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**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA**

BRIGHTON COLLECTIBLES, INC.,
Plaintiff,

vs.

COLDWATER CREEK INC.,
Defendant.

CASE NO. 08-CV-2307-H (POR)

ORDER

(1) DENYING MOTION FOR SUMMARY JUDGMENT OF NO LIABILITY FOR ALLEGED INFRINGEMENT OF THE LAGUNA DESIGN;

(2) GRANTING MOTION FOR SUMMARY ADJUDICATION OF LIMITED LIABILITY FOR ALLEGED INFRINGEMENT OF THE MELANIE DESIGN;

(3) DENYING MOTION FOR SUMMARY JUDGMENT REGARDING BRIGHTON'S ACTUAL DAMAGES;

(4) DENYING WITHOUT PREJUDICE MOTION TO EXCLUDE EXPERT REPORTS AND TESTIMONY

On July 12, 2010, Defendant Coldwater Creek Inc. ("Coldwater") filed a motion for summary adjudication of no liability for alleged infringement of the Laguna Design and of no or limited liability for alleged infringement of the Melanie Design for summary adjudication.

1 (Doc. No. 109.) On August 16, 2010, Plaintiff Brighton Collectibles, Inc. (“Brighton”) filed
2 its response in opposition. (Doc. No. 129.) On September 2, 2010, Coldwater filed its reply.
3 (Doc. No. 150.)

4 On July 12, 2010, Coldwater filed a motion for summary adjudication regarding
5 Plaintiff’s alleged actual damages. (Doc. No. 112.) On August 23, 2010, Brighton filed its
6 response in opposition. (Doc. No. 138.) On September 3, 2010, Coldwater filed its reply.
7 (Doc. No. 153.)

8 On July 12, 2010, Coldwater filed a motion to exclude the expert reports and testimony
9 of Robert Wunderlich. (Doc. No. 113.) On August 23, 2010, Brighton filed its response in
10 opposition. (Doc. No. 139.) On September 3, 2010, Coldwater filed its reply. (Doc. No. 154.)

11 The Court held a hearing on the matter on September 14, 2010. Peter Ross and Keith
12 Wesley appeared for the Plaintiff. Robert Gerber and Michael Murphy appeared for the
13 Defendant. For the following reasons, the Court GRANTS in part and DENIES in part
14 Coldwater’s motion for summary judgment of no liability. The Court DENIES Coldwater’s
15 motion for summary judgment of no liability for alleged infringement of the Laguna Design.
16 The Court GRANTS Coldwater’s motion for summary adjudication of limited liability for
17 alleged infringement of the Melanie Design to the extent it is based on the statute of
18 limitations, and DENIES the motion to the extent it is based on laches. The Court DENIES
19 Coldwater’s motion for summary judgment regarding Brighton’s actual damages. The Court
20 DENIES Coldwater’s motion to exclude expert report and testimony of Brighton’s expert Dr.
21 Wunderlich without prejudice subject to renewal at trial.

22 **Background**

23 Plaintiff Brighton Collectibles (“Brighton”) is a manufacturer and retailer of women’s
24 handbags and accessories. It sells its products in boutique or specialty stores and advertises
25 extensively throughout the United States. (Doc. No. 1 at 3-4.) Defendant Coldwater Creek
26 (“Coldwater”) is Brighton’s competitor. Coldwater sells its products in catalogs, online and
27 in its stores. (Doc. No. 138 at 5.) On December 12, 2008, Brighton filed a complaint against
28 Coldwater, alleging causes of action for: (1) infringement of Brighton’s “Melanie,” “Carolina,”

1 and “Laguna” copyrights; (2) infringement of Brighton’s trade dress; (3) false designation of
2 origin; (4) common law unfair competition; and (5) statutory unfair competition. (Doc. No.
3 1.)

4 Discussion

5 I. Summary Judgment Standard

6 Summary judgment is appropriate under Rule 56 of the Federal Rules of Civil
7 Procedure if the moving party demonstrates the absence of a genuine issue of material fact and
8 entitlement to judgment as a matter of law. Celotex Corp. v. Catrett, 477 U.S. 317, 322 (1986).
9 A fact is material when, under the governing substantive law, it could affect the outcome of
10 the case. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248 (1986); Freeman v. Arpaio, 125
11 F.3d 732, 735 (9th Cir. 1997). A dispute is genuine if a reasonable jury could return a verdict
12 for the nonmoving party. Anderson, 477 U.S. at 248.

