CRA Insights: Intellectual Property

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CRA Insights: Intellectual Property is a periodic newsletter that provides summaries of notable developments in IP litigation.

Recent developments in IP damages

Apple Inc. v. Samsung Electronics Co, Ltd., et al., 11-cv-01846 (CAND)

On April 2, 2018, Judge Koh in the Northern District of California issued a 50-page *Daubert* opinion addressing motions filed by both parties. The order was issued in advance of a trial on damages that is scheduled to begin on June 1, 2018.

The June 2018 trial will be the third trial on the issue of damages for Samsung's infringement of Apple's design patents. In 2012, a jury found three of Apple's design patents infringed, along with other Apple intellectual property, and awarded damages totaling approximately $1 billion. After determining that the jury's damages calculations relied on improper notice dates, the Court struck approximately $410 million from the 2012 jury award and ordered a limited new trial on utility and design patent damages relating only to the sales of those products. In a November 2013 retrial, a jury awarded Apple approximately $290 million in damages for design and utility patent infringement.

Various aspects of the 2013 jury verdict were appealed and on December 6, 2016, the US Supreme Court held that determining profits under the design patent statute (35 U.S.C. § 289, or "§ 289") involves two steps: (1) identify the "article of manufacture" to which the infringed design has been applied, and (2) calculate the infringer's total profit made on that article of manufacture. On the first step, the US Supreme Court held that the article of manufacture for which total profits are awarded under § 289 was not necessarily limited to the product that is sold to consumers, but may be either a product sold to a consumer or a component of that product. However, the US Supreme Court declined to lay out a test for the first step of the § 289 damages inquiry in the absence of adequate briefing by the parties.

On remand from the Federal Circuit, the District Court adopted a four-factor test for determining the relevant article of manufacture, adapted from an amicus brief filed by the US Solicitor General. The District Court ordered that the parties' damages experts were to remain the same as in the previous trial, but that the parties may each call two expert witnesses to identify the relevant article of manufacture.

The Court's April 2018 *Daubert* decision involved the anticipated testimony of both parties' damages experts and three experts on the relevant article of manufacture.

Apple's article of manufacture experts

Samsung challenged the testimony of Apple's two designated experts on the topic of the relevant article of manufacture, arguing that various aspects of their analyses were irrelevant to the article of manufacture test and/or outside of the experts' areas of expertise. The Court ruled that the experts may not testify from the perspective of a Designer of Ordinary Skill in the Art (DOSA) or ordinary observer, along with certain opinions about marketing, but denied all of Samsung's other challenges to the experts' testimony regarding the scope of the claimed design, the relative prominence of the design, the conceptual distinctiveness of the design, the physical relationship between the design and the rest of the product, copying Apple's design process, and consumer behavior.

Apple's damages expert

Samsung also challenged parts of the anticipated testimony of Apple's damages expert on several grounds, including the fact that she allegedly did not limit her analysis to the patents-in-suit and did not attempt to account for the value added to Samsung's phones by non-infringing features. The Court denied Samsung's motion on this issue.

Specifically, Samsung argued that the expert should be precluded from testifying that a reasonable royalty for any or all of Apple's design patents is $24 per phone because this opinion contravenes the rule that a reasonable royalty must apportion damages between the patented improvement and the conventional components of the multicomponent product. Samsung argued that the expert did not adjust her opinion to reflect that the 2018 retrial only concerned three design patents, as opposed to the seven design patents, eight trade dresses, and eight trademarks that were at issue earlier in the case. However, the Court found that this argument ignores that the expert had consistently stated that her opinion of the reasonable royalty amount for the design intellectual property at issue would be the same amount for each individual design element as the total group of asserted design-related intellectual property. The Court also held that the expert's analysis "includes specific explanation of the principles, assumptions, and calculations that led to her identification of the income value reference point to which Samsung objects." Thus, the Court declined to exclude the expert's testimony on this issue.

The Court granted Samsung's motion to preclude Apple's damages expert from testifying about the relevant article of manufacture, on the basis that Apple had retained two other experts specifically for that purpose, as ordered by the Court. The Court noted, however, that in other circumstances, it may be appropriate for a damages expert to opine on some aspects of the article of manufacture issue, particularly the part of the fourth factor that addresses whether a component that embodies the patented design can be sold separately from the product as a whole. In addition, the Court denied Samsung's motion to preclude Apple's expert's testimony regarding Samsung's margins and financial statements, as such testimony was given in the previous trial and without objection from Samsung.

Samsung's article of manufacture expert

The Court addressed its prior decision to strike Samsung's marketing expert, who was purportedly retained to address the relevant article of manufacture. The Court explained that the expert's report was not directed to a permissible purpose under the Court's case management order. Specifically, the Court pointed out that nearly half of the expert's report was devoted to a discussion of various consumer surveys that relate to consumers' reasons for choosing the phone that they bought, and that when the expert did identify the relevant articles of manufacture, he assumed the articles of manufacture identified by Samsung in its interrogatory responses were the relevant articles of manufacture and did not offer his own opinion.

Samsung's damages expert

Apple offered several challenges to Samsung's damages analysis, which used data from consumer surveys to estimate the profits attributable to the article of manufacture. Apple argued that the expert's opinions engaged in apportionment, which is not permissible for damages sought under the design patent damages statute, and that even if the survey-based methodologies were not apportionment, they were unreliable. The Court agreed with Apple, finding that the expert failed to explain one of the fundamental assumptions underpinning his survey-based methodology and that the surveys were not sufficiently tied to the facts of this case.

Specifically, the Court held that the expert's survey-based methodology was premised on an assumption—that there is a one-to-one correlation between the survey results and Samsung's profits—for which he offered no explanation, and thus the resulting opinion is not admissible under *Daubert*. The Court also held that even if the expert's survey-based methodology had been reliable, the survey data that the expert used was not sufficiently related to the facts of this case because it did not consider the cost of the components at issue or survey data that was closely tied to the infringing features.

The Court also excluded the expert's testimony about certain Samsung cost data and an analysis carving out white iPhones, but denied Apple's motion to exclude information about Apple's costs.

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