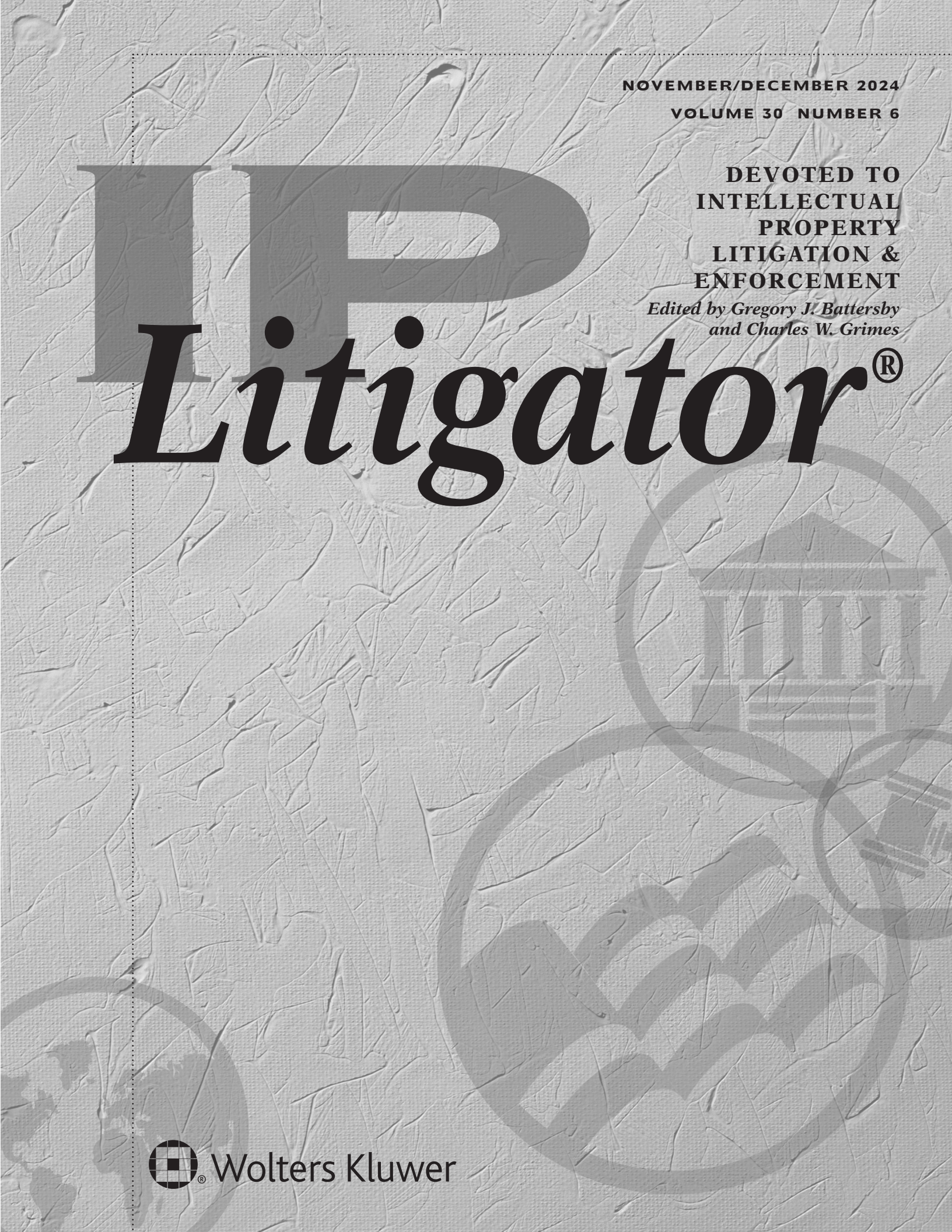
NOVEMBER/DECEMBER 2024
VOLUME 30 NUMBER 6

IP Litigator®

DEVOTED TO INTELLECTUAL PROPERTY LITIGATION & ENFORCEMENT

Edited by Gregory J. Battersby and Charles W. Grimes



Wolters Kluwer

Praxis

Federal Circuit Report

Bruce Zisser

Will the Federal Circuit Bring the Hammer Down on Big Damages Claims?

On September 25, 2024, for only the second time since 2018, the U.S. Court of Appeals for the Federal Circuit granted a request for en banc review of a panel decision in a patent case. The case, *EcoFactor Inc. v. Google LLC*, 104 F.4th 243 (Fed. Cir. 2024), relates to patent damages and has the potential to tighten the reins on damages experts and provide more clarity for district court judges when deciding whether to exclude an expert's damages testimony.

