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# En Banc Federal Circuit To Review Application of Rule 702 and Daubert

**By Catherine Nyarady and Crystal Parker**
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The Federal Circuit will soon issue its first *en banc* decision in a utility patent case since 2018 in *EcoFactor v. Google*, No. 2023-1101.

Following a divided panel opinion regarding testimony from a damages expert assigning a per-unit royalty rate to lump-sum licenses, the Federal Circuit granted *en banc* review specifically 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)." *EcoFactor, Inc. v. Google LLC*, 115 F.4th 1380, 1380 (Fed. Cir. 2024).

The case presents an opportunity for the Federal Circuit to address the threshold level of reliability necessary for admissibility of expert testimony regarding patent damages and to provide guidance on how district courts should fulfill their role as gatekeeper of damages expert testimony in the context of a *Daubert* challenge.

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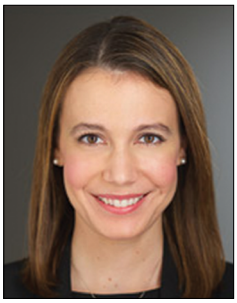

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## Patent Damages and Expert Opinions

After a finding of patent infringement, "the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty. . .". 35 U.S.C. §284.

One method for proving reasonable royalty damages is the hypothetical negotiation approach, which assumes infringement and seeks to assess what royalty a patent owner and infringer would have bargained for in an arm's-length negotiation at the time the infringement began.

"The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances." 35 U.S.C. §284. Given the

hypothetical nature of the damages framework, the Federal Circuit has recognized that it "necessarily involves an element of approximation and uncertainty." *Lucent Techs., Inc. v. Gateway, Inc*., 580 F.3d 1301, 1325 (Fed. Cir. 2009).

Damages expert opinions are subject to the requirements of Rule 702. Rule 702 requires judges to perform "a gatekeeping role" to ensure admitted expert testimony is "not only relevant, but reliable." *Daubert*, 509 U.S. at 589, 597.

Specifically, Rule 702 in relevant part states that an expert may testify if "the testimony is based on sufficient facts or data" and "the testimony is the product of reliable principles and methods." Rule 702 was amended in 2023 to clarify that the proponent of the testimony bears the burden to "demonstrate[] to the court that it is more likely than not" that the testimony meets the identified requirements.

> The majority emphasized that the role of the courts is to address the threshold question of admissibility of expert testimony, not to weigh evidence or make credibility determinations.

**Case Background and Procedural History**

EcoFactor sued Google in the Western District of Texas alleging infringement of a patent related to the operation of smart thermostats in computer-networked heating and cooling systems.

EcoFactor sought damages for infringement in the form of a reasonable royalty, using the hypothetical negotiation framework. EcoFactor's damages expert testified to a specific per-unit royalty rate, based in part on three of EcoFactor's prior settlement license agreements with third parties.

Each of the prior agreements stated that the third party would pay EcoFactor a lump-sum amount, but the agreements also included preliminary "whereas" clauses stating that the lump-sum amount was "based on what EcoFactor believes is a reasonable royalty calculation of [a specific royalty rate] per-unit." *EcoFactor, Inc. v. Google LLC*, 104 F.4th 243, 252 (Fed. Cir. 2024), *reh'g en banc granted, opinion vacated*, 115 F.4th 1380 (Fed. Cir. 2024).

Two of the licenses stated in the body of the license that the lump-sum payment "is not based upon sales and does not reflect or constitute a royalty." *Id.* at 258. EcoFactor's damages expert did not provide or rely on any underlying sales information or offer any calculations to demonstrate how to convert the prior lump-sum license payments to a reasonable royalty.

Based on the licenses, EcoFactor's expert contended that the specific royalty rate set forth in the "whereas" clause was an agreed-upon royalty for those licenses.

Google moved to exclude EcoFactor's damages opinion as unreliable under Rule 702 and *Daubert*. Google contended the opinion was not based on sufficient facts, as it relied on unverified assertions without evidence regarding how the lump-sums were calculated using the alleged royalty rate and did not use a reliable methodology.

Google's *Daubert* motion was denied without a written opinion. At trial, a jury found Google infringed and awarded EcoFactor damages. Google sought a new trial on damages, alleging error in admitting EcoFactor's unreliable damages testimony before the jury, which was denied. Google appealed.

**Federal Circuit Panel Opinion**

A divided panel of the Federal Circuit affirmed. The majority found that EcoFactor's damages opinion was sufficiently reliable for the purposes of admissibility, as it was based on admissible facts–namely the three prior license agreements and their recitation of EcoFactor's stated per-unit royalty in those agreements.