13 A party seeking summary judgment always bears the initial burden of establishing the
14 absence of a genuine issue of material fact. Celotex, 477 U.S. at 323. The moving party can
15 satisfy this burden in two ways: (1) by presenting evidence that negates an essential element
16 of the nonmoving party’s case; or (2) by demonstrating that the nonmoving party failed to
17 establish an essential element of the nonmoving party’s case on which the nonmoving party
18 bears the burden of proving at trial. Id. at 322-23. “Disputes over irrelevant or unnecessary
19 facts will not preclude a grant of summary judgment.” T.W. Elec. Serv., Inc. v. Pacific Elec.
20 Contractors Ass’n, 809 F.2d 626, 630 (9th Cir. 1987). Once the moving party establishes the
21 absence of genuine issues of material fact, the burden shifts to the nonmoving party to set forth
22 facts showing that a genuine issue of disputed fact remains. Celotex, 477 U.S. at 322. The
23 nonmoving party cannot oppose a properly supported summary judgment motion by “rest[ing]
24 on mere allegations or denials of his pleadings.” Anderson, 477 U.S. at 256. “The ‘opponent
25 must do more than simply show that there is some metaphysical doubt as to the material fact.’”
26 Kennedy v. Allied Mut. Ins. Co., 952 F.2d 262, 265–66 (9th Cir. 1991) (citing Matsushita
27 Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 586 (1986)). Furthermore, the
28 nonmoving party generally “cannot create an issue of fact by an affidavit contradicting his

1 prior deposition testimony.” Kennedy, 952 F.2d at 266; see Foster v. Arcata Assocs., 772 F.2d
2 1453, 1462 (9th Cir. 1985), cert. denied, 475 U.S. 1048 (1986); Radobenko v. Automated
3 Equip. Corp., 520 F.2d 540, 543–44 (9th Cir. 1975).

4 When ruling on a summary judgment motion, the court must view all inferences drawn
5 from the underlying facts in the light most favorable to the nonmoving party. Matsushita Elec.
6 Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 587 (1986). The Court does not make
7 credibility determinations with respect to evidence offered. See T.W. Elec., 809 F.2d at
8 630-31 (citing Matsushita, 475 U.S. at 587). Summary judgment is therefore not appropriate
9 “where contradictory inferences may reasonably be drawn from undisputed evidentiary facts.”
10 Hollingsworth Solderless Terminal Co. v. Turley, 622 F.2d 1324, 1335 (9th Cir. 1980).

11 **II. Validity of the Laguna Copyright**

12 Coldwater argues that the Court should grant summary adjudication against Brighton’s
13 allegations of copyright infringement of the Laguna design because Brighton cannot enforce
14 its Laguna copyright. (Doc. No. 109-1 at 6.) Specifically, Coldwater contends that the Laguna
15 copyright was obtained by fraud in failing to inform the Copyright Office of a prior rejection
16 of the Laguna design. (Id.)

17 In 1998, Brighton’s predecessor in interest, Leegin Creative Leather Products, Inc.,
18 submitted applications to register the Laguna copyright. (Doc. No. 110-1, Ex. A, Freedman
19 depo. at 80:2-13.) On January 20, 1999, the copyright examiner issued a letter refusing
20 registration for the Laguna design. (Doc. No. 110-3, Ex. C, Refusal Letter.) The refusal letter
21 stated that the decision may be appealed. (Id.) Brighton did not appeal the decision; instead,
22 on March 17, 2000, Brighton reapplied to register the Laguna design. (Doc. No. 110-6, Ex.
23 F.) The 2000 application enclosed a photograph of the Laguna design, while the 1998
24 application contained a drawing of Laguna. (Doc. No. 110-8, Ex. H at 5.) The 2000
25 application did not include any information regarding Brighton’s prior application. (Doc. No.
26 110-6, Ex. F.) The Laguna design was registered with the Copyright Office on March 20,
27 2000. (Doc. No. 110-7, Ex. G.)

28 ////

1 Registration is not a prerequisite to a valid copyright, although it is a prerequisite to suit.
2 17 U.S.C. §§ 408(a), 411; S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1085 (9th Cir. 1989).
3 Inaccuracies in copyright registration may bar actions for infringement. S.O.S., Inc., 886 F.2d
4 at 1086. However, enforcement of a copyright is precluded only if the inaccuracies were
5 entered with the intent to defraud and the infringing party was prejudiced by such inaccuracies.
6 Id. (citing Harris v. Emus Records Corp., 734 F.2d 1329, 1335 (9th Cir. 1984)). The Copyright
7 Act provides that inaccuracies in the certificate of registration do not invalidate the copyright
8 unless “(A) the inaccurate information was included on the application for copyright
9 registration with knowledge that it was inaccurate; and (B) the inaccuracy of the information,
10 if known, would have caused the Register of Copyrights to refuse registration.” 17 U.S.C. §
11 411(b)(1).

