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UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS
WACO DIVISION

ECOFACTOR, INC., Plaintiff, v. GOOGLE LLC, Defendant.	Civil Action No. 6:20-cv-00075 (ADA) [redacted]

DEFENDANT GOOGLE INC'S RULE 59 MOTION FOR A NEW TRIAL[1]

[1] Under Fed. R. Civ. P. 50(b), Google is concurrently filing a motion for judgment as a matter of law on infringement and invalidity.

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I. INTRODUCTION

Google respectfully moves for a new trial on the damages awarded in the final judgment. Google brings this motion, in part, for the reasons explained in its *Daubert* motion to exclude the expert testimony of David Kennedy. *See* ECF No. 114. As a result of the denial of that motion, Mr. Kennedy's testimony was presented at trial. The evidence introduced at trial to support a $5.16 per unit royalty rate, and likely considered by the jury to calculate damages, was improperly admitted and had a material and prejudicial effect on Google. Because of Mr. Kennedy's testimony, the jury's damages award is "excessive" and unsupported by the properly admitted facts. Even if Mr. Kennedy's testimony were properly admitted, EcoFactor presented insufficient evidence tying the value of the asserted claims to the features of the asserted patents and the features of the Accused Products.[2] Without showing the value of the claimed features of the Accused Products, the weight of the evidence at trial did not support the jury's award of $20 million for the only patent the jury found to be infringed. If it does not order a new trial, the Court should offer EcoFactor a remittitur of the damages award to no more than $4 million—consistent with the evidence presented at trial.

II. LEGAL STANDARD

A new trial is warranted where "[1] the verdict is against the weight of the evidence, [2] the damages [amount] awarded is excessive, [or (3)] the trial was unfair or [marred by] prejudicial error." *Seidman v. Am. Airlines, Inc.*, 923 F.2d 1134, 1140 (5th Cir. 1991); *see* Fed. R. Civ. P. 59(a)(1).[3] Alternatively, the Court could condition the denial of a new trial motion

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[2] The Accused Products are the Nest Learning Thermostat Third Generation, Nest Thermostat E, and Nest Thermostat.

[3] The Federal Circuit applies regional circuit law in deciding to grant a new trial or remittitur. *See LaserDynamics, Inc. v. Quanta Comput., Inc.*, 694 F.3d 51, 66 (Fed. Cir. 2012).

[redacted]

upon EcoFactor's acceptance of a lower damages award if the damages awarded are excessive. *Id.* The Fifth Circuit follows the maximum recovery rule in deciding the amount of a remittitur. *See Longoria v. Hunter Express, Ltd.*, 932 F.3d 360, 364-65 (5th Cir. 2019).

III. FACTUAL SUMMARY OF EVIDENCE PRESENTED AT TRIAL

Nine years after Nest Thermostats hit the market in 2011, EcoFactor first alleged infringement of U.S. Patent Nos. 8,738,327 ("the '327") and 10,534,382 ("the '382").[4] *See* Compl., ECF No. 1. Between 2014, when the '327 was issued, and 2020, when EcoFactor alleged infringement, Google launched three generations of its flagship Nest Learning Thermostat, and the company introduced several new energy-saving features and models of smart thermostats[5] to the market. *See* Trial Tr. at 698:13-699:4, 701:2-12, 701:13-702:9. In February 2022, a jury found that Google had not infringed the '382 but had infringed a single claim of the '327 and awarded EcoFactor $20,019,300 in damages as a lump sum. *See* ECF No. 215.

A. EcoFactor's damages theory was based on an unreasonable $5.16 per unit royalty rate.

The sole basis for EcoFactor's expert to propose a $5.16 per unit royalty rate was EcoFactor's unilateral assertions in the preambles to its settlement agreements. Besides its self-serving recitation in three settlement agreements, EcoFactor had no other basis for alleging that $5.16 per unit was a reasonable royalty. PTX-256; PTX-257; PTX-258. [redacted]

[redacted]

[4] EcoFactor also asserted that Nest thermostats had infringed U.S. Patent Nos. 8,180,492 ("the '492") and 8,412,488 ("the '488"). EcoFactor dismissed the '492 before trial, and the Court found the '488 invalid for indefiniteness at the pretrial conference.

[5] In total, Google launched three models of smart thermostats: Nest Learning Thermostat Third Generation, Nest Thermostat E, and the Nest Thermostat, together called the Accused Products.