In the majority's view, because the opinion was sufficiently tied to the facts of the case and not based solely on speculation or conjecture, no further analysis by the district court was required at the threshold stage. The court viewed how to assess the competing provisions in the license agreements and whether the lump-sum payments were in fact based on a reasonable royalty as issues for the jury to consider in weighing the evidence.

The majority emphasized that the role of the courts is to address the threshold question of admissibility of expert testimony, not to weigh evidence or make credibility determinations. The majority cautioned that "if the standard for admissibility is raised too high, then the trial judge no longer acts as a gatekeeper but assumes the role of the jury."

One circuit judge dissented, contending the damages opinion should have been excluded as it was unreliable and thus failed to meet the baseline standards of admissibility. The dissent first highlighted Federal Circuit precedent regarding the derivation of reasonable royalties from lump-sum license payments.

For example, precedent that lump-sum payments "should not support running royalty rates without testimony explaining how they apply to the facts of the case." (citing *Whitserve, LLC v. Comput. Packages, Inc.*, 694 F.3d 10, 30 (Fed. Cir. 2012)).

As EcoFactor's damages expert did not provide any evidence or testimony supporting a calculation, the dissent found it "impossible" to determine on the record whether the lump-sum payments in the prior agreements were calculated using a royalty rate.

Rather, in the dissent's view, the opinion was based on nothing more than "self-serving" and unilateral statements by EcoFactor in the lump-sum licenses and was an attempt to "manufacture" a royalty rate. In light of this, the dissent concluded that the per-unit royalty rate opinion was created "from nothing" and unsupported, rather than being based on reliable facts.

The dissent responded to the majority's concern about the line between the gatekeeping function of the court and the role of the jury, explaining that courts "must pay close attention to the reliability of the methodology underlying expert testimony to ensure that the jury can fulfill its proper role as the factfinder."

The dissent found EcoFactor's damages testimony unreliable and determined the gatekeeping role was abdicated.

**En Banc Arguments**

Following the divided decision, Google petitioned for rehearing *en banc*, which was granted on September 25, 2024. The Federal Circuit, attuned to the panel's underlying dispute, limited its *en banc* review to the question of admissibility of the damages testimony under Rule 702 and *Daubert*.

In further briefing, the parties debated the role of the court versus the jury in applying Rule 702 and assessing expert testimony reliability. Google explained that Rule 702 establishes prerequisites to the admissibility of expert testimony.

Under a *Daubert* challenge, questions of reliability must be determined first under the gatekeeping function of the court–not left to the jury. Google raised the 2023 Advisory Committee notes to Rule 702, which explained that "many courts" had been "incorrect[ly]" holding that "the critical questions of the sufficiency of an expert's basis, and the application of the expert's methodology, are questions of weight and not admissibility." Fed. R. Evid. 702 advisory committee's notes to 2023 amendment.

Further, Google advocated that Rule 702 and *Daubert* require rigorous reliability testing. In particular, Google contended that in performing its gatekeeping role, a district court should not assess only whether expert testimony is based on some evidence, but more acutely examine whether it is reliable and verifiable evidence–"sufficient facts" under Rule 702.

By permitting damages testimony based on little more than statements of belief in the lump-sum license agreements and without requiring any evidence that could verify or support the lump-sum conversions to a royalty rate, Google argued that the district court failed to perform a rigorous reliability assessment and thus its gatekeeping function.

By contrast, EcoFactor contended that the only question for admissibility under Rule 702 is whether the facts relied upon, if true, constitute sufficient facts to support the ultimate opinions.

In EcoFactor's view, the truth of those underlying facts is a question for the jury as the fact finder, not the district court, in assessing threshold admissibility. EcoFactor highlighted earlier Advisory Committee notes to Rule 702 that explained "'sufficient facts or data' is not intended to authorize a trial court to exclude an expert's testimony on the ground that the court believes one version of the facts and not the other." Fed. R. Evid. 702 advisory committee's notes to 2000 amendment.

According to EcoFactor, because the evidence presented by its expert from the lump-sum licenses could allow a jury to conclude that the lump-sum payments were based on the asserted reasonable royalty rate, this was sufficient for admissibility.

EcoFactor explained that requiring any further predicate analysis on the part of the district court to determine admissibility–such as by assessing whether the license statements were self-serving–would rise to the level of requiring credibility determinations and potentially violate the Seventh Amendment right to a jury trial.

Oral argument was held on March 13, 2025. The judges posed fact-intensive questions to probe the boundaries of what constitutes sufficient facts and data to be the basis of an opinion. The questioning also attempted to discern the line between issues of admissibility under Rule 702 and those of the weight of the evidence.

We may soon have further guidance from the Federal Circuit relevant to the admissibility of expert testimony regarding patent damages.