12 Coldwater argues that Brighton deliberately circumvented the Copyright Office’s appeal
13 procedure and intentionally omitted any reference to the initial rejection of the Laguna design
14 on the 2000 application. (Doc. No. 109-1 at 12-13.) Coldwater argues that the omission was
15 material, because had Brighton included the reference to the prior rejection, the examiner
16 might not have allowed the Laguna design to register without further inquiry or the initiation
17 of an appeal process. (Id. at 12.) In opposition, Brighton points out that no authority precludes
18 an applicant from resubmitting a work for registration despite a prior rejection. (Doc. No. 129
19 at 9-10.) Additionally, Brighton notes that Coldwater’s claim that Brighton should have
20 referenced a prior rejection in its resubmission materials is not supported by any statute or
21 regulation. (Id.) Finally, Brighton points out that its second application to register Laguna did
22 not contain any inaccurate statements or misrepresentations, and contained the same name of
23 the copyrights claimant, date of first publication, and title of the work. (Id. at 11.) The Court
24 notes that nothing prohibits an applicant from resubmitting an application to the Copyright
25 Office. The Court also notes that Brighton’s second application attached a photograph, rather
26 than a drawing of the Laguna design. The second application did not contain any information
27 that concealed the prior application’s existence. Brighton argues that the second application
28 was more complete. Coldwater argues that Brighton’s failure to reference the prior application

1 amounts to an intent to deceive the Copyright officer. These factual disputes are for the jury
2 to resolve.

3 The Court concludes that a genuine issue of fact exists whether Brighton intended to
4 commit fraud on the Copyright Office when it submitted a second application for the Laguna
5 design. Summary judgment is not appropriate where the movant failed to demonstrate the
6 absence of a genuine issue of material fact and entitlement to judgment as a matter of law.
7 Celotex, 477 U.S. at 322. Accordingly, the Court DENIES Coldwater’s motion for summary
8 judgment of no liability for alleged infringement of the Laguna design.

9 **III. Melanie Copyright**

10 Coldwater argues that it is entitled to summary judgment on Brighton’s infringement
11 of the Melanie Design claim because this claim is barred by the doctrine of laches. (Doc. No.
12 109-1 at 20.) Coldwater also argues that the applicable statute of limitations bars Brighton
13 from bringing a copyright claim that accrued more than three years prior to filing suit. (Id.
14 at 25.)

15 **A. Statute of Limitations**

16 Section 507(b) of the Copyright Act provides that copyright claims must be
17 “commenced within three years after the claim accrued.” 17 U.S.C. § 507(b); see Polar Bear
18 Prods., Inc. v. Timex Corp., 384 F.3d 700, 705 (9th Cir. 2004). “A cause of action for
19 copyright infringement accrues when one has knowledge of a violation or is chargeable with
20 such knowledge.” Roley v. New World Pictures, Ltd., 19 F.3d 479, 481 (9th Cir. 1994).
21 “[T]he statute of limitations bars recovery on any damage claim that accrued over three years
22 prior to filing of suit.” Polar Bear Prods., Inc., 384 F.3d at 706 (quoting 3 Melville B.
23 Nimmer & David Nimmer, Nimmer on Copyright § 12.05[B]). Thus, the copyright owner
24 cannot “reach back beyond the three-year limit and sue for damages or other relief for
25 infringing acts that he knew about at the time but did not pursue.” Id.

26 Brighton did not file this suit against Coldwater until December 12, 2008. (Doc. No.
27 1.) Coldwater argues that Brighton knew of the alleged infringement of the Melanie design
28 by July 2005, and therefore cannot recover any damages for its copyright infringement claim

1 of the Melanie design that accrued prior to December 12, 2005. (Doc. No. 109-1 at 26.) Chris
2 Hernando-Levine, a sales representative in Brighton's private label collection, testified that she
3 knew of Coldwater's alleged infringement as of July 2005:

4 Q.: Now, as of July 1, 2005, other than the Melanie ornamentation bags that we
5 saw earlier, had you seen any other copies or, quote, knockoffs, end quote, of
6 Brighton products being carried by Coldwater?

7 A.: Yes.

8 Q.: What other products had you seen by that date?

9 A.: Well, I have seen a couple of handbags with a Melanie hardware on it. I
10 have seen a wallet. I can't be sure, but I would think that that's when the
11 luggage and the tote, I think, was around that time, too.

12 Q.: So take the first part of that, as of July 1 of 2005, you had seen Melanie
13 handbags and wallets, is that what you're saying, that had been knocked off?

14 A.: I believe so.

15 (Doc. No. 110-17, Ex. Q, Hernando-Levine depo. at 109:2-15.) Ms. Hernando-Levine testified
16 that she reported her concerns about Coldwater's alleged infringement to Brighton's President
17 and owner, Jerry Kohl. (Hernando-Levine depo. at 98:18-99:8.) Mr. Kohl testified that he
18 received and reviewed Coldwater catalogs, and was aware of Coldwater's allegedly infringing
19 products. (Doc. No. 110-15, Ex. O, Kohl depo. at 86:9-13.) In November 2005, Mr. Kohl
20 confirmed in an email that he reviewed Coldwater's catalogs and was familiar with
21 Coldwater's products featured in them:

22 About Coldwater..

23 There [sic] things are not knock offs and are not Brighton "to a T".

24 In fact I got a copy this am [sic] of their book and they aren't copies at all.
25 they do look like Brighton but not copies

26 (Doc. No. 140-1, Ex. 3 at 51.)

