicitly overruled the Federal Circuit's *Power Integrations* opinion.[1] The Supreme Court's analysis of

[1] "[C]ircuit precedent, authoritative at the time that it issued, can be effectively overruled by subsequent Supreme Court decisions that are closely on point, even though those decisions do not expressly overrule the prior circuit precedent." *Miller v. Gammie*, 335 F.3d 889, 899 (9th Cir. 2003) (en banc) (internal quotation marks omitted) (cited by *Troy v. Samson Mfg. Corp.*, 758 F.3d 1322, 1326 (Fed. Cir. 2014)). "[T]he issues decided by the higher court need not be

the patent damages statute, § 284, has equal applicability to the direct infringement allegations pending here, as governed by § 271(a), as it did to the supplying a component infringement claims at issue in *WesternGeco II*, which were governed by § 271(f)(2). Fairchild has identified no persuasive reason to conclude that the interpretation of § 284 should differ here from what was available in *WesternGeco II* just because the type of infringing conduct alleged is different. Instead, as Power puts it, "Section 271(a) 'vindicates domestic interests' no less than Section 271(f)." (D.I. 977 at 2) (quoting *WesternGeco II*, 138 S. Ct. at 2138). Moreover, the Federal Circuit's *WesternGeco I* decision was based almost entirely on the Federal Circuit's *Power Integrations* decision. It logically follows that when the Supreme Court expressly overruled *WesternGeco I* it also implicitly overruled *Power Integrations*.[2]

2. The Court construes Power's briefing as a motion for relief from judgment filed pursuant to Federal Rule of Civil Procedure 60(b)(6). **IT IS HEREBY ORDERED** that this motion is **GRANTED IN PART**, to the extent consistent with paragraph 1 of this Order. While the mandate rule "dictates that an inferior court has no power or authority to deviate from the mandate issued by an appellate court," there is an exception where, as here, "controlling authority has since made a contrary and applicable decision of the law." *Banks v. United States*, 741 F.3d 1268, 1276 (Fed. Cir. 2014) (internal quotation marks omitted). *WesternGeco II* is a "contrary and applicable" decision, so the Court must comply with the Supreme Court's holding in *WesternGeco II*, rather than the Federal Circuit's mandate issued in *Power Integrations*.

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identical to be controlling. Rather, the relevant court of last resort must have undercut the theory or reasoning underlying the prior circuit precedent in such a way that the cases are clearly irreconcilable." *Id.* at 900.

[2] *WesternGeco II* makes one reference to *Power Integrations*. *See* 138 S. Ct. at 2135.

Therefore, the trial the Court will conduct will not be as narrow as the trial the Federal Circuit instructed the Court to conduct. Rather than limiting Power to seeking U.S. damages, the Court will permit Power to seek recovery of worldwide damages.

3. Power's Rule 60(b)(6) motion is **DENIED** in all other respects. In particular, all aspects of the *Power Integrations* mandate that are unaffected by *WesternGeco II* remain binding on the Court. For example, Power will not be permitted to press its claim for induced infringement. *See Power Integrations*, 711 F.3d at 1376 ("[T]here was no basis upon which a reasonable jury could find Fairchild liable for induced infringement."); *id.* at 1377 ("[T]he record contains insufficient evidence to support Fairchild's liability for induced infringement."); *id.* at 1381 ("We vacate the district court's award of damages based on infringement by inducement.").

4. The Court has further determined that it is appropriate to certify this Order for interlocutory appeal, pursuant to 28 U.S.C. § 1292(b). Under Section 1292(b), an interlocutory appeal is permitted when the order at issue (1) involves a controlling question of law upon which there is (2) substantial grounds for a difference of opinion as to its correctness, and (3) if appealed immediately may materially advance the ultimate termination of the litigation. An interlocutory appeal is only appropriate when "exceptional circumstances merit a departure from the final judgment rule." *EMSI Acquisition, Inc. v. RSUI Indem. Co.*, 2018 WL 2316633, at *2 (D. Del. May 22, 2018) (internal quotation marks omitted).

