ALERT MEMORANDUM

EcoFactor, Inc. v. Google LLC: En Banc Federal Circuit Limits Admissibility of Patent Damages Expert Testimony

May 23, 2025

On May 21, 2025, an *en banc* Federal Circuit clarified the standards for admitting expert testimony on patent damages under Federal Rule of Evidence 702 in *EcoFactor, Inc. v. Google LLC*, Case No. 2023-1101. In an 8-2 decision written by Chief Judge Moore, the Federal Circuit held that the district court abused its discretion by failing to exclude expert testimony where "the relevant evidence is contrary to a critical fact upon which the expert relied."

Background. Under 35 U.S.C. § 284, damages in a patent case shall be "in no event less than a reasonable royalty for the use made of the invention by the infringer." *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (*en banc*). In order to estimate a reasonable royalty, damages experts often employ a hypothetical negotiation framework, which "attempts to ascertain the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began." *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009). In performing this analysis, "[a]ctual licenses to the patents-in-suit are probative not only of the proper amount of a reasonable royalty, but also the proper form of the royalty structure." *LaserDynamics, Inc. v. Quanta Comput., Inc.*, 694 F.3d 51, 79-80 (Fed. Cir. 2012).

The decision clarifies the types of evidence on which damages experts may rely when estimating a reasonable royalty and emphasizes the gatekeeping role of district court judges in determining whether such expert testimony is admissible under Federal Rule of Evidence 702 and *Daubert*.

If you have any questions concerning this memorandum, please reach out to your regular firm contact or the following authors:

BAY AREA

Giri Pathmanaban
+1 650 815 4140
gpathmanaban@cgsh.com

Gregory K. Sobolski
+1 415 796 4390
gsobolski@cgsh.com

Thomas W. Yeh
+1 415 796 4350
tyeh@cgsh.com

NEW YORK

Clement Naples
+1 212 225 2516
cnaples@cgsh.com

WASHINGTON

Daniel S. Todd
+1 202 974 1852
dtodd@cgsh.com

I. District Court. EcoFactor sued Google in the Western District of Texas for infringing EcoFactor's smart thermostat patent. Before trial, Google moved to exclude testimony from EcoFactor's damages expert (David Kennedy) under FRE 702. The district court denied the motion. Mr. Kennedy then testified that Google should pay a per-unit royalty rate of $X, which he opined was reflected in license agreements between EcoFactor and three other companies that he contended were in the relevant industry. The jury found Google liable for infringement and awarded EcoFactor $20,019,300 in lump-sum damages. Google appealed, arguing that Mr. Kennedy's testimony should have been excluded as unreliable under Rule 702 and *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993).

II. Federal Circuit Decision. The *en banc* Federal Circuit held that Mr. Kennedy's testimony was inadmissible under Rule 702 because it was not "based on sufficient facts or data," reversed the district court's denial of Google's motion for a new trial on damages, and remanded for a new trial on damages.[1] In doing so, the Federal Circuit underscored that district courts must act as gatekeepers to ensure expert testimony has an adequate factual basis, and that admissibility determinations cannot be treated merely as questions of weight for the jury.[2] In particular, the Federal Circuit found that the fundamental premise on which Mr. Kennedy based his opinion—that three prior licensees had agreed to pay the $X rate for the patented technology—was contradicted by the plain language of the license agreements: two expressly stated that the payments "are not based upon sales and do not reflect or constitute a royalty," and the third did not involve the patent-in-suit.[3] Mr. Kennedy had also relied on the testimony of EcoFactor's CEO. But though the CEO testified that the lump-sum payments in those three instances were calculated using the $X per unit rate, he admitted neither he nor anyone at EcoFactor had access to the licensees' sales data.[4] The Federal Circuit found his testimony "amounts to an unsupported assertion from an interested party" that "cannot provide a sufficient factual" basis for a reliable expert opinion.[5]

III. Key Implications. The *EcoFactor* decision is a significant development in patent damages jurisprudence and could substantially impact how parties present damages theories. The ruling emphasizes the gatekeeping role of district courts in evaluating the reliability—and in turn, admissibility—of damages expert testimony. Trial courts will likely apply greater scrutiny to expert testimony that relies on license agreements to establish reasonable royalty rates. Litigants will dispute whether damages experts are accurately representing the plain language and implications of those agreements. Patentees will need to establish that their experts' damages opinions rest on sufficient factual foundations, and not conclusory or unilateral statements in prior licenses. In *EcoFactor*'s wake, defendants may file more *Daubert* motions challenging damages experts who rely on license agreements, particularly when those experts attempt to derive specific royalty rates from lump-sum agreements.

…

CLEARY GOTTLIEB

[1] *EcoFactor, Inc. v. Google LLC*, No. 2023-1101, slip op. at 22 (Fed. Cir. May 21, 2025).
[2] *Id.* at 9-10.
[3] *Id.* at 12-16.
[4] *Id.* at 16-19.
[5] *Id.* at 18.