27 The statute of limitations does not bar recovery of damages incurred more than three
28 years prior to the filing of suit if the plaintiff was unaware of the infringement, and that lack
of knowledge was reasonable under the circumstances. Polar Bear Prods., Inc., 384 F.3d at
706. Here, Coldwater has presented evidence that Brighton knew of the alleged infringement
more than three years prior to filing this suit. In opposition, Brighton has not offered sufficient
facts to show a triable issue of fact as to Brighton's knowledge of alleged infringement prior
to December 12, 2005. The Court concludes that the statute of limitations bars Brighton from
bringing a copyright infringement action of its Melanie design regarding those alleged acts that

1 took place within the three years immediately before the commencement of the action. 17
2 U.S.C. § 507(b). Accordingly, the Court GRANTS Coldwater’s motion for summary
3 adjudication of limited liability for alleged infringement of the Melanie Design on the ground
4 of statute of limitations.

5 **B. Laches**

6 “Laches is an equitable time limitation on a party’s right to bring suit.” Jarrow
7 Formulas, Inc. v. Nutrition Now, Inc., 304 F.3d 829, 835 (9th Cir. 2002) (quoting Boone v.
8 Mech. Specialties Co., 609 F.2d 956, 958 (9th Cir. 1979)). Laches “is distinct from the statute
9 of limitations, a creature of law,” and “serves as the counterpart to the statute of limitations,
10 barring untimely equitable causes of action.” Jarrow Formulas, Inc., 304 F.3d at 835. “To
11 demonstrate laches, the ‘defendant must prove both an unreasonable delay by the plaintiff and
12 prejudice to itself.’” Danjaq LLC v. Sony Corp., 263 F.3d 942, 951 (9th Cir. 2001) (quoting
13 Couveau v. Am. Airlines, Inc., 218 F.3d 1078, 1083 (9th Cir. 2000)). However, the defense
14 of laches is not available in a case of willful infringement, when the infringing conduct
15 “occurs ‘with knowledge that the defendant’s conduct constitutes copyright infringement.’”
16 Id. at 957 (citation omitted). Because there remains a genuine issue of material fact as to
17 infringement of the Melanie Design in this case, there also remains a genuine issue of material
18 fact as to the applicability of laches, at least insofar as the willful infringement exception is
19 concerned. Brighton is not time-barred from bringing an action regarding the alleged acts that
20 took place within the three years immediately before the commencement of the action. 17
21 U.S.C. § 507(b). Accordingly, the Court DENIES Coldwater’s motion for summary judgment
22 of no liability for alleged infringement of the Melanie Design on the ground of laches.

23 **IV. Actual Damages and Motion to Exclude Expert Report and Testimony**

24 **A. Summary Judgment on Actual Damages**

25 Coldwater argues that the Court should grant summary judgment against Brighton’s
26 claims of actual damages. (Doc. No.112-1 at 1.) Specifically, Coldwater contends that
27 Brighton’s claims of harm to goodwill are not copyright claims but trade dress claims, and that
28 Brighton cannot quantify any harm to its goodwill. (Id.) In opposition, Brighton argues that

1 harm to goodwill can serve as a basis for an award of actual damages under the Copyright Act
2 and that if the fact of harm is established, a jury can determine the amount of damages from
3 “reasonable inference.” (Doc. No. 138 at 4, 8.)

4 Section 504 provides that the copyright owner can recover both “actual damages and any
5 additional profits of the infringer.” 17 U.S.C. § 504(a). Alternatively, the copyright owner
6 may recover statutory damages. *Id.* The issue of damages for copyright infringement is “a
7 quintessential issue for a jury to decide.” 4 Melville B. Nimmer & David Nimmer, *Nimmer on*
8 *Copyright* § 14.02 (2010). Plaintiff can recover actual damages and disgorgement of profits
9 suffered “as a result of the infringement.” *Polar Bear Prods., Inc.*, 384 F.3d at 708 (quoting 17
10 U.S.C. § 504(b).) Actual damages represent the extent to which infringement has injured or
11 destroyed the market value of the copyrighted work at the time of infringement. 4 Melville B.
12 Nimmer & David Nimmer, *Nimmer on Copyright* § 14.02 (2010).

13 The basic rule for computing injury to the market value of a copyrighted work
14 arising from infringement is to inquire what revenue would have accrued to
15 plaintiff but for the infringement. The plaintiff has the burden of establishing
16 with reasonable probability the existence of a causal connection between
17 defendant’s infringement and loss of anticipated revenue. Once the plaintiff has
18 met this burden of showing a causal connection, the burden then properly shifts
19 to the infringer to show that this damage would have occurred had there been no
20 taking of the copyrighted expression.