[redacted] entered into after EcoFactor filed its complaint against Google. *Id.* The settlement agreements were for one-time payments of [redacted]. *Id.* And EcoFactor presented no evidence that any of the three companies agreed to pay a $5.16 per unit rate as part of the settlement agreements. *See, e.g.*, Trial Tr. At 670:16-20. Indeed, [redacted] PTX-257 at 1 ("[redacted]"); *see also* Trial Tr. at 559:23-560:6.

EcoFactor also presented no evidence that the lump sums paid for a license to its patent portfolio were calculated by multiplying the supposed royalty rate by the number of units sold or projected to be sold by the licensees. *See, e.g.*, Trial Tr. at 670:16-20. EcoFactor even admitted that [redacted]. *See id.* at 555:12-24, 559:2-17, 561:21-562:9. Indeed, two of the three settlement agreements explicitly provide that the one-time lump sums were "[redacted]" PTX-256 § 3.1; PTX-257 § 3.1. EcoFactor presented no data on the market share or current and projected anticipated sales of the licensees. *See* Trial Tr. at 1396:16.[6]

Rather than provide the information necessary for the jury to consider the settlement agreements in context, EcoFactor's damages expert, Mr. Kennedy, only presented EcoFactor's

[6] The only evidence of market share introduced at trial was from 2015, years before the settling companies launched their accused smart thermostats. PTX-0298-0029; Trial Tr. at 1396:16 ("This is the only evidence in the case about market share.").

[redacted]

depiction of the $5.16 per unit rate and statements made by its CEO, Mr. Habib, as support for his opinions on damages. *See* Trial Tr. at 675:18-24, 658:1-25, 661:15-24, 670:8-15. Mr. Kennedy conceded that he had not reviewed information showing how any licensee's past or projected sales were used to calculate the lump-sum payments. *See* Trial Tr. at 658:1-25, 661:15-24, 670:8-15. He nonetheless expressed confidence in the veracity of the alleged $5.16 rate, even though neither he, nor Mr. Habib, nor anyone else at EcoFactor had reviewed any licensee sales numbers. *See* Trial Tr. at 534:4-10, 555:12-24, 559:2-13, 561:21-562:9, 658:19-25. Relying on ***no other source*** besides Mr. Habib's statements and EcoFactor's "whereas" representations, Mr. Kennedy opined that $5.16 per unit was a reasonable royalty. *See* Trial Tr. at 658:8-18.

B. The lump-sum licenses that EcoFactor relies on were for EcoFactor's entire portfolio and to settle pending litigation.

All three licensees paid one-time, lump sums to license EcoFactor's portfolio of more than 30 patents (including the two asserted at trial) to settle pending litigation and thus the settlement agreements ***are not comparable*** to a license to Google for a single patent that the jury found infringed. *See* PTX-256 § 3.1; PTX-257 § 3.1; PTX-258 § 3.1; Trial Tr. at 530:20-25, 532:1-5, 533:3-8, 535:12-14, 553:18-20, 628:21-629:4, 635:19-21, 636:2-3.

Yet Mr. Kennedy still concluded that the licenses were comparable and supported a $5.16 per unit royalty for a license to any one or more of the patents asserted against Google at trial. *See* Trial Tr. at 643:15-18. He also concluded, with no supporting evidence, as to the prior allegedly comparable licenses for EcoFactor's entire portfolio, "[redacted]" Trial Tr. at 631:19-632:1. But his bare conclusion directly contradicts his immediately following acknowledgment that, all else being equal, a license to a portfolio with more patents has more value than a license to a portfolio

[redacted]

with fewer patents, and that the number of patents licensed is "[redacted]." *See* Trial Tr. at 632:1-3, 674:7-12.

C. EcoFactor provided no evidence that would have allowed the jury to apportion damages.

At trial, Mr. Kennedy also opined that the appropriate damages amount would be the same whether Google infringed one or both asserted patents. *See, e.g.*, Trial Tr. at 638:12-18 (opining that, based on his discussions with Mr. Habib, $5.16 per unit would be the minimum for any EcoFactor patent license, regardless of the technology covered). Mr. Kennedy referred generally to the "Infringing Features," without making any distinction as to which features related to which asserted patent or gave rise to the asserted royalty rate. *See, e.g.*, Trial Tr. at 621:7-23. He provided these opinions despite EcoFactor's own argument that the asserted patents covered different functionalities (occupancy determination for the '382 versus demand reduction for the '327).

