Portfolio Media. Inc. | 860 Broadway, 6th Floor | New York, NY 10003 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

# Power Integrations Case Will Help Shape Damages Theories

*Law360, New York (April 03, 2013, 12:39 PM ET)* -- It has long been the case that United States law generally is presumed not to apply extraterritorially. But despite this presumption, neither the U.S. Supreme Court nor the Federal Circuit had directly addressed the question of whether a patentee can obtain "worldwide" damages where there is a finding of domestic patent infringement. In particular, the courts had not resolved the question of whether worldwide damages that are the direct and foreseeable result of domestic infringement are recoverable. In Power Integrations Inc. v. Fairchild Semiconductor Int'l Inc. (Fed. Cir. March 26, 2013), the Federal Circuit put to rest any lingering ambiguity as to whether the presumption against extraterritoriality forecloses so-called "worldwide damages" for patent infringement.

Power Integrations landed at the Federal Circuit following a jury finding that Fairchild infringed several of Power Integrations' patents relating to power supplies for electronic devices. The jury went on to award nearly $34 million in damages, which, most critically, were calculated, in part, based on sales of products that had never been in the United States; either when manufactured or sold.

Fairchild responded to the verdict by moving for remittitur. It argued that the jury's award was contrary to law because it was "based on worldwide sales and therefore improperly rooted in Fairchild's extraterritorial use of the patented inventions." Slip Op., at 34. The district court granted Fairchild's motion, and remitted the jury's award by 82 percent — the portion of the accused products not imported into the United States. Power Integrations appealed the order of remittitur.

On appeal, Power Integrations argued that it was entitled to damages for Fairchild's worldwide sales of the accused products because of the broad language of 35 U.S.C. § 284, the patent damages statute, which provides that "[u]pon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement." 35 U.S.C. § 284. Power Integrations also cited Supreme Court precedent for the proposition that, pursuant to Section 284, it was "entitled to receive full compensation for 'any damages' suffered as a result" of Fairchild's infringement.[1] Slip Op., at 36. On this basis, Power Integrations concluded that it was entitled to damages for any infringing sales, regardless of geographical limits, so long as its injury was reasonably foreseeable by Fairchild.

The Federal Circuit lost little time in rejecting Power Integrations' arguments. Its analysis began with the proposition that "[i]t is axiomatic that U.S. patent law does not operate extraterritorially to prohibit infringement abroad." Id. at 37. The court fully accepted the requirement of 35 U.S.C. § 284 that a patentee is entitled to "damages adequate to compensate for the infringement," but still observed that the statute does not "provide compensation for a defendant's foreign exploitation of a patented invention," because foreign exploitation of a U.S. patent "is not infringement at all." Slip Op., at 37.

In other words, the Federal Circuit found that Power Integrations' argument for worldwide damages was based on the flawed premise that Fairchild's wholly foreign sales of wholly foreign-manufactured products constituted U.S. patent "infringement" in the first instance. Where there is no infringement, of course, there can be no damages.

With this premise in mind, the Federal Circuit went on to explain that where a patentee has "established one or more acts of direct infringement in the United States," it may not recover damages for the infringer's worldwide sales, even where those worldwide sales "were the direct, foreseeable result" of the domestic infringement. Id. at 38. Although the court noted that Power Integrations' theory "sets the presumption against extraterritoriality in interesting juxtaposition with the principle of full compensation," it ultimately concluded that this argument was neither novel nor persuasive. Id. at 38-39.

Applying this holding to the district court's remittitur determination, the Federal Circuit upheld the lower court's conclusion that there was no legal basis for the jury's $34 million damages award, given the admission by Power Integrations' damages expert that he did not quantify damages based solely on Fairchild's domestic activities.
The decision in Power Integrations hardly comes as a surprise in light of a recent spate of Supreme Court and Federal Circuit decisions setting clear territorial limits on the application of U.S. patent law.[2] Power Integrations appears to be consistent with — and a logical extension of — those decisions, and of the existing law that preceded them.