21 *Id.* (internal quotation marks omitted). The burden is on the plaintiff to show the infringement
22 was proximate cause of the harm. *Story Parchment Co. v. Paterson Parchment Co.*, 282 U.S.
23 555, 562 (1931). Thus, a causal connection “between the infringement and the monetary
24 remedy sought is a predicate” to recovery of actual damages. *Polar Bear Prods., Inc.*, 384 F.3d
25 at 708. Harm to business reputation and goodwill can be foreseeable damages of copyright
26 infringement. *Brayton Purcell LLP v. Recordon & Recordon*, 606 F.3d 1124, 1131 (9th Cir.
27 2010); see also *Creative Computing v. Getloaded.com, LLC*, 386 F.3d 930, 935 (9th Cir. 2004)
28 (finding loss of business and business goodwill are economic damages).

29 A plaintiff is allowed to recover the loss of plaintiff’s goodwill due to defendant’s
30 copyright infringement, if proved. 4 Melville B. Nimmer & David Nimmer, *Nimmer on*
31 *Copyright* § 14.02 (2010); see *Harolds Stores, Inc. v. Dillard Dep’t Stores, Inc.*, 82 F.3d 1533,

1 1547 (10th Cir.), cert. denied, 519 U.S. 928, 117 S. Ct. 297 (1996) (corporate officer may testify
2 as to extent of damage to goodwill). A plaintiff in a copyright case can present evidence to
3 allow a jury to draw a reasonable inference as to the appropriate amount of damages. Story
4 Parchment Co., 282 U.S. at 562. Expert testimony, however, must meet the standards of
5 Federal Rule of Evidence 702 and Daubert v. Merrell Dow Pharms., Inc., 509 U.S. 579 (1993).

6 Viewing all evidence in the light most favorable to the nonmoving party, the Court
7 concludes that Brighton presented sufficient triable issues of fact such that summary judgment
8 on the issue of actual damages is not appropriate. See Matsushita Elec. Indus. Co. v. Zenith
9 Radio Corp., 475 U.S. 574, 587 (1986). The amount of lost profits is “necessarily an estimate,”
10 and cannot be shown with “mathematical precision.” Humetrix, Inc., v. Gemplus S.C.A., 268
11 F.3d 910, 919 (9th Cir. 2001) (citations omitted). Coldwater promoted its allegedly infringing
12 products in millions of catalogs, on a website and in hundreds of stores across the country.
13 (Doc. No. 138 at 5.) Brighton’s marketing expert, Dr. Michel Tuan Pham of Columbia
14 Business School, concluded that Coldwater’s infringing products harmed Brighton’s goodwill
15 and reputation. (Doc. No. 140-1 at 88-93, Ex. 6 ¶¶ 44-55.) Dr. Pham analyzed the three
16 Brighton designs at issue in this litigation: the Melanie, the Laguna, and the Leonardo, and the
17 allegedly infringing Coldwater designs, and noted the striking similarity between the Brighton
18 designs and their Coldwater counterparts. (Id. ¶¶ 31-37.) In his report, Dr. Pham relied on
19 several recent scientific consumer research studies. (Id. ¶ 51, citing Suraj Commuri, The Impact
20 of Counterfeiting on Genuine-Item Consumers’ Brand Relationships, 73 Journal of Marketing
21 86-98 (May 2009); Keith Wilcox, Hyeong Min Kim & Sankar Sen, Why Do Consumers Buy
22 Counterfeit Luxury Brands?, 46 Journal of Marketing Research 247-59 (Apr. 2009).) The
23 expert opined that the confusing similarity harms Brighton’s products in several ways, including
24 direct loss of sales. (Id. ¶¶ 44- 45.) The direct loss of sales arises “whenever a consumer who
25 would have bought a Brighton product involving one of the three designs [at issue in this
26 litigation] instead buys a Coldwater Creek product with a similar design.” (Id. ¶ 45.) Dr. Pham
27 opined that this may occur where consumers are “confused about the origin of the product and
28 purchase the Coldwater Creek products (e.g. “Hampton” belts) mistakenly believing that they

1 are from Brighton (e.g., “Leonardo” belts).” (Id.) Dr. Pham noted the applicability of product
2 source confusion because Brighton used to sell belts through Coldwater Creek. (Id.) Direct
3 loss of sales may also occur where consumers make an informed decision to buy a less
4 expensive counterpart to a Brighton design. (Id.) In either case, Dr. Pham opined that once a
5 consumer decided to buy a bag, watch or a belt with a certain design, “this consumer is very
6 unlikely to buy another similar item with the same design again.” (Id.) Thus, Dr. Pham
7 concluded that in either case Brighton would not be able to recapture the loss. (Id.)

8 Additionally, Dr. Pham concluded that the availability of infringing products in the
9 market creates negative consumer responses to the original product. (Id. ¶ 51.) Dr. Pham also
10 opined that the availability of the allegedly infringing products “obviously decreases the
11 perceived uniqueness and distinctiveness of the original designs,” and “is likely to create
12 negative consumer responses toward the Brighton originals.” (Id. ¶¶ 50-51.) Additionally, Dr.
13 Pham opined that Brighton is harmed by these effects “even if it does not currently use these
14 designs in the marketplace,” because “[p]reviously marketed designs that have lost their
15 perceived uniqueness cannot easily be reintroduced in the market—a significant loss of option
16 value.” (Id. ¶ 54.)

