

\*\* NOT PRINTED FOR PUBLICATION \*\*

IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF TEXAS  
BEAUMONT DIVISION

AFFINITY LABS OF TEXAS, LLC,

*Plaintiff,*

v.

FORD MOTOR CO.,

*Defendant.*

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CIVIL ACTION No. 1-12-CV-580

JUDGE RON CLARK

**ORDER DENYING AFFINITY LABS OF TEXAS, LLC’S MOTION TO STRIKE  
PORTIONS OF THE OPINION OF FORD’S EXPERT CARL DEGEN**

Before the court is Ford Motor Company’s *Daubert* Motion to Exclude Damages Testimony of Carl Degen. [Doc. # 108]. The court previously denied the portion of motion related to convoyed sales. [Doc. # 150]. The court now denies the motion regarding profitability and apportionment.

**I. Applicable Law**

Regional law governs a motion to exclude expert testimony on the basis that it is unreliable. *ePlus, Inc. v. Lawson Software, Inc.*, 700 F.3d 509, 516 (Fed. Cir. 2012). Federal Rule of Evidence 702 provides that a witness who is “qualified by knowledge, skill, experience, training, or education,” may provide opinion testimony if that testimony will assist the trier of fact and: (1) the testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable principles and methods, and (3) the witness has applied the principles and methods reliably to the facts of the case. Fed. R. Evid. 702. The witness must possess “knowledge, skill, experience, training, or education” in the relevant field in order to be qualified to express his

expert opinion on the topic in issue. *Id.* “Rule 702 does not mandate that an expert be highly qualified in order to testify about a given issue. Differences in expertise bear chiefly on the weight to be assigned to test testimony by the trier of fact, not its admissibility.” *Huss v. Gayden*, 571 F.3d 442, 452 (5th Cir. 2009).

The Supreme Court in *Daubert* charged trial courts with determining whether scientific expert testimony under Rule 702 is “not only relevant, but reliable.” *Daubert v. Merrill Dow Pharms., Inc.*, 509 U.S. 579, 589, 113 S. Ct. 2786, 2794 (1993); see also *Kumho Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 149, 119 S. Ct. 1167, 1175 (1999) (extending *Daubert* to all expert testimony).

The *Daubert* opinion lists a number of factors that a trial court may use in determining an expert’s reliability. Trial courts are to consider the extent to which a given technique can be tested, whether the technique is subject to peer review and publication, any known potential rate of error, the existence and maintenance of standards governing operation of the technique, and, finally, whether the method has been generally accepted in the relevant scientific community . . . . These factors are not mandatory or exclusive; the district court must decide whether the factors discussed in *Daubert* are appropriate, use them as a starting point, and then ascertain if other factors should be considered . . . . But the existence of sufficient facts and a reliable methodology is in all instances mandatory. Without more than credentials and a subjective opinion, an expert’s testimony that “it is so” is not admissible.

*Hathaway v. Bazany*, 507 F.3d 312, 318 (5th Cir. 2007) (internal citations omitted).

A court is not required to “admit opinion evidence that is connected to existing data only by the ipse dixit of the expert,” and may “rightfully exclude expert testimony where a court finds that an expert has extrapolated data, and there is ‘too great an analytical gap between the data and the opinion proffered.’” *Burleson v. Tex. Dep’t. Crim. Justice*, 393 F.3d 577, 587 (5th Cir. 2004) (quoting *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146, 118 S. Ct. 512, 519 (1997)).

In calculating reasonable royalties, the court is called on “to hypothesize, not to speculate.” *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012) (*ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010)). “[C]omparisons of past patent licenses to the infringement must account for ‘the technological and economic differences’ between them.” *Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1320 (Fed. Cir. 2010) (quoting *ResQNet.com*, 594 F.3d at 873). So long as the methodology is sound and the evidence is reasonably related, the degree of comparability and any failure to control for certain variables are “factual issues best addressed by cross examination and not by exclusion.” *ActiveVideo Networks, Inc. v. Verizon Commc’ns, Inc.*, 694 F.3d 1312, 1333 (Fed. Cir. 2012) (quoting *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831, 852 (Fed. Cir. 2010)). “A comprehensive (but unprioritized and often overlapping) list of relevant factors for a reasonable royalty calculation appears in *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).” *ResQNet.com*, 594 F.3d at 869.

## II. Analysis

### A. Profitability Analysis Under Georgia-Pacific Factor No. 8

Ford moves to exclude Mr. Degen’s testimony because he fails to include in engineering costs into his calculation of profitability under the eighth *Georgia-Pacific* factor. The eighth factor is “[t]he established profitability of the product made under the patent; its commercial success; and its current popularity.” *Georgia-Pacific Corp.*, 318 F. Supp. at 1120. Ford argues that when the total engineering costs of the SYNC systems are taken into account, Ford actually loses money on them, rather than the \$78 dollar margin calculated by Mr. Degen. The exclusion of the design costs is not inappropriate in calculating per-unit profitability, as sunk engineering costs are separate from the incremental costs of each unit. Even Ford’s own 30(b)(6) witness,

Mr. Jablonski, differentiated between the sunk engineering costs and the per unit production costs. [Degen's Expert Report, Doc. # 141-4, ¶ 104]. While engineering costs certainly play a role in the hypothetical negotiation of a reasonable royalty, that can be developed during both direct and cross examination and is not a basis to exclude Mr. Degen's report.

B. Apportionment Analysis Under *Georgia-Pacific* Factor 13

Ford next argues that Mr. Degen did not properly calculate the percentage of the \$78 margin that was attributable to the patented technology. The thirteenth factor is “[t]he portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.” *Georgia-Pacific Corp.*, 318 F. Supp. at 1120.

In *Lucent*, the Federal Circuit found that the evidence presented at the trial level did not support a finding that the patented feature, which was “a minor aspect of a much larger software program,” constituted a substantial portion of the value of the software in which the feature was incorporated. *See Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1332-33 (Fed. Cir. 2009). The court found that, although the parties had presented little evidence relating to *Georgia-Pacific* factor 13, “numerous features other than the [accused feature] appear to account for the overwhelming majority of the consumer demand and therefore significant profit” from the accused product. *See id.* The court thus found that factor 13 provided little support for the jury's damages award. *Id.* at 1333.

In this case, Mr. Degen calculated a figure for apportionment based on Ford's consumer research studies. He did not attempt to ascribe all of the profit margin to patented technology, nor did he create his number out of whole cloth. Rather, based on the studies of usage, he

determined what he considers to be a valid percentage of apportionment. Ford is, of course, welcome to address its issues with Mr. Degen's calculations on cross-examination.

**III. Conclusion**

Ford Motor Company's *Daubert* Motion to Exclude Damages Testimony of Carl Degen [Doc. # 108] is DENIED.

So **ORDERED** and **SIGNED** this **22** day of **August, 2014**.



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Ron Clark, United States District Judge