EcoFactor also introduced evidence of Nest's total revenue and sales that included data from several years before any alleged infringement, which is irrelevant to EcoFactor's claim, to help inflate the value of the allegedly infringing features before the jury. *See* Trial Tr. at 618:4-17. Without introducing evidence of Nest profit data at trial, Mr. Kennedy opined that Google derived [redacted] per unit in profits from the allegedly attributable claimed features of the '327 and '382 but provided no rationale for how the jury could tie the evidence to the allegedly infringing attributes. *See* Trial Tr. at 621:10-23. Mr. Kennedy hinged his opinion on a March 2019 [redacted] and what they considered important to that decision. *See* PTX-83 at 2; *see also* Trial Tr. at 1293:13-1294:17 (explaining that this [redacted] was of users who did not own any smart thermostat, asking them what factors they considered important in deciding to [redacted]

[redacted], rather than comparing features of Nest versus other companies' thermostats). Based on this single [redacted] and with no other evidentiary support, Mr. Kennedy inexplicably correlated the general attributes of smart thermostats with allegedly infringing features of the Nest thermostats. *See* Trial Tr. at 620:12-622:2; PTX-83 at 17. Many of those "attributes," such as "[redacted]," neither correlate with the asserted patent claims nor properly reflect the features that have made Nest thermostats a success, such as [redacted]. PTX-83.

Mr. Kennedy still used the [redacted] to assess against Google's percentages of Nest "profits" allegedly attributable to each general attribute, including "[redacted]." *See* Trial Tr. at 621:9-23. Mr. Kennedy also concluded that [redacted] of gross profits were attributable to "Energy Savings" generally, without linking any specific energy-saving feature of the Nest thermostats. Trial Tr. at 621:18-19. He also attributed [redacted] of Nest's gross profits to "HVAC Monitoring Alerts," a Nest feature that EcoFactor accused of infringing the '327, even though HVAC Monitoring had not been released at the time of the [redacted]. *See* PTX-83; Trial Tr. at 441:5-18, 621:20-23. Finally, he attributed [redacted] of Nest's gross profits to "Rebates," which Mr. Kennedy correlated to "Demand Response" and "Seasonal Savings/Savings Finder" features, without explaining how he reached that conclusion. *See* PTX-83; Trial Tr. at 437:1-2, 441:1-4, 621:3-7.

D. Mr. Kennedy ignored other evidence that supported a much lower damages figure.

Mr. Kennedy ignored comparable Google lump-sum licenses (with [redacted]) without justification. *See* Trial Tr. at 683:22-684:1. He also disregarded EcoFactor's internal valuation of [redacted] for its intellectual property portfolio, including 35 issued patents and 17 pending patent applications. *See* Trial Tr. at 565:2-7, 1061:6-1062:8; DTX-99. Mr. Kennedy further acknowledged that Google is [redacted] on Nest thermostats. *See* Trial

[redacted]

Tr. at 679:18-23. Considering the evidence, Google's expert, William Todd Schoettelkotte, opined that the maximum damages award for ***use of both asserted patents*** was a [redacted] lump sum. *See* Trial Tr. at 1079:2-8.

E. Mr. Kennedy's opinions and the evidence EcoFactor improperly relied on to support its damages theory were admitted over Google's objections.

After receipt of Mr. Kennedy's expert report, Google moved for a finding that EcoFactor waived of privilege for materials related to the $5.16 royalty rate that EcoFactor had withheld and moved to compel EcoFactor's production of all information showing the licensees' unit sales, the per unit calculation that was supposedly performed, and how EcoFactor derived the royalty rate. *See* Decl. of Washington i/s/o Google's Rule 50(b) and Rule 59 Motions, Ex 1. At the hearing on Google's motion to compel, the Court did not reach Google's argument on waiver and ruled only that EcoFactor must produce anything that it wanted to rely on at trial. *See* Disco. Hr'g Tr. 6:23-24. The Court also made clear that the settlement communications between EcoFactor's trial counsel and counsel for the licensees would not be admitted at trial because such evidence lacked a sponsoring witness. *See* Disco. Hr'g Tr. 8:15-21 ("I just got through this in the trial I had where the Plaintiff wanted to . . . [have] the client testify about a communication that his lawyer, who was also trial counsel, had had with somebody as – as evidence. And let me make it as clear as I can, [] that's not going to happen."), 9:16-22 (ruling that for emails between counsel for EcoFactor and counsel for settling parties, "[n]one of that is going to be admissible"), 10:19-22 (Court: "And you're not planning to use offers to settle or anything like that where you don't have a sponsoring witness, right?" EcoFactor counsel: "Correct."). Despite the Court's discovery ruling, EcoFactor's counsel sought to introduce his own emails of prior settlement communications with the licensees at trial. *See* Trial Tr. at 1137:15. The Court allowed the admission of certain trial counsel emails over Google's objection. *Id.* at 1137:18-1140:19.