17 Dr. Pham also noted a multiplier effect from the copyright infringement not limited to
18 the specific products—Melanie bags, Laguna watches and Leonardo belts—that were imitated.
19 (Id. ¶ 48.) He noted that “Brighton consumers typically purchase multiple Brighton
20 products—between 1.7 and 2.3 items per purchase, owning an average of 12 or more items.”
21 (Id.) He concludes that “every time Brighton lost a sale to Coldwater Creek imitations, it also
22 lost the potential of selling other Brighton products to the same customer, thereby amplifying
23 the lost sales damage.” (Id.)

24 Coldwater’s own experts testified that an original manufacturer can suffer harm to its
25 reputation by copyright infringement; and that a brand can be damaged by inferior copies of the
26 original product. (Doc. No. 140, Ex. 4, Vitalos depo. at 11:2-12:4, Ex. 5, Jonas depo at 141:19-
27 142:9.) Coldwater’s 10-K filing for the fiscal year ending February 2, 2008 acknowledges that
28 “net sales may decline or grow more slowly if we are unable to differentiate our merchandise

1 and shopping experience from these discount retailers.” (Doc. No. 140-1, Wesley Decl., Ex.
2 2.) In addition, at trial in November 2008, Brighton’s President of Sales and Marketing Laura
3 Young testified that the presence of the purportedly infringing products on the market cheapens
4 the Brighton brand and makes it less desirable to customers. (Doc. No. 140-1, Wesley Decl.,
5 Ex. 1, *Coldwater I* 11/12/08 TT at I-130:1-22; 11/13/08 TT at II-41:13-20.)

6 On summary judgment, the court does not make credibility determinations with respect
7 to evidence offered, and must view all inferences drawn from the underlying facts in the light
8 most favorable to the nonmoving party. See Matsushita Elec. Indus. Co., 475 U.S. at 587;
9 T.W. Elec., 809 F.2d at 630-31. At trial, the Court will instruct the jury on the elements of a
10 copyright claim and damages. Coldwater and Brighton may propose appropriate jury
11 instructions on speculative damages, loss causation, and expert testimony in a copyright claim.
12 Moreover, Coldwater may make appropriate motions at trial if Brighton’s evidentiary
13 foundation for its proof is lacking. Based on the present record before the Court, Brighton has
14 brought sufficient evidence to show a genuine issue of disputed fact as to its actual damages
15 claim even without considering the testimony of Plaintiff’s economic expert Dr. Wunderlich.¹
16 Accordingly, the Court DENIES Plaintiff’s motion for summary judgment on the issue of actual
17 damages.

18 **B. Motion to Exclude Expert Report and Testimony**

19 Coldwater seeks to exclude the testimony and reports of Dr. Wunderlich on the ground
20 that it is not based on sufficient facts or data, and is not the product of reliable principles and
21 methods.² (Doc. No. 113 at 4.) Under Federal Rule of Evidence 702, a witness qualified as an
22 expert by knowledge, skill, experience, training or education can testify in opinion or otherwise
23 if: (1) the testimony is based on sufficient facts or data; (2) the testimony is the product of
24 reliable principles and methods; and (3) the witness has applied the principles and methods

26 ¹ In any event, the Court denies Defendant’s motion to exclude Dr. Wunderlich’s
27 testimony, see infra Part IV.B.

28 ² The Court rejects Brighton’s contention that Coldwater’s motion to exclude expert
testimony is premature.

1 reliably to the facts of the case. Fed. R. Evid. 702. Rule 703 of the Federal Rules of Evidence
2 permits experts to render opinions even if based on inadmissible evidence so long as the
3 inadmissible evidence is of the type reasonably relied on by experts in that field. Daubert v.
4 Merrell Dow Pharms., Inc., 509 U.S. 579, 595 (1993). Such inadmissible facts or data may be
5 admissible as the basis for an expert's opinion if their “probative value in assisting the jury to
6 evaluate the expert's opinion substantially outweighs their prejudicial effect.” Fed. R. Evid.
7 703. In addition, the court is charged with a “gatekeeping function” to ensure expert testimony
8 is both reliable and relevant. Daubert, 509 U.S. at 597. The trial court has broad discretion
9 in assessing the relevance and reliability of expert testimony. United States v. Finley, 301 F.3d
10 1000, 1007 (9th Cir. 2002).

11 The requirement of Rule 702(1) “is not intended to authorize a trial court to exclude an
12 expert’s testimony on the ground that the court believes one version of the facts and not the
13 other.” Fed. R. Evid. 702, Adv. Comm. Note (2000). The inquiry into admissibility of expert
14 opinion is a “flexible one,” where “[s]haky but admissible evidence is to be attacked by cross
15 examination, contrary evidence, and attention to the burden of proof, not exclusion.” Primiano
16 v. Cook, No. CV-03-00373, 2010 WL 1660303, at *4 (9th Cir. Apr. 27, 2010). “Under
17 Daubert, the district judge is ‘a gatekeeper, not a fact finder.’ When an expert meets the
18 threshold established by Rule 702 as explained in Daubert, the expert may testify and the jury
19 decides how much weight to give that testimony.” Id. (quoting United States v.
20 Sandoval-Mendoza, 472 F.3d 645, 654 (9th Cir. 2006)).