It is also consistent with the general presumption that United States law does not apply extraterritorially. And when one accepts the basic principle that an extraterritorial sale (for example) of an extraterritorially produced article that happens to be embodied by a U.S. patent is not an infringement in the first instance, the Power Integrations decision makes sense. In its argument to the Federal Circuit, Power Integrations was, in effect, attempting to redefine what constitutes "infringement" of a U.S. patent. Thus, despite Power Integrations' attempt to emphasize its need for full compensation for any infringing act, including for foreseeable worldwide sales, the Federal Circuit rejected that argument as being fundamentally at odds with long-established rules limiting extraterritorial application of the federal patent laws.

The Federal Circuit's decision likely will have a material impact on all patent litigants and their attorneys. At the very least, the decision will have a clarifying impact, and will help shape litigation strategies and damages theories. That impact will be felt most acutely in cases where the accused infringer is a corporation with, for example, international supply chains and a global customer base; a characteristic common of many corporations today.

Power Integrations will force patentees to be particularly careful in formulating damages theories that are based on evidence of a territorial nexus to the United States. Patentees will be cautioned to avoid the approach taken by Power Integrations, which proffered a damages expert who failed to quantify domestic damages in putting forth his opinions. Relatedly, Power Integrations has the potential to arm accused infringers with an increased ability to ward off expansive damages theories on the ground that acts with no United States territorial nexus are simply out-of-bounds when it comes to calculating damages.

The most immediate impact of Power Integrations may well be its implications for the often overwhelming — and increasingly cross-border — nature of discovery in patent cases. Accused

infringers, of course, can be expected to rely on Power Integrations to argue broadly that evidence of extraterritorial conduct — which may be voluminous, located abroad, and expensive to collect and produce — is simply irrelevant in domestic patent litigation. It does not take much to imagine citations to Power Integrations appearing with some frequency in opposition to patentee motions to compel foreign sales discovery.

To be sure, the mere extraterritorial nature of an accused infringer's activities will not immunize the accused infringer from liability or damages for infringement. After all, there are a variety of statutory provisions that establish liability for extraterritorial conduct provided that there is some territorial nexus to the United States.[3] Power Integrations stands for the proposition that compensatory damages are not available for actions that lack a U.S. territorial nexus; it by no means purports to establish what measure of territorial nexus is sufficient to trigger liability.

Patentees, on the other hand, will rely on the Federal Circuit's emphasis on a territorial nexus between the alleged acts of infringement and the United States in Power Integrations to force extensive discovery on an array of territoriality issues. As this issue develops in the district courts, patentees likely will feel compelled to seek a wide array of evidence in an effort to establish that territorial nexus. In other words, even though Power Integrations appears to be an accused infringer-friendly decision, it nevertheless could provide patentees with the justification to seek broader discovery in search of evidence of a territorial nexus.

In all likelihood, litigants will recognize Power Integrations for what it is: not a sea change in the law, but an expression of both expansion and continuity in the territoriality jurisprudence of the Federal Circuit. How this decision actually will impact damages (and, of course, discovery) fights will unfold in the district courts in the near future.

--By Jake Freed and Alexa Hansen, Covington & Burling LLP

*Jake Freed and Alexa Hansen are litigation associates in Covington & Burling's San Francisco office.*

*The opinions expressed are those of the author and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.*

[1] Gen. Motors Corp. v. Devex Corp., 461 U.S. 648, 654-55 (1983).

[2] See, e.g., Microsoft Corp. v. AT&T Corp., 550 U.S. 437, 454-55 (2007) (applying presumption against extraterritorial application of patent laws to give narrow construction to 35 U.S.C. § 271(f)); Transocean Offshore Deepwater Drilling, Inc., 617 F.3d 1296, 1309 (Fed. Cir. 2010) (holding that infringement liability for an "offer to sell" only attaches where the "location of the future sale that would occur pursuant to the offer" is the United States).

[3] See, e.g., 35 U.S.C. § 271(f) (finding it an act of infringement to supply or cause to be supplied components of a patented invention with the intention to induce one to combine the components outside of the United States, such that the combination would infringe a patent if it occurred within the United States); § 271(g) (finding it an act of infringement to import, offer, sell or use within the United States products made abroad by processes patented in the United States).