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Insight

Google Victory Is First Step to Address Patent Damages Imbalance

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WilmerHale's William Lee and Stanford Law School's Mark Lemley say the reversal of a $20 million patent judgment against Google should encourage other courts to verify that damages are grounded in patents' actual values.

Patents are a mutually beneficial agreement between inventors and the government. Each side makes concessions in service of their own, and the greater, good. It's a careful balance, where policy and rules that are too permissive or too restrictive of inventors' rights reduce the societal value of patents.

For years, this balance has been broken due to a judicial backslide that has allowed patent infringement damages awards to far exceed inventions' true values. But in May, the US Court of Appeals for the Federal Circuit took an important initial step toward recalibration.

Following a rare en banc hearing, the court mandated the retrial of a $20 million damages ruling in *EcoFactor, Inc. v Google LLC*. The majority wisely reinforced judges' responsibility to act as gatekeepers, ensuring that juries receive credible information from expert witnesses and aren't steered toward inflated awards improperly.

Now, courts must restore the balance in full by consistently enforcing established legal principles, verifying that damages are grounded in patents' actual values.

When plaintiffs can extract payments from defendants that are greatly beyond a patent's values, it can discourage innovation, increase the risks and costs associated with producing goods, and raise prices for consumers.

Take, for example, a hypothetical patent infringement case involving a cellphone. If a plaintiff owns a touchscreen technology patent that has been infringed, the infringing phone manufacturer should owe damages based only on the touchscreen technology's added value, not damages derived from the entire phone's value. This principle is known as apportionment, and dates back to the US Supreme Court's 1853 and 1884 decisions in *Seymour v. McCormick* and *Garretson v. Clark.*

When damages are apportioned properly, the plaintiff is justly compensated while the infringer pays a fair penalty. When apportionment isn't applied, the patent holder reaps an unjust windfall, saddles the manufacturer with an inflated financial penalty, and discourages the production of new goods. This combined cost ultimately gets borne by the consumer. In other words, the balance is thrown off.

A series of judicial developments have enabled excessive damages in recent years.

First, courts have failed to consistently exclude flawed apportionment theories and the manipulation of damages. The Supreme Court's 1993 ruling in *Daubert v. Merrell Dow Pharmaceuticals, Inc.* held that judges must act as gatekeepers and prevent unsupported or unreliable testimony from being presented.

Daubert reduces the chances that juries will be misled by baseless expert testimony, but district courts have become increasingly lax in its application. As a result, juries take "expert" testimony at face value, whether or not it is grounded in fact.

Second, courts have allowed patent owners to construct damages claims using built-in apportionment, which uses prior license agreements as a stand-in for a product's value in later disputes.

Proper apportionment requires a more careful analysis of previous licenses than built-in apportionment provides, including corrections to reflect the specific patent, product, and economic dynamics at play between the two parties. Starting around 2014, courts began allowing plaintiffs to use these broad comparable licensing theories without the careful apportionment required by Supreme Court precedent.

Finally, patent owners have figured out how to game licensing loopholes. Patent infringement plaintiffs are sophisticated in how they sequence litigation. One approach is to sue a small defendant and agree upon a high licensing rate that translates to a low total dollar figure because of the defendant's size or circumstances.

The defendant gets a good deal, paying only a small price, and the plaintiff gets to later claim that supposedly comparable defendants are paying a high licensing percentage—maximizing their returns when they target defendants with deeper pockets. There are many flavors of this type of agreement, the worst of which involve collusion between the plaintiff and the initial defendant, setting the plaintiff up for later success.

The prevalence of non-practicing entities exacerbates the damages imbalance. These entities, often backed by litigation investors, make damages demands that are divorced from patents' values. They treat intellectual property as litigation assets and don't analyze individual patents' marginal value. They don't have to worry about counterclaims or negative repercussions tied to their assertions—they only need a few big wins to be profitable.

The *EcoFactor v. Google* decision will help rebalance patent infringement damages by limiting the leniency granted to plaintiffs' experts. EcoFactor had alleged that Google's Nest thermostats infringed on patented technology related to "the operation of smart thermostats in computer-networked heating and cooling systems." EcoFactor was awarded just over $20 million in damages.

In asserting his damages rationale, EcoFactor's expert used lump-sum payments from prior licensing deals to claim a per-unit royalty rate. However, the Federal Circuit held that the expert's use of existing licenses was insufficient to conclude that prior licensees agreed to the royalty rate. "The district court abused its discretion in failing to exclude this testimony," the court held.

The Federal Circuit made clear that "while the credibility of an expert's damages calculation is properly left to a jury, a determination of reliability under Rule 702 is an essential prerequisite."

By mandating a retrial, the Federal Circuit reinforced judges' responsibility as gatekeepers for reliable evidence. It's an essential first step to help stem unreasonable damages calculations, but now courts must go further. Addressing apportionment abuses, which were outside the scope of this case, is a necessary supplement to the Federal Circuit's decision.

The full rebalancing of patent infringement damages will help ensure the agreement between an inventor and the government when a patent is issued generates its maximum net benefit, encouraging innovation and commercialization of intellectual property while minimizing legal abuse.

It's time to end built-in apportionment and return to the stringent apportionment analysis that the Supreme Court intended.

The case is EcoFactor, Inc. v. Google LLC, 2025 BL 175924, Fed. Cir., 2023-1101, 5/21/25.

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