21 Brighton’s expert, Dr. Robert Wunderlich, is qualified as an expert under Rule 702 by
22 way of his experience and education. Dr. Wunderlich is currently employed as a Principal at
23 Discovery Economics, a professional services firm that consults on economic, financial and
24 accounting issues. (Doc. No. 139 at 9.) His previous experience includes time as a Principal
25 at Law & Economics Consulting Group, and as a Senior Manager at the Dispute Consulting
26 group at Deloitte & Touche LLP. (Id.) Dr. Wunderlich’s career includes over fifteen years of
27 consulting, economic and financial analysis, research and teaching experience. (Doc. No. 139
28 at 9-10.) Dr. Wunderlich obtained an M.B.A from U.C.L.A, a Ph.D in chemical physics, a

1 M.A. degree in physics from Harvard University, and a B.A. degree in chemistry from
2 Columbia.

3 Coldwater does not challenge Dr. Wunderlich's credentials as an economic damages
4 expert. On the substance of his testimony, Coldwater does not challenge his opinion or
5 methodology on the disgorgement of Coldwater's profits. Consequently, the Court DENIES
6 Coldwater's motion to exclude Dr. Wunderlich's testimony or reports.³

7 Dr. Wunderlich produced a sixty-five page report that analyzed both Brighton's actual
8 damages claim and the claim for disgorgement of Coldwater's wrongful gain. (Doc. No. 114,
9 Murphy Decl., Ex. B.) In his report on Brighton's actual damages, Dr. Wunderlich utilized
10 the common economic theory of marginal profit to marginal revenue as applied to Brighton and
11 Coldwater's retail sales reports. (Doc. No. 139 at 10; Doc. No. 114, Murphy Decl., Ex. B.)
12 Based on the theory that harm to goodwill results in lost sales, Dr. Wunderlich evaluated
13 historical sales data to calculate how much profit Brighton would likely lose when it loses a
14 sale. (Doc. No. 139 at 16.) Dr. Wunderlich considered the report of Brighton's expert Dr.
15 Michel Tuan Pham, as well as other factors, to calculate Brighton's lost profits. (Doc. No. 114,
16 Murphy Decl., Ex. B. at 3.) Dr. Wunderlich then analyzed Coldwater's sales data for the
17 products in dispute. (Id. at 12.) The report includes detailed schedules and tables of Brighton's
18 lost profits on both the wholesale and retail level by different categories, including: product in
19 dispute, product category, and year. (Id. at 18-24.) Dr. Wunderlich also produced summary
20 sales reports for both Coldwater and Brighton. (Id. at 25-62.) Based on Brighton's retail sales
21 reports, Dr. Wunderlich assumed that, on average, Brighton sells 1.7 products per transaction.
22 (Id. at 4.) Thus, he assumed that when Brighton suffers a lost sales transaction due to the
23 products sold by Coldwater, it loses both a sale of the product directly corresponding to the
24 product sold by Coldwater and, on average, 0.7 units of an additional product. (Id.) This
25 corresponds to information from Brighton's marketing expert's report, Dr. Pham. (Doc. No.

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27 ³ Absent a further foundation, an expert's report does not generally come into evidence,
28 but the schedules might be used as demonstrative evidence or possibly admitted under Federal
Rule of Evidence 1006 subject to a further foundational showing at trial and evaluation by the
Court at that time if Coldwater objects.

1 140-1 ¶ 48.)

2 Coldwater challenges Dr. Wunderlich’s assumption that “each sale of Coldwater Creek
3 product resulted in approximately one lost sales transaction for Brighton.” (Doc. No. 113-1 at
4 10.) Coldwater argues that Dr. Wunderlich’s “one-to-one” ratio assumption is too speculative.
5 (Id.) The Court first notes that Coldwater concedes that some assumptions, including an
6 assumption about substitution rate used by consumers, are required in calculating economic
7 losses due to infringement.⁴ (Doc. No. 113-1 at 9.) The Ninth Circuit has affirmed lost profit
8 figures, noting that the amount of lost profits is “necessarily an estimate” that cannot be shown
9 with “mathematical precision.” Humetrix, Inc., v. Gemplus S.C.A., 268 F.3d 910, 919 (9th Cir.
10 2001) (citations omitted).

