

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

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POWER INTEGRATIONS, INC.,

*Petitioner,*

v.

FAIRCHILD SEMICONDUCTOR INTERNATIONAL INC.,  
FAIRCHILD SEMICONDUCTOR CORPORATION, FAIRCHILD  
(TAIWAN) CORPORATION,

*Respondents.*

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

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**REPLY BRIEF FOR THE PETITIONER**

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## **REPLY BRIEF FOR THE PETITIONER**

As the petition explained, it has been established for decades that, in order to invoke the entire market value rule (EMVR) for assessing patent damages, a plaintiff must show that the patented feature creates the basis for customer demand for the accused product. Pet. 14-20. After a two-week damages trial, a jury specifically found that Power Integrations had proved exactly that. Pet. App. 64a (verdict form). Yet, the Federal Circuit set the jury's verdict aside on the ground that a plaintiff invoking the EMVR also must prove *the negative*—*i.e.*, that “*other features do not* cause consumers to purchase the product.” *Id.* at 24a (emphasis added). That new burden flouts a century of precedent from this Court and lower courts, and effectively guts the EMVR. Pet. 21-27.

Respondents do not deny that the Question Presented is important and recurring. Instead, they try to evade review by recasting a century of case law applying the EMVR, retrying the case that the jury rejected in reaching its special verdict, and floating a series of vehicle-type objections that have nothing to do with the Question Presented. None of those tactics works. The petition should be granted.

## **ARGUMENT**

### **A. The Question Presented Merits Review**

1. Respondents posit (at 1, 14) that the Federal Circuit's decision involves a “routine” and “unremarkable” application of the EMVR. That could hardly be further from the case.

Long-settled precedent requires that plaintiffs seeking to invoke the EMVR make an affirmative showing that the patented feature creates the basis for customer demand. *See* Pet. 19 & n.6 (collecting

cases). And that is exactly what the jury was instructed to—and did—find here. Pet. 10. Yet, the Federal Circuit set the jury’s verdict aside on the ground that a plaintiff is also required to prove that “*other* features do *not* cause consumers to purchase the product.” Pet. App. 24a (emphasis added). That negative burden was previously unheard of.

Respondents’ focus on the supposed “value” of other features is just a sleight of hand. A plaintiff can only recover EMVR-based damages if it proves that *the patented feature* created the basis for customer demand. For multi-feature products like those at issue, the fact that a feature has value (as most do) hardly precludes a finding that another feature created the basis for customer demand. Here, Respondents were free to, and did, argue to the jury that other features were valuable—and contributed to customer demand. But, after hearing all the evidence, the jury explicitly found that *the patented feature* created the basis for demand. Pet. App. 64a.<sup>1</sup>

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<sup>1</sup> It is thus wholly unremarkable that Power Integrations did not dispute that “other features . . . were valuable.” BIO 7 n.3. As counsel for Power Integrations explained, that fact makes this case “[j]ust like every other EMVR case” involving “a multi-feature product.” C.A. Fed. Oral Argument at 53:39, <http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2016-2691.mp3>. The question that mattered—under well-settled precedent—was whether the patented technology drove customer demand, as Power Integrations argued; or whether some combination of features did, as Respondents argued. The jury explicitly found that the *patented feature* drove demand. Pet. App. 64a. That finding meant that Power Integrations was entitled to EMVR-based damages—a calculation that simply starts with the full value of the products as a base and then works back to a reasonable royalty only for the infringing feature

The bottom line is that no prior decision of this Court, the Federal Circuit, or any other court has ever required a plaintiff to prove that other features did not contribute to demand. Respondents' failure to identify a single case imposing such a burden from the more than 100 years the EMVR has existed underscores the sharp break with precedent created by the Federal Circuit decision in this case.

2. Respondents suggest (at 18-20) that the Federal Circuit's decision is consistent with this Court's cases because those cases merely show that the EMVR can be satisfied if a plaintiff proves that customers would have "purchased no product at all" without the patented feature. This argument is new (Respondents never advanced it below), and therefore waived. But in any event, the argument is meritless. This Court has never articulated the applicable test as whether there would have been no demand for the product absent the patented feature, and the cases Respondents cite do not support such a rule.

