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CLIENT ALERT

The En Banc Federal Circuit Clarifies What Evidence May Be Relied on for Proving Reasonable Royalty Damages

MAY 22, 2025

EcoFactor, Inc. v. Google LLC, Case No. 2023-1101 (Fed. Cir. May 21, 2025) (*en banc*)

On May 21, 2025, an *en banc* Federal Circuit issued its eagerly awaited opinion in *EcoFactor, Inc. v. Google LLC*, Case No. 2023-1101. Chief Judge Moore, writing for the majority, found that settlement/license agreements that require a lump-sum payment and do not unambiguously specify that both parties to the agreements understood the lump-sum payment to reflect a per-unit royalty cannot support an expert's testimony that the agreements are evidence of a reasonable royalty. This decision provides much-needed clarity concerning the type of evidence that damages experts may properly rely on when opining on what the reasonable royalty in a particular patent case should be. It also confirms that district courts overseeing patent cases must assume their "gatekeeper" role and prevent damages experts from presenting such unreliable evidence to a jury. The fact-intensive nature of the decision, however, must be considered when relying on the Court's opinion in the context of a *Daubert* motion.

BACKGROUND

EcoFactor sued Google in the Western District of Texas for infringement of one patent around smart thermostat technology. Prior to trial, Google moved under Fed. R. Evid. 702 and the Supreme Court's *Daubert* decision to exclude testimony from EcoFactor's damages expert that relied on three settlement and license agreements ("licenses") that EcoFactor had previously inked with three smaller players (Daikin Industries, Schneider Electric, and Johnson Controls) in the field. The district court denied the motion and the case proceeded to trial.

EcoFactor introduced the three licenses at the jury trial. Although the licenses all required a lump-sum payment instead of applying a per-unit running royalty, EcoFactor's expert relied on a statement in the preamble of each of the licenses that "EcoFactor believed" that the lump-sum amounts reflected a per-unit royalty rate. The expert also relied on testimony from EcoFactor's CEO that based on his knowledge of the industry that he believed the lump-sum amounts reflected a reasonable royalty rate. Finally, an email chain—that was not relied on by EcoFactor's expert—during licensing negotiations between EcoFactor and one of the licensees was introduced that EcoFactor argued showed that that licensee believed that the lump-sum amount was reflective of a reasonable per-unit royalty.

In rebuttal, Google during cross-examination of EcoFactor's expert showed that two of the licenses contained clauses stating that the lump-sum payment was not "based upon sales and does not reflect or constitute a royalty." Google also presented evidence that all the licenses granted licenses to several of EcoFactor's patents, not just the single asserted patent in the Google case. Google argued that this showed that the licenses did not reflect a reasonable royalty rate for the single asserted patent.

The jury sided with EcoFactor and awarded approximately $20 million in damages. Although Google's sales figures and the per-unit royalty advocated for by EcoFactor were kept confidential, it is known that the $20 million amount was significantly less than what EcoFactor's expert asserted should have been the total damages award.

The district court post-trial denied Google's motion for a new trial and Google appealed.

THE APPEAL AND THE FIRST FEDERAL CIRCUIT OPINION

On appeal, a split Federal Circuit panel affirmed the damages award. *EcoFactor, Inc. v. Google LLC*, 104 F.4th 243 (Fed. Cir. 2024). Judge Reyna, writing for the majority (joined by Judge Lourie), held that the three licenses, the testimony from EcoFactor's CEO, and the email chain were admissible evidence, and as such, EcoFactor's expert properly relied on that evidence when testifying. The majority held that how much weight to give the terms of the licenses, and the comparability of the licenses to the facts in the Google case, were factual issues best left for cross-examination, not exclusion.

Judge Prost dissented. She wrote that (1) it was not reasonable to rely on the licenses, (2) as such, EcoFactor's expert testimony was flawed and unreliable, and (3) the district court should have granted Google's motion for a new trial.

Google moved for rehearing *en banc*, which on September 25, 2025, the Federal Circuit granted. The Court vacated the panel's opinion and asked the parties to address one specific issue: "the district court's adherence to Federal Rule of Evidence 702 and *Daubert v. Merrell Dow Pharmaceuticals, Inc*., 509 U.S. 579 (1993), in its allowance of testimony from EcoFactor's damages expert assigning a per-unit royalty rate to the three licenses in evidence in the case."

Google and EcoFactor filed briefs addressing the *en banc* issue as requested by the Court. There were also 21 *amici* briefs filed, the large majority of which supported Google. The Court heard oral argument on March 13, 2025.

THE FEDERAL CIRCUIT'S *EN BANC* DECISION

Judge Moore's majority opinion was joined by Judges Lourie (who was part of the panel majority opinion), Dyk, Prost, Taranto, Chen, Hughes, and Stoll. Judges Reyna and Dyk wrote separate opinions concurring in part and dissenting in part.

The Court agreed with Google that the district court abused its discretion in denying a new trial on damages because EcoFactor's expert opinion was unreliable under Rule 702 and *Daubert*. At the heart of the opinion was the majority's view that EcoFactor's expert's opinion that the licenses showed industry acceptance of a per-unit royalty rate was not based on sufficient facts and data.