[redacted]

Before the trial, Google also moved to exclude Mr. Kennedy's opinions under *Daubert* as unsupported by a reliable methodology or sufficient facts. *See* ECF No. 114. The Court denied Google's motion at the final pretrial conference. *See* Pretrial Conf. Tr. 69:18-21. Google also moved in limine to exclude references to $5.16 as an "established royalty" and otherwise exclude evidence of a supposed per unit royalty rate of $5.16 by redacting such amounts from the three settlement agreements on which EcoFactor relied, including because Google had been denied discovery into the basis for the alleged rate. *See* ECF No. 151 at 1. The Court granted Google's motion to prohibit EcoFactor from calling $5.16 an "established royalty" but declined to redact the $5.16 rate from the settlement agreements. *See* Pretrial Conf. Tr. 70:21-24. The Court also denied Google's motion in limine to exclude references to and evidence of the Nest division revenues and product prices, which Google argued were irrelevant to any damages calculation as they do not reflect the value of the asserted patents. *See* ECF No. 151 at 7-8; Pretrial Conf. Tr. 75:17-76:13. Google also renewed its objection to such evidence before its admission at trial. *See* Trial Tr. at 617:15-24.

IV. ARGUMENT

The Court should grant a new trial on damages because the expert testimony EcoFactor introduced should have been excluded under *Daubert*. EcoFactor's damages theory depended solely on the unsupported assertion that $5.16 per unit is a reasonable royalty for a license to one, two, or all the patents in EcoFactor's portfolio. *See* Trial Tr. at 535:12-24. Even if Mr. Kennedy's testimony were admissible, a new trial is still required because EcoFactor failed to tie the value of the '327 claims to the allegedly infringing features of the Accused Products. The evidence presented cannot support the jury's award of $20 million for infringement of the '327 alone. Alternatively, if the Court denies a new trial, it should condition denial of this motion on EcoFactor's acceptance of remittitur of the excessive damages. *See Seidman*, 923 F.2d at 1140.

[redacted]

A. A new trial is required because Mr. Kennedy's opinion fails *Daubert* and should have been excluded.

1. Mr. Kennedy's opinions were speculative and unreliable.

The testimony given by Mr. Kennedy provided no more than a speculative opinion that the $5.16 per unit royalty rate planted in prior settlement license agreements was a sound basis to calculate damages for infringement. *See VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1329-30 (Fed. Cir. 2014) (vacating damages award based on expert's unreliable testimony). Under *Daubert*, an expert's opinions must be excluded where there is "simply too great an analytical gap between the data and the opinion proffered" and the only link between the expert's opinion and the data is the "*ipse dixit* of the expert." *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997). A party seeking to rely on prior settlement agreements for evidentiary purposes must sufficiently account for similarities ***and differences*** between the circumstances of those agreements and the hypothetical negotiation at issue. *LaserDynamics,* 694 F.3d at 77-78 (finding that the district court had abused its discretion by crediting a settlement agreement that was not the "most reliable license in the record" because the agreement had "very little relation to demonstrated economic demand for the patented technology, and its probative value is greatly outweighed by the risk of unfair prejudice, confusion of the issues, and misleading the jury").

Here, EcoFactor presented no evidence to show how the supposed $5.16 per unit royalty rate was determined, nor any evidence to support that this royalty rate was actually used to calculate the lump-sum amounts paid under the settlement agreements. *See* Trial Tr. at 675:15-21, 658:1-25, 661:15-24, 670:8-20; PTX-256 § 3.1; PTX-257 § 3.1; *see also Exmark Mfg. Co. v. Briggs & Stratton Power Prods. Grp., LLC*, 879 F.3d 1332, 1351 (Fed. Cir. 2018) (rejecting expert testimony because "[i]t is not enough for an expert to simply assert that a particular royalty rate is reasonable in light of the evidence without tying the proposed rate to that