11 Here, Dr. Wunderlich explains that he reviewed and relied on the expert report of
12 Brighton’s marketing expert, Dr. Pham,⁵ in preparation of his report for this litigation. (Doc.
13 No. 114, Murphy Decl., Ex. B. at E-1.) Dr. Pham’s report indicated that Brighton’s customers
14 typically purchase between 1.7 and 2.3 items per transaction, and own an average of 12 items
15 or more in total. (Doc. No. 140-1 at 88-93, Ex. 6 ¶ 48.) Dr. Pham opined that Brighton lost
16 some direct sales due to consumers being “confused about the origin of the product and
17 purchas[ing] the Coldwater Creek products (e.g. “Hampton” belts) mistakenly believing that
18 they are from Brighton (e.g., “Leonardo” belts).” (Id. ¶ 45.) Dr. Pham’s 46-page expert report
19 details multiple ways that Brighton suffers actual harm from Coldwater’s infringing products.
20 Dr. Pham specifically addresses the three products at issue—the Melanie bags, the Laguna
21 watches, and the Leonardo belts. (Doc. No. 140-1 ¶ 48.) Dr. Pham concludes that “every time

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23 ⁴ Coldwater cites a Report to Congressional Committees published in April 2010 by
24 the U.S. Government Accountability Office and entitled “Observations on Efforts to Quantify
25 the Economic Effects of Counterfeit and Pirated Goods” (GAO Report”). (Doc. No. 114-20,
26 Ex. S.) The GAO Report states that “methods for calculating estimates of economic losses
27 must involve certain assumptions,” and that one of the key assumptions “required in
28 calculating a loss estimate” from infringing goods is the “substitution rate used by
consumers.” (Id. at 3.) The GAO Report defines the term “substitution rate” as the “assumed
rate at which a consumer is willing to switch from purchasing a fake good to a genuine
product.” (Id.)

⁵ Coldwater does not move to exclude the expert testimony of Dr. Pham.

1 Brighton lost a sale to Coldwater Creek imitations, it also lost the potential of selling other
2 Brighton products to the same customer, thereby amplifying the lost sales damage.” (Id.)

3 Dr. Wunderlich quantifies the value of the lost sales using assumptions based on a
4 review of the Brighton and Coldwater financial data. An economic expert may rely on a
5 company’s financial statements in calculating damages. Flavor Dry, Inc. v. Lines (In re James
6 E. O’Connell Co.), Inc., 799 F.2d 1258, 1261-62 (9th Cir. 1986). In any event, Dr. Wunderlich
7 does not seek to tell the jury what ratio to apply to the lost profits, but how to calculate damages
8 reliably once they have determined the proper ratio based on evidence at trial; in fact, the expert
9 suggests that “should the judge and/or jury wish to consider lost profits resulting from a lost
10 sales transaction ratio other than a one-to-one ratio, they could simply multiply my calculation
11 of lost profits by an alternative lost sales transaction ratio.” (Doc. No. 114, Murphy Decl., Ex.
12 B. at 3-4.) As the Ninth Circuit recently concluded, “the test under Daubert is not the
13 correctness of the expert’s conclusions but the soundness of his methodology.” Primiano v.
14 Cook, No. CV-03-00373, 2010 WL 1660303, at *4 (9th Cir. Apr. 27, 2010) (quoting Daubert
15 v. Merrell Dow Pharmaceuticals, Inc., 43 F.3d 1311, 1318 (9th Cir. 1995)). Here, the Court
16 may not agree with a one-to-one substitution rate, but it is not the trier of fact. In sum, the
17 Court agrees with the Ninth Circuit’s analysis of lost profits in Humetrix:

18 As to the reasonableness of the assumptions underlying the experts’ lost profit
19 analysis, criticisms of an expert’s method of calculation [are] a matter for the
20 jury’s consideration in weighing that evidence. It is for the trier of fact to accept
or reject this evidence, and this evidence not being inherently improbable
provides a substantial basis for the trial court’s award of lost profits.

21 Humetrix, Inc., v. Gemplus S.C.A., 268 F.3d 910, 919 (9th Cir. 2001) (citations omitted). After
22 due consideration, the Court DENIES Coldwater’s motion to exclude the expert testimony and
23 reports of Dr. Wunderlich without prejudice to a renewal of the motion at trial.

24 **Conclusion**

25 For the reasons above, the Court:

- 26 (1) DENIES Coldwater’s motion for summary judgment of no liability for alleged
27 infringement of the Laguna Design;
- 28 (2) GRANTS Coldwater’s motion for summary adjudication of limited liability for

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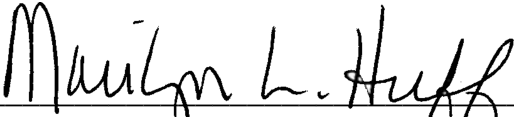
alleged infringement of the Melanie Design to the extent it is based on the statute of limitations, and DENIES the motion to the extent it is based on laches;

(3) DENIES Coldwater's motion for summary judgment regarding Brighton's actual damages;

(4) DENIES Coldwater's motion to exclude the expert report and testimony of Brighton's expert Dr. Wunderlich without prejudice to renewal of the motion at trial.

IT IS SO ORDERED.

Dated: September 20, 2010



MARILYN L. HUFF, District Judge
UNITED STATES DISTRICT COURT