Proskauer

EcoFactor v. Google: The Federal Circuit Clarifies Damages Expert Admissibility

The Patent Playbook on **May 23, 2025**

Admissibility standards for patent damages experts has come under scrutiny. Previously, we highlighted the *EcoFactor v. Google* case regarding Google's petition for rehearing *en banc* to address the admissibility of EcoFactor's damages expert and the parties' oral argument before the Court. On May 21, 2025, the Federal Circuit issued an 8-2 decision, ordering a new damages trial and overturned the $20 million verdict against Google. The Court found that the district court committed reversible error by allowing EcoFactor's damages expert to testify at trial.

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.

Prior to trial, and in post-trial briefing, Google moved to exclude EcoFactor's damages expert's testimony which Google alleged was unreliable. EcoFactor's expert opined on a reasonable royalty rate based on three allegedly comparable lump sum licenses between EcoFactor and third parties. EcoFactor's expert concluded that each lump sum license reflected a reasonable royalty rate that was agreed to by EcoFactor and each of the third parties. He used this reasonable royalty as a baseline to determine the amount of damages Google owed to EcoFactor for patent infringement.

Google's motions were denied and EcoFactor's expert was permitted to testify opining on the appropriate reasonable royalty based on the three lump sum licenses. Google challenged this decision on appeal at the Federal Circuit. In a panel decision, the Federal Circuit affirmed the district court's decision concluding that EcoFactor's expert properly converted the lump sum payments to royalty rates. Google challenged this decision, petitioning for a rehearing *en banc*.

Federal Circuit Decision

In its *en banc* decision, the Federal Circuit agreed with Google that EcoFactor's expert should not have been admitted. The Court held that this testimony was unreliable and not based on sufficient facts or data. Specifically, the Court examined the three lump sum licenses upon which the expert relied to reach his conclusion as to a reasonable royalty rate. These licenses included provisions which stated that EcoFactor believed the lump sum corresponded to a specific per-unit royalty of the licensee's sales. According to the Court, this may be sufficient to show what reasonable royalty EcoFactor would have agreed to in a hypothetical negotiation; however, the expert went a stretch too far in saying this also reflected the royalty that the licensee agreed to.

In fact, in certain instances the licensee explicitly stated that the lump sum agreed to in the license was not based on sales nor reflected a royalty. Because the per-unit reasonable royalty from these licenses was "a concrete factual premise" of the expert's testimony, the Court found it should have been excluded. As such, the Court held "the existing licenses upon which Mr. Kennedy relied were insufficient, individually or in combination, to support his conclusion that prior licensees agreed to the $X royalty rate and therefore the district court abused its discretion in failing to exclude this testimony."

Judge Reyna and Judge Stark submitted dissenting opinions, disagreeing in-part with the Court's conclusion that the expert's testimony should have been excluded. Judge Reyna criticized the Court for its focus on contract interpretation and for its holding that this testimony should have been excluded wholesale instead of allowing the expert to testify as to other parts of his damages opinion. Judge Stark believed the Majority's opinion to be very narrowly-tailored to the specific facts of this case. However, he cautioned that the "opinion will be misinterpreted as constraining damages experts in a manner not called for by either Rule 702 or *Daubert*."

Future Implications in Patent Damages

As discussed by Judge Stark, the actual holding of this case appears to be relatively narrow. Specifically, the Federal Circuit looked at the contractual provisions of the lump sum licenses and found these licenses to be insufficient to support the expert's conclusion that they reflect a per-unit reasonable royalty to which both parties would agree. Taken on its face, then, the Court's decision serves as a cautionary tale to licensors to carefully draft settlement and license agreements to clearly indicate when the parties are agreeing that a lump sum reflects an underlying royalty based on sales. Experts relying on lump sum licenses must be similarly cautious and not over-ascribe a payment agreement as reflecting anything other than what is included in the literal terms of the agreement. This opinion may make it more difficult to arrive at lump sum settlements when the licensor has an established royalty rate it wants to maintain for litigation purposes.

As Judge Stark warned, the Court's decision may have a more resounding impact on a district court's gatekeeping function when ruling on motions to exclude expert opinions. For example, the Federal Circuit's decision discusses this gatekeeping function at length and notes that courts need to be more stringent in assessing sufficient facts and data to underlie expert opinion. Rather than erring on the side of admitting the testimony to allow the jury to determine the appropriate weight and credibility to be given, courts may take a harder line on expert testimony going forward. Given this possibility, litigants may also put more of an emphasis on third party discovery to validate stated assumptions in comparable licenses.

Our team is monitoring Federal Circuit and district court opinions relating to the evolving standard of damages experts' admissibility. 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.

View original.

Related Professionals

- **Joseph Drayton**
  Partner
- **Elizabeth C. Shrieves**
  Associate