[redacted]

evidence."). Mr. Kennedy's royalty rate is based on [redacted]

PTX-256; PTX-257; PTX-258. And nothing in the small, lump-sum settlement amounts of [redacted] to Daikin, [redacted] to Schneider, and [redacted] to Johnson reflect a $5.16 per unit royalty rate. *Id.*

Moreover, Mr. Kennedy unquestioningly and without any independent analysis accepted the $5.16 per unit rate from the three settlement agreements despite his knowledge that those agreements were negotiated by EcoFactor's trial counsel while litigation was pending. PTX-0594 (email correspondence between Reza Mirzaie and counsel for Johnson Controls about settlement negotiation); *see also MTX Commc'ns Corp. v. LDDS/WorldCom, Inc.*, 132 F. Supp. 2d 289, 292–93 (S.D.N.Y. 2001) (rejecting expert testimony that relied on a third-party attorney where "[t]he information . . . was neither verified nor submitted in a way that permits meaningful review," and "[t]here [was] no indication that [the attorney] was a source of accurate or reliable expert information").

Mr. Kennedy claimed to account for differences between those settlement license agreements and the hypothetical negotiation but failed to explain how those adjustments still allowed him to arrive at the identical royalty rate. *See* Trial Tr. at 638:12-18. Aside from *ipse dixit* assertions, Mr. Kennedy provided no evidence, calculation, or analysis to support his opinions that the lump sums in any way reflect a $5.16 per unit rate. *See* Trial Tr. at 675:15-24, 658:1-25, 661:15-24, 670:8-20. Mr. Kennedy further admitted that he had never seen any sales figures from the licensees that would validate that the lump-sum payments reflect the $5.16 per unit royalty rate. *See*, *e.g.*, Trial Tr. at 642:2-643:14; *see also Pavo Solutions LLC v. Kingston Tech., Co., Inc.,* No. 8:14-cv-01352-JLS-KES 2019 WL 8138163, at *5 (C.D. Cal. Nov. 20,

[redacted]

2019) (excluding an expert opinion on a per unit royalty derived from a license agreement because the expert admitted that she "ha[d] no knowledge or evidence of sales figures under [the] agreement and that her opinion was unreliable because she had "not demonstrated how the lump sums extracted from those agreements could be accurately converted to a royalty rate").

Besides lacking any substantiation for the $5.16 per unit rate, Mr. Kennedy's opinion that the three settlement agreements were comparable to a license from a hypothetical negotiation in this case is also unreliable under *Daubert* because of material differences in the circumstances of the three settlement agreements. For example, the licensing of EcoFactor's entire 30-plus patent portfolio in the settlement agreements is not comparable to a license to the single patent the jury found that Google infringed. *See, e.g.*, *AVM Technologies, LLC v. Intel Corp.*, No. 10-610-RGA 2013 WL 126233, at *3 (D. Del. 2013) (excluding evidence of license agreements because they "gave [] a license to . . . dozens of patents[]" and "[n]o reasonable juror could consider these broad portfolio agreements to be comparable in scope to a license for" a single patent"). Moreover, the three settlement agreements containing the "whereas" clauses that Mr. Kennedy relied on were not comparable because the parties entered those agreements to settle pending litigation. *See, e.g.*, *LaserDynamics*, 694 F.3d at 77 ("The notion that license fees that are tainted by the coercive environment of patent litigation are unsuitable to prove a reasonable royalty is a logical extension of *Georgia–Pacific,* the premise of which assumes a voluntary agreement will be reached between a willing licensor and a willing licensee, with validity and infringement of the patent not being disputed").

2. Mr. Kennedy's conclusions on the applicability of the supposed $5.16 per unit royalty rate to Google's alleged infringement ignore relevant evidence.

Mr. Kennedy disregarded evidence contradicting his opinion that $5.16 per unit was a reasonable royalty rate. Rather, Mr. Kennedy relied only on representations from EcoFactor and

[redacted]

its counsel, including those statements about the $5.16 rate planted in the three settlement agreements, while not accounting for other express statements in the settlement agreements that the $5.16 figure [redacted]. *See* PTX-256 at 3 ("[redacted]."); PTX-257 at 1 ("[redacted]"); PTX-257 at 3 ("[redacted]."); *see also In re Bextra and Celebrex Mktg. Sales Practices and Prod. Liab. Litig.*, 524 F. Supp. 2d 1166, 1176, 1184 (N.D. Cal. 2007) (rejecting expert's opinion because "[the expert] reaches his opinion by first identifying his conclusion . . . and then cherry-picking observational studies that support his conclusion and rejecting or ignoring . . . the evidence that contradicts his conclusion").

