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A Looming En Banc Decision with Potentially Damaging Consequences – EcoFactor v. Google

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For anyone following the evolving admissibility standards for expert opinions relating to patent damages, the *EcoFactor v. Google* case is one to watch. In December 2024, the Federal Circuit granted Google's petition for rehearing *en banc* to address the effect of amended Federal Rule of Evidence 702 and *Daubert v. Merrell Dow Pharmaceuticals* as they relate to admissibility of damages expert testimony—particularly when a per-unit royalty rate is derived from three allegedly comparable lump-sum licenses.

Case Background

EcoFactor, a smart thermostat technology manufacturer, filed a patent infringement lawsuit against Google in the Western District of Texas. The case proceeded to trial in early 2022 where a jury found Google infringed one of EcoFactor's asserted patents and awarded EcoFactor over $20 million in damages.

At trial, EcoFactor presented testimony from its damages expert who relied on three purportedly comparable licenses between EcoFactor and other companies that were used to determine a reasonable royalty rate. Google challenged this testimony, arguing it was flawed and unreliable, but the district court denied Google's *Daubert* motion. Google's post-trial motions were also denied, leading Google to appeal.

Federal Circuit Proceedings

On appeal, Google again argued that EcoFactor's damages expert's opinion was unreliable. In a majority opinion, however, the Federal Circuit panel affirmed the district court's decision, concluding that EcoFactor's expert sufficiently demonstrated the comparability of the agreements, appropriately apportioned for the value of the infringed claim, and properly converted the lump sum payments to royalty rates.

Google pushed back again, this time petitioning the Federal Circuit for a rehearing *en banc*. The Federal Circuit agreed, and oral argument is scheduled for March 13, 2025.

Key issues in the Rehearing

Google advances two main arguments in its petition:

(1) Apportionment: Google contends that EcoFactor's expert failed to apportion the value of the one asserted patent against the value of a broader patent portfolio of over 30 patents; and

(2) Royalty Conversion: Google argues that the expert provided no calculation or sufficient justification for converting three lump-sum payments to a per-unit reasonable royalty.

Numerous amici have filed briefs supporting Google's position, emphasizing the need or rigorous economic and technical comparability in damages analyses. For its part, EcoFactor notes that Google overlooked EcoFactor's expert's reliance on a technical expert's opinion, who concluded that these comparable licenses have so-called "built-in apportionment" because the various licensed patents cover similar technology. EcoFactor also emphasizes that the royalty bases for the lump-sum licenses are explicitly stated in the "whereas" clauses of those agreements.

Broader Implications for Patent Damages

The potential implications of the Federal Circuit's *en banc* decision cannot be overstated. Many plaintiffs' experts in patent litigation assign the majority of a license's value to just one patent—the patent-in-suit—even though that license covers an entire patent portfolio. If the Federal Circuit agrees with Google and finds that the "built-in apportionment" approach does not pass muster under amended Rule 702 (demonstrating to a court it is more likely than not that the approach taken is reasonably reliable) and *Daubert*, plaintiffs' experts may be forced to include more detailed, quantitative analyses demonstrating how apportionment is built into licenses. Plaintiffs may also need to reconsider how they structure licenses to withstand judicial scrutiny.

Indeed, the outcome of the *EcoFactor v. Google* case may force damages experts to find creative ways to utilize lump-sum agreements as a comparable basis for a reasonable royalty. And, if the Federal Circuit were to agree with Google that damages experts should be held to a new, more stringent standard, the importance of fleshing out both technical comparability and economic comparability of each evaluated license in a damages report will become even more critical. Plaintiffs will be vulnerable to a *Daubert* challenge where a perfectly comparable license—with similar technology, a similar royalty metric (e.g., reasonable royalty instead of lump sum), and covering the exact same number of patents—was not available. Accordingly, the outcome of this case may impact the ways in which patentees approach licensing generally, potentially resulting in even more of Google's so-called "self-serving" licenses which can withstand scrutiny for use in future patent litigation.

Our team is monitoring this case closely and will provide updates as they emerge. If you have questions about how this ruling could impact your patent licensing and litigation strategy, reach out to us for insights tailored to your industry.

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