For example, Respondents point (at 19) to *Manufacturing Co. v. Cowing*, 105 U.S. 253 (1881), which involved gas pumps. Quoting from the master's report, the Court observed that "plaintiffs' pump, with their patented improvement, . . . virtually controlled the market, and had superseded *all the other pumps then in use for pumping gas*, and the others were literally driven out of the market, as they could not be sold at the places where the plaintiffs' pump had been

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itself. See *infra* at 9-10; *Marine Polymer Techs., Inc. v. HemCon, Inc.*, 672 F.3d 1350, 1360 (Fed. Cir. 2012) ("The use of the entire market value as the royalty base is acceptable to the extent that the patent owner proves that 'the patent-related feature is the basis for customer demand.'" (citation omitted)).

introduced.” *Id.* at 254 (emphasis added). In other words, plaintiffs’ revolutionary technology displaced other pumps from the market in such a way that “no other pump could at the time be sold.” *Id.* at 256.<sup>2</sup>

The distinguishing feature of *Manufacturing Co.* is that the record showed that the patented technology drove customer demand. And the same is true here. The evidence at trial showed that no other controller chip could meet the government’s one-watt standard for efficiency in addition to other customer requirements. Accordingly, when Power Integrations introduced its revolutionary ’079 technology, it “rapidly” displaced products that lacked the technology and made such products commercially non-viable. *See* Pet. App. 36a-38a; Pet. 5-7.

Respondents’ reliance (at 12-13) on *Westinghouse Electric & Manufacturing Co. v. Wagner Electric & Manufacturing Co.*, 225 U.S. 604 (1912), is also misplaced. The fact that the courts in that case considered evidence about non-infringing features hardly means that they applied a rule requiring the plaintiff to prove that other features did *not* contribute to demand. As discussed, in determining whether the plaintiff has met its burden of showing that the *patented technology* creates the basis for demand, a trier of fact is of course entitled to weigh evidence regarding the impact of other product

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<sup>2</sup> *See also, e.g., Hurlbut v. Schillinger*, 130 U.S. 456, 469 (1889) (explaining that the improvement in concrete pavement “entirely superseded the prior practice of laying concrete pavements in a continuous, adhering mass” (emphasis added)); *Crosby Steam-Gage & Valve Co. v. Consolidated Safety-Valve Co.*, 141 U.S. 441, 444 (1891) (explaining that the accused product would be “commercially worthless,” *i.e.*, commercially non-viable, without the patentee’s invention (emphasis added)).



features on customer demand. But that is a far cry from holding, as the Federal Circuit below did, that a plaintiff must specifically *disprove* the value of every other feature. Neither *Westinghouse*, nor any other decision of this Court, sets forth such a standard.

3. Notably, when it comes to the new standard the court imposed, Respondents do not contest that the law rarely requires a plaintiff to prove the negative. Pet. 21. They do not contest that such a requirement is “unfairly burdensome, and contrary to the ordinary rules of evidence.” *Id.* (quoting *Demaco Corp. v. F. Von. Langsdorff Licensing Ltd.*, 851 F.2d 1387, 1394 (Fed Cir. 1988)). And they do not contest that this new requirement will create significant discovery burdens on plaintiffs and others. Pet. 23.

Instead, Respondents embrace this new burden—and underscore how heavy it is. They contend that, where a product includes “other valuable features,” the plaintiff is required to prove that *each* of those features “did not also affect consumer demand.” BIO 14, 11. That is an astounding burden. Here, for example, Respondents argued that their products had “hundreds and hundreds of features.” Tr. 1711, ECF No. 925; *see also* Fairchild C.A. Fed. Br. at 43 (“Fairchild’s accused products contained ‘over 100 different types of features.’” (citation omitted)). A defendant, moreover, can easily argue that each feature has some value to customers. That is invariably why separate features are included.

Far from a “routine” application of the EMVR, the Federal Circuit’s new requirement for proving that

other features do not contribute to demand is a recipe for eliminating the EMVR altogether.<sup>3</sup>

**B. Respondents’ Attempt To Retry The Case Provides No Basis For Denying Review**

Instead of genuinely engaging on the Question Presented, Respondents devote much of their response to re-airing the same arguments they made to the jury about how other features (*e.g.*, jittering), and not Power Integrations’ ’079 technology, created the basis for customer demand. Those arguments provide no basis for denying review.