Mr. Kennedy also dismissed two lump-sum Google license agreements as not comparable without explaining how he reached this conclusion. *See* Trial Tr. at 624:2-8. Finally, Mr. Kennedy disregarded the materially different circumstances of pending litigation surrounding the three license agreements when applying the royalty rate referenced in those settlements to a hypothetical negotiation here. *See also LaserDynamics*, 694 F.3d 51 at 77 (acknowledging settlements can be "tainted by the coercive environment of patent litigation").

3. The Federal Circuit recently found similar opinions from Mr. Kennedy to be speculative and unreliable.

In *Apple Inc. v. Wi-LAN Inc.*, 25 F.4th 960 (Fed. Cir. 2022), the Federal Circuit concluded that a damages analysis by Mr. Kennedy very similar to the one he presented to the jury in this case was inadmissible because it was "untethered to the facts of [the] case." *Id.* at 973. The Federal Circuit held that Mr. Kennedy's methodology for calculating damages, which the jury had relied on to award damages to the plaintiff, was "flawed" and that the "district court

[redacted]

[had] abused its discretion by denying Apple's motion for a new trial." *Id.* at 971. As in this case, Mr. Kennedy relied on only three license agreements, which he concluded were "comparable" to the circumstances in Wi-LAN's assertions of patent infringement by Apple. *Id.* at 972. And as here, those agreements licensed more patents in Wi-LAN's portfolio than just those asserted against Apple. *Id.* In an attempt to minimize the significance of the difference in the number of patents licensed, Mr. Kennedy opined that "in practice, only a handful of valuable patents drive the royalty rate for a license, and the rest of the portfolio is included for a marginal upcharge" and discounted the royalty rate by 25 percent to reflect this notion. *Id.*

Here, like *Wi-LAN*, Mr. Kennedy's damages analysis relied on three license agreements that he asserted were "comparable" to the agreement that would be reached after the hypothetical negotiation with Google. *See id.*; *see also* Trial Tr. at 643:15-18. Echoing his methodology in *Wi-LAN*, Mr. Kennedy drew parallels between EcoFactor's three license agreements and the hypothetical negotiation between EcoFactor and Google over a license to the asserted patents, concluding that an agreement would be reached for "the portfolio even though [the agreement is] really focused on the same technology versus the two patents." *Compare* Trial Tr. at 632:1-5 *with Wi-LAN*, 25 F.4th at 973. Here, like *Wi-LAN*, there is "no record evidence supporting Mr. Kennedy's assumption that [the asserted patents are the] key patent[s]." *See Wi-LAN*, 25 F.4th at 973 ("Mr. Kennedy failed to address the extent to which these other patents contributed to the royalty rate in the [allegedly comparable] license."); *see also* Trial Tr. at 632:3-5. Unlike in *Wi-LAN*, when Mr. Kennedy reduced his proposed royalty rate by 25 percent to "separate the value of the key patents from the rest of the licensed portfolio," here, he made no such reduction and did not justify applying the same per unit royalty from three portfolio-wide licenses to the single-patent license for Google. *Wi-LAN,* 25 F. 4th at 973; *see* Trial Tr. at 638:12-18.

[redacted]

B. A new trial is required because the admission of the $5.16 per unit royalty rate prejudiced Google.

Even if the Court rejects the argument that *Daubert* requires that Mr. Kennedy's testimony be excluded, at a minimum, the unsupported $5.16 royalty rate should still have been excluded because it allowed EcoFactor to improperly present the jury with an artificially inflated damages calculation of $29 million. *See* Fed. R. Evid. 403. When damages evidence is improperly admitted and highly prejudicial to a party to the case, the verdict should be set aside, and a new trial granted. *See LaserDynamics*, 694 F.3d at 77-79 (concluding that the district court erred in admitting settlement agreement under Federal Rule of Evidence 403). The Court compounded the error by allowing EcoFactor to introduce the $5.16 rate in these agreements and allowing Mr. Habib to testify that the amount paid was "[redacted]," despite Mr. Habib's and Mr. Kennedy's own admissions that neither of them ever reviewed any such sales figures. *See* Trial Tr. at 532:23-533:2, 534:4-10, 658:8-25, 661:20-24.

