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CLIENT ALERT

Federal Circuit Orders New Damages Trial Based On Flawed Expert Analysis

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EXECUTIVE SUMMARY

In an 8-2 en banc decision issued on May 21, 2025, the Federal Circuit ordered a new damages trial in *EcoFactor, Inc. v. Google LLC*, reversing a jury finding that awarded EcoFactor, Inc. ("EcoFactor") $20 million for Google LLC's ("Google") alleged infringement of an EcoFactor thermostat patent. The Court held that EcoFactor's damages expert testimony on a reasonable royalty rate "was not based on sufficient facts or data."[1] In particular, the lump-sum settlement licenses he considered did not support his conclusion that prior licensees agreed to a particular royalty rate. By failing to exclude this testimony, the Court held that the district court abused its discretion. The decision—although highly fact-specific—is likely to lead to increased scrutiny of the opinions proffered by patent damages experts, particularly as it relates to their analysis of comparable licenses.

[1] *EcoFactor, Inc. v. Google LLC*, 23-1101 (Fed. Cir. May 21, 2025).

PROCEDURAL POSTURE

In January 2020, EcoFactor sued Google in the Western District of Texas, alleging Google's Nest thermostats infringed EcoFactor's U.S. Patent No. 8,738,327 ("the '327 patent"), titled: System and Method for Using a Network of Thermostats as Tool to Verify Peak Demand Reduction. The '327 patent claims a system for controlling an operational status of an HVAC system.

At trial, the jury found that Google infringed claim 5 of the '327 patent and awarded EcoFactor approximately $20 million in lump-sum damages based on testimony from EcoFactor's damages expert David Kennedy.[2]

On appeal, the Federal Circuit affirmed the district court's decisions and denied Google's motion for a new trial on damages.

Google petitioned for rehearing en banc arguing that Mr. Kennedy's testimony on a reasonable royalty rate was unsupported by reliable methodology or sufficient facts. Mr. Kennedy's opinion relied on lump-sum settlement licenses EcoFactor had entered into with three companies: Daikin Industries, LTD. ("Daikin"), Schneider Electric USA, Inc. ("Schneider"), and Johnson Controls Inc. ("Johnson Controls"). The Daikin license included a "whereas" clause that stated "*Ecofactor represents* that it has agreed to the payment set forth in this Agreement based on what *Ecofactor believes* is a reasonable royalty calculation of $[X] per unit."[3] The Schneider and Johnson Controls licenses contained similar "whereas" clauses.[4] The $X per unit royalty rate did not appear anywhere else in the licenses. Instead, the licenses included a payment provision stating that the lump-sum amount is not based upon sales nor does it constitute a royalty. Based on these licenses, Mr. Kennedy opined that Daikin, Schneider, and Johnson Controls agreed to the $X royalty rate. Google contended that there was no express statement in these licenses that the three companies agreed to the $X royalty rate. Rather, these licenses included express language that the companies did not agree to EcoFactor's $X royalty rate and that the lump-sum does not reflect a royalty. Thus, Google urged the Court to review its decision en banc, asserting that EcoFactor's damages analysis was flawed, and the Court's decision would only provide a road map for future patentees to obtain inflated damages awards untethered to market realities by inserting self-serving, non-binding royalty rates into lump-sum settlement agreements. The Federal Circuit granted Google's petition.[5]

THE EN BANC DECISION BY THE FEDERAL CIRCUIT

The en banc panel at the Federal Circuit held that U.S. District Judge Alan Albright abused his discretion by allowing the Texas jury to hear Mr. Kennedy's opinion that EcoFactor's licensees previously agreed to a royalty rate of $X because the opinion "was not based on sufficient facts or data."

2 *EcoFactor, Inc. v. Google LLC* at 3.
3 *Id*. at 12 (emphasis in original).
4 *Id*. at 13, 14.
5 *Id*. at 4.

The Court held that, although the three licenses Mr. Kennedy considered were relevant to a reasonable royalty analysis, they did not support his opinion that the parties had agreed to a specific reasonable royalty rate or agreed that a particular lump-sum amounted to a certain reasonable royalty.[6] As noted above, each allegedly comparable license contained one-sided language in its preliminary recitals and reflected only EcoFactor's representations and beliefs, rather than an unequivocal or agreed upon royalty rate.[7] Importantly, each license included express language that the lump-sum amount was not based on sales nor did it reflect a reasonable royalty, undercutting any argument that the royalty rate included in the non-binding recitals was an agreed-upon royalty rate by the parties to the allegedly comparable licenses. The Court found that the plain language of each license did not support Mr. Kennedy's conclusion "that the licensees were paying, agreed to pay the $X rate, or agreed that the $X rate was a reasonable royalty."[8]