Just as the district court found in denying their motion for judgment as a matter of law, Respondents’ “characterization of [the] evidence . . . is not wholly accurate.” Pet. App. 44a. But more to the point, the question of which feature(s) drove customer demand was the central issue litigated over the course of the two-week trial. And, after hearing all the evidence (and the same arguments Respondents make here), the jury explicitly found that the ’079 technology “create[d] the basis for customer demand” for the power supply controller chips. *Id.* at 64a. Only by changing the standard for invoking the EMVR could the Federal Circuit overturn that verdict.

In any event, as the district court found, the evidence supports the jury’s verdict under the legal standard that has existed up to this case. *Id.* at 44a.

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<sup>3</sup> There is nothing “fact-bound” (BIO 1) about the Federal Circuit’s new, prove-the-negative requirement. The court articulated this requirement in generally applicable terms (“the patentee must prove . . .,” Pet. App. 24a), and then held that the evidence was “insufficient as a *matter of law* to invoke the [EMVR]” under its new standard, *id.* at 26a (emphasis added).

In arguing otherwise, Respondents ignore crucial evidence supporting the jury's verdict—*e.g.*:

- The '079 technology was the only technology capable of meeting government efficiency standards in addition to other customer requirements at the time, Pet. App. 37a;
- Respondents themselves recognized that government standards were “driving demand” for the '079 technology, *id.* at 39a;
- Respondents' own marketing materials highlighted the '079 technology, *id.* at 38a-39a;
- When the '079 technology was introduced, there was a “very rapid decline” in chips that lacked the technology, *id.* at 38a; and
- One of the largest customers specifically demanded that the chips include the patented feature, *id.*; *see* Pet. 9-10.

The record also contradicts Respondents' assertion (at 14) that Power Integrations “ignor[ed] evidence that specific unpatented features contributed to the value of the accused products.” Power Integrations' witnesses testified about the relative value of other features, and explained that those features did not drive demand. *See, e.g.*, Appx1635 (520:8-12) (Power Integrations' Vice President of Product Development testifying that “the inclusion of frequency jittering” did not drive customer demand); *id.* (520:25-521:25) (similar testimony regarding soft start and other features); Appx1816 (1235:16-1236:4) (Power Integrations' damages expert testifying that he saw no evidence that other features, including jitter, drove demand for the products). That evidence provides ample basis to support the jury's verdict, just as the district court found. Pet. App. 35a-45a.

The Federal Circuit did not find otherwise. It accepted the jury’s finding that the ’079 patented feature “create[d] the basis for customer demand.” Pet. App. 64a. Instead, the Federal Circuit changed the *legal* standard for invoking the EMVR by holding that a patentee must now *disprove* that other features contributed to demand and ruled that the evidence was “insufficient as a matter of law” to meet the court’s new requirement. *Id.* at 26a.

Ultimately, one of the most remarkable aspects of the Federal Circuit’s decision is the extent to which the court invaded the province of the jury to decide what damages were appropriate under existing law. This is emblematic of the court’s attempt to impose an overly rigid, rules-based approach for calculating—and limiting—patent damages. *See* Pet. 29-30.

### **C. Respondents’ Remaining Arguments For Denying Review Lack Merit**

What’s left is an array of ultimately irrelevant objections that Respondents throw out in an effort to evade review here. None has any purchase.

1. Respondents make much (at 2, 15-18, 27) of the fact that Power Integrations received a separate \$24 million damages award, in a separate action, based on Respondents’ willful infringement of a separate Power Integrations’ patent covering the so-called “jitter feature.” This is a red herring. To begin with, this separate judgment would in no way prevent the Court from reaching and deciding the Question Presented here, and Respondents do not suggest otherwise. Rather, Respondents harp on this judgment to insinuate that Power Integrations has somehow double dipped. That is incorrect.