The Court further erred in admitting unredacted versions of the settlement agreements after previously declining to find a privilege waiver and order EcoFactor to produce all information related to the alleged $5.16 per unit rate. Without that evidence, Google was deprived of the ability to cross-examine Mr. Habib when he testified that he had calculated the rate by supposedly "[redacted]." *See* Trial Tr. at 535:4; *see also LaserDynamics*, 694 F.3d at 77-79 (concluding that "[t]he probative value of the [] settlement agreement is dubious in that it has very little relation to demonstrated economic demand for the patented technology, and its probative value is greatly outweighed by the risk of unfair prejudice, confusion of the issues and misleading the jury"). Moreover, during the discovery hearing on Google's motion to compel, the Court made clear that the settlement communications between

[redacted]

EcoFactor's trial counsel and counsel for the licensees would not be admitted. *See* Disco. Hr'g Tr. at 8:15-21, 9:16-20, 10:19-22. Yet the Court later allowed trial counsel to offer into evidence emails proposing a $5.16 rate without a sponsoring witness.

The Court also erred in allowing Mr. Kennedy to testify, over Google's objection, that there was certain other information "[redacted]" *See* Trial Tr. at 662:2-5, 669:7-9 (testifying about Johnson Controls' sales information, Kennedy stated that [redacted]"). The Court's decision to permit such testimony to be heard over Google's objection prejudiced Google by allowing EcoFactor to seek to legitimize (without any substantiation) the alleged $5.16 per unit royalty rate while at the same time withholding from Google and the jury information about how $5.16 was arrived at or what such unspecified "sales information" was. *See* Trial Tr. at 1056:3-18.

EcoFactor was permitted to do at trial precisely what Google sought to prevent: EcoFactor argued that unproduced information, which EcoFactor continued to withhold throughout trial, supported its damages claims. *See* Disco. Hr'g Tr. at 8:15-21, 9:16-17, 10:19-21; *see also* Trial Tr. at 1137:15-1140:19. This was prejudicial.

C. Even if Mr. Kennedy's testimony were admissible, a new trial is still required because there was insufficient evidence separating the value of the allegedly infringing features of the Accused Products from many other, unrelated features.

EcoFactor failed to meet its burden on apportionment, which required it to offer evidence from which the jury could separate the value of features covered by the asserted patents from the many Nest features that could not be covered. Even setting aside whether it was proper to allow Mr. Kennedy to opine on the $5.16 rate—which, as demonstrated above, it was not—EcoFactor provided no evidence, let alone sufficient evidence, that would have allowed the jury to

[redacted]

apportion damages. *See, e.g.*, *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1328-29 (Fed. Cir. 2009) (overturning a $358 million lump-sum damages award and ordering a new trial on damages when the plaintiff's damages expert "supplied no explanation to the jury about the subject matter or patents covered by" supposedly comparable license agreement and provided "no analysis of those license agreements, other than . . . noting the agreement was a cross-license of a large patent portfolio and the amount paid").

Nest thermostats have many valuable features beyond demand reduction, including innovative design features and ease of use, and it is undisputed that Nest enjoyed considerable success because of these unrelated features before any alleged infringement. *See* Trial Tr. at 1401:10-22; *see also ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 873 (Fed. Cir. 2010) (concluding that the district court erred by using licenses to "significantly adjust upward the reasonable royalty without any factual findings that accounted for the technological and economic differences between those licenses"). Nest thermostats were introduced in 2011, the '327 issued in 2014, and EcoFactor did not allege infringement until 2020. *See* Trial Tr. at 698:13-15, 583:14-584:2. The record thus shows that the '327 does not cover the valuable features of the Nest thermostats that existed between when the patent was issued in 2014 and when infringement allegedly began in 2020, but the damages award does not appear to account for this. *See* Trial Tr. at 698:13-699:1-4, 701:2-702:9. EcoFactor claims the Nest products infringed the '327 once Google introduced a new HVAC Monitoring feature, unrelated to the '327's purported benefit of responding to demand reduction requests, to Nest products in 2020. *See* PTX-83; Trial Tr. at 441:5-18, 720:24-721:23. Mr. Kennedy glossed over any of the value reflected by Nest's success before introducing the HVAC monitoring feature in his damages opinion.