The Court explained that Rule 702 requires that an expert's opinion, to be admissible, must be the product of "reliable" principles and methods, and those principles and methods must be reliably applied. The majority confirmed that a court's "gatekeeping" role includes determining first whether an expert's opinion is reliable and therefore admissible, which is separate from the jury's role of determining how much weight to apply to the opinion and whether the opinion is credible.

Here, the Court found that EcoFactor's expert's opinion was not reliable and should have been excluded from the jury. The Court started with the expert's opinion that the three licenses reflected a per-unit royalty. The Court cautioned that a "lump-sum license analysis involves significantly different considerations, from the perspective of both the licensee and the licensor, compared to a running royalty license." Here, EcoFactor's expert asserted that, based on his expertise, the three lump-sum licenses reflected a per-unit rate that Google should have also been required to pay. The Court disagreed, holding that the licenses were "insufficient, individually or in combination, to support [the expert's] conclusion that prior licensees agreed to the [per-unit] royalty rate and therefore the district court abused its discretion in failing to exclude this testimony." *EcoFactor*, slip. op. at 12.

The Court first pointed out that for two of the licenses (Daikin and Schneider), the statement in the recitals that "EcoFactor" believed that the licenses reflected a per-unit rate was contradicted by the licenses' operative payment provisions stating that the lump-sum amount was "not based upon sales and does not reflect or constitute a royalty." The Court held that while the licenses could be "relied upon as evidence of the royalty rate sought by EcoFactor as the willing licensor, [they] provide[] no support for the conclusion that [the licensees] agreed to pay the [per-unit] rate or agreed that [] rate was a reasonable royalty." *EcoFactor*, slip. op. at 13-14. Therefore, there was not sufficient facts or data to support EcoFactor's expert's opinion that either Daikin or Schneider agreed to a per-unit rate.

As to the third license to Johnson Controls, the Court held that while it too contained a statement in the recital that "EcoFactor" believed the license reflected a per-unit rate, there was no other evidence gleaned from the license that supported EcoFactor's expert's opinion that Johnson Controls agreed that the license was reflective of a per-unit rate. Further, the Court noted that litigation settled by the Johnson Controls license did not involve the patent asserted against Google. Yet, EcoFactor's expert testified that while the licenses provided a license to EcoFactor's portfolio of patents, "in the real word, … the focus is [] on the asserted patents…. [T]he rest of the patents are thrown in usually either for nothing or very little additional value." The Court found that according to the expert's own testimony, this would attribute no or very little value to the patent asserted against Google. *EcoFactor*, slip. op. at 15.

Thus, with respect to the licenses, the Court held that they "do not, individually or in combination, provide support for [the expert's] testimony that the ***licensees*** agreed to pay the [per-unit] rate or that the licensees agreed that [rate] was a reasonable royalty. This analysis does not usurp the province of the jury, nor does it involve this court deciding disputes of fact. It involves the gatekeeping function of the court to ensure that there are sufficient facts or data for [the expert's] testimony that the licensees agreed to the [per-unit] royalty rate." *Id*. (emphasis added).

The Court next considered the expert's reliance on the testimony from EcoFactor's CEO. The CEO conceded that neither he nor anyone else at EcoFactor had seen sales data from the three licensees. Yet, he nonetheless testified that three companies had all agreed to a per-unit royalty rate. The Court found that was testimony provided with "no evidentiary support and contrary to the language of the licenses themselves." *EcoFactor*, slip. op. at 17. Accordingly, in the "absence of any evidence, [the CEO's] testimony amounts to an unsupported assertion from an interested party. His testimony cannot provide a sufficient factual basis for [the expert] to provide a reliable opinion that the licensees agreed to pay the [per-unit] rate." *EcoFactor*, slip. op. at 18.

Next, the Court held that EcoFactor's reliance on "additional evidence in the record" was unavailing because any such evidence was not relied on by EcoFactor's expert. As such, it was not relevant to the issue of whether the expert's testimony should have been excluded. Implicitly referencing the email chain between EcoFactor and Johnson, the Court explained that not only did the expert not rely on the email exchange, he testified to the jury that the three licenses "collectively" showed an "established" royalty rate. He did not testify that any single license was "indicative of an established rate for the patented technology." *EcoFactor*, slip. op. at 20.

The Court therefore concluded that a "fundamental premise" of the expert's testimony—that the three licensees agreed to pay a per-unit rate—was not based on sufficient facts or data as Rule 702 requires. As such, the expert's testimony was "unreliable and therefore inadmissible under Rule 702." Slip Op. at 21. Because of this, the district court failed to fulfill its responsibility as gatekeeper by allowing the expert to testify at trial. The Court therefore reversed the district court's denial of Google's motion for a new trial and remanded for a new trial on damages.

CONCLUSION

The Court's *en banc* opinion confirms that settlement/license agreements reflecting a lump-sum payment must be scrutinized before a damages expert is allowed to conclude that they demonstrate a reasonable royalty under 35 U.S.C. § 284. Given the highly fact-intensive nature of the decision, it is also important for parties relying on damages experts to testify regarding such licenses to ensure that the expert's opinion is limited to addressing the specific terms of each license. Parties should be prepared for motions to exclude expert testimony relying on such licenses when there is insufficient facts or data in the agreements to reliably support the expert's reasonable royalty opinion.

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Brian E. Ferguson

Robert T. Vlasis III

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