An EMVR damages award for infringement of one patent does not preclude a patentee from obtaining compensation for the *additional* infringement of *another* patent. *See, e.g., Fonar Corp. v. General Elec. Co.*, 107 F.3d 1543, 1556 (Fed. Cir.) (affirming award of EMVR damages for infringement of one patent, while also permitting damages for infringement of another patent in same product), *cert. denied*, 522 U.S. 908 (1997). And that's especially true here, given that, when Power Integrations filed its complaint in this case in 2004, the accused products did not even include the jitter feature. *See* Tr. 1663; *see also* Power Integrations Closing Remarks at 23 (Ex. B to Renewed Mot. for J. as a Matter of Law), ECF No. 955-3. The fact that Respondents later *expanded* their willful infringement of Power Integrations' patents by introducing new products that copied other features (like Power Integrations' jitter technology) did not put them in a better position in this case as to the infringement of the '079 technology.

Nor did this separate award, from Respondents' infringement of different patents, result in duplicative damages. Both the damages award in this case and the \$24 million judgment in the other suit took the form of reasonable-royalty damages. The judgment for infringement of the jitter feature was based on Respondents' cost savings in incorporating the patented technology into later generation products and does not overlap with the damages award in this case because such cost savings exist whether or not the '079 invention is used. *See* Trial Tr. 278:21-279:3; 285:12-14; 358:14-20, *Power Integrations Inc. v. Fairchild Semiconductor Int'l Inc.*, No. 1:08-cv-309-LPS (D. Del.), ECF Nos. 593-94.

Respondents' argument also contorts the EMVR. Although the royalty calculation here *began* with the entire market value of the controller chips, Power Integrations did not literally receive the entire value of the chips. See Appx1816 (1236:5-12:37:7) (Power Integrations damages expert explaining that his royalty calculation "isolate[s]" the value of the '079 patent); *see also* Tr. 1658. The EMVR merely permits the damages calculation to *start* with the entire market value of the products and then work *backwards* to an award for the patented technology.

And there is another problem for Respondents. Not only did Respondents fail to argue below that this separate litigation for infringement of a different patent bore on the damages for the separate infringement at issue in this case, but they expressly moved *in limine* in this case to *exclude* all references to related litigation during the trial, including the litigation over the jitter feature. See ECF No. 779-9. Respondents' attempt to evade certiorari on this basis now is therefore especially suspect.

2. Respondents complain (at 27) that Power Integrations' evidence regarding customer demand focused on demand for its own products, rather than Respondents' products. But Power Integrations introduced evidence showing that Fairchild (through its predecessor SG) itself admitted that the infringing technology drove demand. Pet. 9. Moreover, as Respondents acknowledge (at 24-25) and the evidence showed, Power Integrations and Respondents share the *same* customers. Pet. App. 39a n.5. At trial, Respondents were free to—and did—argue that the jury should discount evidence about demand for Power Integrations' products because Respondents' products were supposedly different. Fairchild C.A.

Fed. Br. at 47 n.13; Tr. 1720-21. The jury's verdict, however, shows that it rejected that argument. Respondents' attempts to reprise it here have no bearing on the Question Presented.

3. Respondents contend (at 27-28) that the patented feature "was of no value to an entire segment of purchasers who used the products in television set-top boxes," and that the damages award should have taken that into account. But here again, Respondents are just rearguing their case to the jury. They repeatedly made this precise argument to the jury (*see, e.g.*, Appx1657 (606:8-25); Tr. 1740); Power Integrations disputed it (*see, e.g.*, Appx1739 (935:15-17); and again, the jury's verdict establishes that the jury found it unconvincing. Respondents' disagreement with the jury's finding on this point has no bearing on the Question Presented either.

4. Last, Respondents point (at 28) to a decision by the Patent Trial and Appeal Board on the validity of the '079 patent. They neglect to mention, however, that the validity of the '079 patent was confirmed in both an *ex parte* reexamination in 2009 and by the jury's rejection of Respondents' invalidity defense in this case—a determination that Respondents declined to appeal. *See* ECF No. 551 at 6 (verdict form). For that reason alone (among others), it is unlikely that the Board's decision will survive on appeal. *See* Power Integrations C.A. Fed. Br. at 24-34, No. 18-1607 (June 11, 2018), ECF No. 33 (explaining that Respondents' validity challenge is precluded by the ruling in this case).

In any event, no patent claims could be canceled until all appeals, including any petition to this Court, have concluded, and the Patent Office were to act. 35 U.S.C. § 318(b). Such proceedings will take months,

if not more than a year, to conclude. Respondents already failed in challenging validity in this case. There is no reason to deny review of the important Question Presented on this basis either.

### CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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