In addition to the three lump-sum settlement licenses, Mr. Kennedy relied on the testimony of EcoFactor's CEO Shayan Habib to support his opinion on what was a reasonable royalty. The Court found that Mr. Habib's calculations for the lump-sum payments for the Daikin, Schneider, and Johnson Controls licenses were unsupported by any record evidence, and he relied entirely on his asserted "general understanding of the space" without any explanation of that understanding. Despite Mr. Habib admitting that he did not have access to any sales data for Daikin, Schneider, or Johnson Controls, Mr. Kennedy relied on Mr. Habib's testimony that the lump-sum payment calculations were based on the particular per unit rate multiplied by the licensee's past and future projected sales.[9] Thus, the Court held that Mr. Habib's testimony could not be used to provide a factual basis for Mr. Kennedy's opinion that the licensees agreed to pay the $X royalty rate.[10]

The Court held that "[f]or the foregoing reasons, a fundamental premise of Mr. Kennedy's testimony—that Daikin, Schneider, and Johnson Controls agreed to pay the $X rate—was not based on sufficient facts or data, as required by Rule 702(b)."[11] Accordingly, the district court's decision to admit "Mr. Kennedy's unreliable testimony was undoubtedly prejudicial," and the Court reversed the district court's denial of Google's motion for a new trial and remanded for a new trial on damages.[12]

KEY TAKEAWAYS

One-sided or self-serving language about a reasonable royalty rate inserted into non-binding provisions of lump-sum settlement agreements cannot form the basis of an expert's opinion for a reasonable royalty in a comparable license analysis, especially when the reasonable royalty is not supported by additional data, facts or testimony. Thus, although an expert can analyze comparable licenses for a damages calculation, the expert cannot rely on a

6 *Id*. at 15.
7 *Id*. at 12-13.
8 *Id*. at 16.
9 *Id*. at 17.
10 *Id*. at 17-18.
11 *Id*. at 20.
12 *Id*. at 21.

royalty rate from a "comparable license" if the "comparable license" expressly stated that the parties did not agree to the royalty rate. For a licensor entering into a lump-sum settlement license with a licensee, use of plain clear language is needed to establish whether the lump-sum settlement is based on a reasonable royalty rate.

Licensees may cite this decision for the broader conclusion that a comparable license analysis must be tethered to facts, including data and/or testimony. Accordingly, district courts will have to exercise their Daubert gatekeeping functions with more precision to ensure that they are not running afoul of these broader principles. District courts will have to view comparable license analyses with more scrutiny to ensure that a comparable license proposed by an expert is actually a comparable license.

DISSENTS

Judge Reyna and Judge Stark submitted dissents. Both argued that the majority strayed beyond the narrow scope of the en banc order. Both were concerned with a broad application of the decision, that questions about disputed facts relied on by experts would be resolved by the trial courts rather than by the jury. Judge Reyna and Judge Stark would have affirmed the district court's decision.

Judge Reyna believed that the majority focused on "contract interpretation as a question of law," and in doing so, deprived EcoFactor of notice and opportunity to be heard.[13] He argued that the majority impermissibly weighed the credibility of Mr. Habib's testimony to diminish its effect but noted that Google itself did not object to Mr. Habib's testimony as lacking personal knowledge, speculation, or hearsay.[14]

Judge Stark expressed concern that trial courts will scrutinize and constrain damages experts in ways not called for by Rule 702 or *Daubert*.[15] Judge Stark took issue with the majority's finding that the Daikin, Schneider, and Johnson Controls licenses were unambiguous because if Google had believed that the provisions in the licenses unambiguously constituted an "express disavowal" or "rejection" of the reasonable royalty rate, Google could have sought partial summary judgment.[16] He argued that, in an expert opinion, disputed facts are not necessarily insufficient facts, and when parties' experts rely on disputed or conflicting facts, it is not for the trial court to evaluate the correctness of the underlying facts of one expert's testimony.[17] In other words, when an expert opinion is based on disputed facts, the jury, rather than the trial court, must resolve the issues involving the disputed facts.

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13 Reyna Dissent at 6.

14 Reyna Dissent at 9.

15 Stark Dissent at 1.

16 Stark Dissent at 6.

17 Stark Dissent at 3, citing *Micro Chem., Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1392 (Fed. Cir. 2003).

If you have any questions regarding this client alert, please contact the following attorneys or the Willkie attorney with whom you regularly work.

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