[redacted]

Mr. Kennedy's only attempt at "apportionment" does not support the jury's verdict. He sought to rely on a 2015 [redacted] of consumer views on smart thermostats generally that did not relate specifically to the Nest device. *See* Trial Tr. at 1075:22-1076:11, 1294:4-17. The [redacted] was not a reliable measure of the economic value attributable to patented versus unpatented features and cannot be relied on to support the damages award. *See e.g.*, *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1319–21 (Fed. Cir. 2011) (affirming the lower court's decision to grant a conditional new trial because the patentee had introduced evidence of total revenues from accused products without providing any evidence to show that the patented feature supported the demand for the accused product).

EcoFactor presented no evidence showing that the [redacted] considered the value that a patented feature contributed to the value of Google's Nest products. Indeed, the [redacted] failed to address many attributes of the Nest products and was administered specifically to people who did not own a Nest or any other smart thermostat. *See* Trial Tr. at 1075:22-1076:11 (using [redacted] percentages "[redacted]"), 1294:4-17 (explaining that the [redacted] was given to users unfamiliar with smart thermostats to rate the factors they considered important).

There is also no evidence Mr. Kennedy apportioned the value to the features covered by the single patent that the jury found infringed. *See* Trial Tr. at 620:12-622:2. Further, Mr. Kennedy's reliance on Nest's total revenues or sales, including those earned before the first alleged infringement, was never tied to the economic footprint of the claimed invention and thus only skewed the damages horizon, rather than assisting the jury in apportionment. *See* Trial Tr. at 617:12-25 (allowing testimony about Google's total revenues and profits associated with the

[redacted]

Nest Division over Google's objection); *see also Lucent Technologies*, 580 F.3d at 1327, 1332-33. Mr. Kennedy used Nest's total revenues and profits, along with one [redacted] of potential smart thermostat customers, to derive an estimate of profits attributable to the allegedly infringing features of both the '327 and '382 of [redacted]. *See* Trial Tr. at 620:12-622:2. Mr. Kennedy then opined that a reasonable royalty here would be $5.16 per unit without explaining or connecting the two numbers. *See* Trial Tr. at 642:6-644:16. Because EcoFactor failed to supply evidence to allow the jury to calculate its damages award, Google should be granted a new trial on damages.

D. In the alternative, if the Court denies Google's motion for a new trial, then it should condition the denial on EcoFactor's acceptance of a damages award reduced to a value that could be supported by the evidence presented at trial.

If the Court declines to grant a new trial, it should suggest remittitur because the insufficient evidence supporting the jury's damage award violates the maximum recovery rule. *See Longoria*, 932 F.3d at 364–65. The damages opinion presented by Mr. Kennedy was overstated and unsupported by facts and should not have been presented during trial. *See LaserDynamics*, 694 F.3d at 77-79. Because the jury heard and likely considered his testimony, their consideration of appropriate damages to award here was biased in favor of EcoFactor. *Id.* In the interests of justice, the Court should suggest a remittitur of no more than [redacted] to EcoFactor as an alternative to a new trial. *See Unisplay, S.A. v. Am. Elec. Sign Co., Inc.*, 69 F.3d 512, 519 (Fed. Cir. 1995) ("[T]he use of remittitur enables parties to avoid the delay and expense of a new trial when a jury's verdict is excessive in relation to the evidence of record."); Trial Tr. at 1079:2-1080:9 ([redacted]). This value reflects EcoFactor's internal valuation of its entire patent portfolio at [redacted], as well as the lump sums of [redacted] paid by Daikin, [redacted] paid by Schneider, and [redacted] paid by Johnson Controls. *See* DTX-99; PTX-256; PTX-257; PTX-258.

[redacted]

V. CONCLUSION

For the reasons stated above, the Court should grant Google a new trial on damages, or else the Court should grant remittitur in line with damages supported by the record.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that all counsel of record who have consented to electronic service are being served with a copy of this document via electronic mail on June 23, 2022.

I also hereby certify that all counsel of record who have consented to electronic service are being served with a notice of filing of this document, under seal, pursuant to L.R. CV-5(a)(7) on June 23, 2022.

/s/ Michael E. Jones

CERTIFICATE OF AUTHORIZATION TO FILE UNDER SEAL

I certify that the foregoing document is authorized to be filed under seal pursuant to the Protective Order in this case and Judge Albright's Amended Standing Order Regarding Filing Documents Under Seal in patent Cases and Redacted Pleadings.

/s/ Michael E. Jones