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Summary

On Monday, November 14, 2011, the Federal Circuit in *Powell v. The Home Depot U.S.A., Inc.* made two significant rulings regarding patent damages and inequitable conduct.

- It held that when a patent applicant fails to inform the PTO that the circumstances supporting a Petition to Make Special no longer exist, such conduct does not constitute inequitable conduct because it fails to meet the "but-for materiality" standard of *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (en banc).

- It held that damages based on a reasonable royalty analysis may in some circumstances exceed the inventor's expected lost profits.

Background of the Case

In *Powell*, the plaintiff asserted U.S. Patent No. 7,044,039 ("the '039 patent"), relating to a safety guard for a radial arm saw, against Home Depot. Powell was a long-time contractor for Home Depot, hired to install and repair radial arm saws used to cut raw lumber in Home Depot stores. In the early 2000's Home Depot had problems with a number of employee injuries resulting from use of the saws. Home Depot's management instructed its safety personnel to either fix the problem or remove the saws from stores. However, they determined that removal of the saws would result in unacceptable losses of business from lumber sales and follow-on sales of related goods, such as nails and hinges, often sold with cut lumber. Home Depot asked Powell to investigate a solution. Powell developed a prototype saw guard for Home Depot, which ordered eight production units for in-store testing. Subsequently, Powell applied for a patent on the saw guard invention. During this time, Home Depot contracted with another company, Industriaplex, to build and install saw guards copied from Powell's design at a price lower than what it had paid Powell for the in-store test units – $1,295 rather than $2,000. Powell and Home Depot continued to negotiate but were unable to reach an agreement at Home Depot's offer: $1,200 a unit including installation. After the '039 patent issued, Powell sued Home Depot for infringement. At trial, the jury found the patent willfully infringed and awarded Powell $15 million in damages. During a bench trial following the jury verdict, the district court determined that Powell had not committed inequitable conduct.

Inequitable Conduct

During prosecution of the '039 patent, Powell filed a Petition to Make Special, seeking expedited review on the grounds that he was obligated to manufacture and supply devices embodying the claims sought to Home Depot, based on the ongoing negotiations. Before the Petition was granted, Powell learned that Home Depot would be using Industriaplex for its saw guards; Powell never updated his Petition to Make Special to reflect this. The PTO granted the Petition and Powell's patent application received expedited review. The district court, applying pre-*Therasense* law, determined that Powell's failure to inform the PTO of the changed circumstances was intentional and material but that Home Depot had failed to establish that the '039 patent was unenforceable based, in part, on the balance of equities.

The Court, applying its recent holding in *Therasense*, held that a patent applicant's failure to inform the PTO that the circumstances supporting a Petition to Make Special no longer exist does not constitute inequitable conduct. Citing *Therasense*, the Court reasoned that such conduct "obviously fails the but-for materiality standard and is not the type of unequivocal act, 'such as the filing of an unmistakable false affidavit,' that would rise to the level of 'affirmative egregious misconduct.'" (Slip Op. at 18.)

Damages

Home Depot based its damages theory on the estimated profit per unit Powell would have received based on the $1,295 unit price Home Depot agreed to pay Industriaplex, coming to a range of $38–$65 per unit based on a 3–5% royalty on the Industriaplex sale price. Powell's expert, on the other hand, estimated that damages should range from the $2,180 per unit in estimated profit Powell stood to receive when he initially designed the saw guard, to $8,500 per unit representing the amount that Home Depot spent to replace radial saws that were incompatible with the Industriaplex saw guards. Using the *Georgia Pacific* factors, Powell's damages expert noted that injury claims against Home Depot before installation of the saw guards had cost Home Depot upwards of $1 million per year, and that keeping the saw guards gave Home Depot a competitive advantage against other stores that had removed radial saws from their stores rather than risk further employee injuries. The jury was presented with evidence that there had been no injuries since installation of the Industriaplex guards. The jury awarded damages equivalent to approximately $7,700 per unit.

The Court noted that Home Depot was apparently willing to spend much more than the cost of the saw guards themselves to avoid future injury claims based on the cost to replace saws incompatible with the new guards and that "[r]eliance on estimated cost savings from use of an infringing product is a well settled method of determining a reasonable royalty." (Slip Op. at 28., citing *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075 1080–81 (Fed. Cir. 1983.)) The Court also noted that Home Depot had "the luxury of nearly two additional years after its initial negotiation with Mr. Powell to observe the effectiveness of the saw guard solution . . . ." The Court rejected Home Depot's argument that the patentee's profit expectation should function as a cap on the reasonable royalty, although the Court noted that either the infringer's or the patentee's profit expectations are valid considerations in the overall analysis.

Implications

Powell provides further confirmation of the heightened standard for inequitable conduct after *Therasense*. It also demonstrates that, although lost profits theories are typically understood to yield higher damages, reasonably royalties can sometimes be significantly higher. In particular, a reasonable royalty may take into account the value of the infringing product to the infringer, even when that value is derived in part from something other than actual sales of the infringing product.

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