The "Reasonable Royalty" Analysis in Calculating Damages

Under U.S. law, a patent owner is entitled to damages of no "less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284. The exercise of calculating a "reasonable royalty" generally relies on assessing what a reasonable buyer (accused infringer) and a reasonable seller (patent owner) of patent rights would have agreed to at a hypothetical negotiation for a license at the time of first infringement. An important feature of patent damages is that they should only compensate the patent owner for the use made of "the invention." Therefore, when, for example, a patent covering a particular feature of a product is asserted against a product having many other features, the courts have said that the damages must be apportioned so as to only reflect the value of the patented feature.

One of the several factors courts can rely on to assess the amount of a reasonable royalty is the terms of any licenses that are both technically and economically comparable to the hypothetical license being negotiated. Such licenses can provide an effective method of estimating an asserted patent's value because the apportionment is said to be "built in." The issue raised in *EcoFactor* is whether the court adequately assessed comparability of licenses used to support the damages claim and, if not, did the court run afoul of the requirement to properly apportion the patent's value and serve as a gatekeeper with respect to the expert.

EcoFactor: Background of the Dispute and Decision

EcoFactor sued Google for infringing two patents related to smart thermostats. EcoFactor's damages expert opined that three prior licenses entered into by EcoFactor were comparable and supported his proposed royalty rate. Google disagreed and sought to exclude the expert's testimony before trial. The court denied Google's pre-trial motion and also denied Google's motion for a new trial on damages after the jury found Google liable for infringement of one patent and awarded EcoFactor more than $20 million in damages. Google appealed.

In a 2–1 decision, the Federal Circuit affirmed the district court with the majority holding that the district court did not abuse its discretion when it ruled that the opinion of EcoFactor's damages expert was admissible. *EcoFactor*, 104 F.4th at 253. The panel found that the expert's reliance on the three prior licenses was reasonable because each recited the same royalty rate the expert used, which was further supported by testimony from EcoFactor's CEO. *Id.* at 252. The majority also found the expert's conclusion that the differing technical and economic circumstances between the prior licenses and the current case would offset each other to be reasonable. *Id.* at 255–256.

The dissent disagreed, arguing that "the majority opinion . . . at best muddles our precedent [on apportionment of damages] and at worst contradicts it." *Id.* at 257. It pointed out that the recital of the royalty rate in the prior licenses was only in a preliminary recital based on what EcoFactor believed and that the body of two of the three prior licenses included statements that the payment was "not based on sales and [did] not reflect or constitute a royalty." *Id.* at 258 (emphasis removed). The dissent also disagreed that the expert had properly accounted for the different economic and technical circumstances of the licenses and that he had therefore failed to properly apportion the value of the one infringed patent from the

additional patents covered by the prior licenses. *Id*. at 260.

Google then filed a motion for rehearing en banc arguing that "Rehearing en banc is necessary to clarify that this kind of methodology—full of generic sweeping statements of comparability and conclusions untethered from the facts of the case—cannot withstand scrutiny."[1] Google was joined by a number of amici, including several large tech companies, supporting Google's call for the court to reassert its binding precedent on the calculation of damages and the role of the district court as gatekeep with respect to experts. No amicus briefs were filed in support of EcoFactor, who argued that this was a standard case where the majority had properly deferred to the trial court who had left to the jury to weigh the facts.

In a rare move, the Federal Circuit granted Google's motion for rehearing en banc, asking the parties to address "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 this case." *EcoFactor v. Google*, 2024 WL 4282269 (Fed. Cir., September 25, 2024).

Why It Matters

Patent damages awards have been increasing in recent years because, according to some, the courts have been backsliding from the principle of apportionment.[2] The Federal Circuit now seems poised to crack down on this backsliding, potentially articulating new rules that could place tighter control on damages experts and thus make it harder for patent owners to support large damages claims, likely leading to fewer large damages awards.

Bruce Zisser is a partner in Manatt's technology and intellectual property litigation practice with more than two decades of experience litigating patent disputes for major multinational corporations and leading-edge emerging companies. Combining his extensive litigation background with more than ten years of experience as an electrical engineer, Bruce guides clients through their most complex legal and technical issues to help protect their innovations, enforce patents, and defend against claims of patent infringement.

1. *EcoFactor v. Google*, Case No. 23-1101, CAFC, Dkt. No. 22 at 3.
2. William F. Lee & Mark A. Lemley, *The Broken Balance: How 'Built-In Apportionment' and the Failure to Apply Daubert Have Distorted Patent Infringement Damages*, 37 Harv. J.L. & Tech, 255 (Spring 2024).

Copyright © 2024 CCH Incorporated. All Rights Reserved.
Reprinted from *IP Litigator*, November/December 2024, Volume 30, Number 6, pages 26–27,
with permission from Wolters Kluwer, New York, NY,
1-800-638-8437, www.WoltersKluwerLR.com