5. All of these criteria are satisfied here. The Court's Order is controlling in that it sets out the scope of the trial, a trial that will consider a broader damages claim than the mandate authorizes the Court to allow, thereby exceeding the mandate. There are substantial grounds on which the Federal Circuit could well disagree with this Court's assessment that the Supreme

Court in *WesternGeco II* implicitly overruled the Federal Circuit's *Power Integrations* decision. The Court is well aware of the unusual nature of a District Court telling a Court of Appeals that the District Court will not follow a binding Court of Appeals precedent because, in the view of the District Court, the Supreme Court has overruled the Court of Appeals. Rather than try this case based on this Court's conclusion on implicit overruling – and risking, if wrong, two additional trials instead of just one more – it would materially advance the conclusion of this litigation to ask the Federal Circuit to tell us if, in light of *WesternGeco II*, the trial should be limited to U.S. damages or should, instead, consider worldwide damages. The Court's conclusion on material advancement is strengthened by the unusual fact that, after thorough discussion of the matter, the parties agree with the Court that certifying an interlocutory appeal is the appropriate next step in this case. (*See* D.I. 982) Over nearly 15 years of litigating this matter, the parties have rarely agreed on anything.

Accordingly, **IT IS HEREBY ORDERED** that the Court **CERTIFIES** this Order for interlocutory review by the Court of Appeals for the Federal Circuit.

Finally, **IT IS FURTHER ORDERED** that the parties shall meet and confer and, no later than October 10, 2018, submit any additional proposed order they request the Court to enter to effectuate its decisions announced here.

October 4, 2018
Wilmington, Delaware

HONORABLE LEONARD P. STARK
UNITED STATES DISTRICT COURT

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF 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 LPS

[~~PROPOSED~~] ORDER GRANTING IN PART AND DENYING IN PART POWER INTEGRATIONS' MOTION FOR RELIEF UNDER RULE 60(b)(6)

The Court, having considered Plaintiff Power Integrations' motion for relief under Rule 60(b)(6), and its supporting papers, and having considered the parties' arguments with regard to that motion, rules as follows for the reasons stated in its Memorandum Order dated October 4, 2018 (D.I. 983):

(1) Plaintiff Power Integrations' Motion is GRANTED IN PART to the extent that the Court finds that the Supreme Court's decision in *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018) implicitly overrules the Federal Circuit's decision in *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013) and that Power Integrations is entitled to seek a new trial on worldwide damages for direct infringement in this case;

(2) Plaintiff Power Integrations' Motion is DENIED IN PART in all other respects, including to the extent that it seeks to reinstate the original jury verdict in this case or be permitted a new trial on inducement in this case.

(3) the Court CERTIFIES this Order for interlocutory review by the Court of Appeals for the Federal Circuit pursuant to 28 U.S.C. § 1292(b). The deadline to file any petition in the Court of Appeals requesting review pursuant to 28 U.S.C. § 1292(b) shall run from the date of entry of this Order.

(4) the present matter is stayed before this Court until resolution of any interlocutory appeal of this Order.

IT IS HEREBY ORDERED this 11th day of October, 2018.

UNITED STATES DISTRICT COURT JUDGE

CERTIFICATE OF SERVICE

I, Kathleen M. Sullivan, hereby certify that on February 1, 2019, I caused the foregoing Brief for Defendants-Appellants to be electronically filed with the Clerk of the Court for the United States Court of Appeals for the Federal Circuit by using the appellate CM/ECF system. Service will be accomplished on all counsel of record via the CM/ECF system.

Dated: February 1, 2019

/s/ Kathleen M. Sullivan

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CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32(g), the undersigned certifies that this brief complies with the type-volume limitations of Federal Circuit Rule 28.1(b)(1)(A) and the typeface and type-style requirements of Federal Rule of Appellate Procedure 32(a)(5)-(6).

1. Exclusive of the exempted portions, this brief includes 12,792 words.

2. This brief has been prepared in proportionally spaced typeface using Microsoft Word 2013 in 14 point Times New Roman font.

Dated: February 1, 2019

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