DAMAGES

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Early in a lawsuit, ask…

- What damages are available for the claims I am asserting?
- Can I recover for some **other measure of damages** in addition to lost profits?
  - UCC damages
  - Equitable relief
  - Reasonable Royalty
  - Constructive Trust
  - Reliance damages
  - Forfeiture/Constructive Trust
- What evidence to I need **concretely model damages?**
- Often parties ***wait until late*** in the lawsuit before determining what specific data they or their experts may need to prove their damages theory.

Lost Profits: Reasonable Certainty

- The amount of the loss must be shown by **competent evidence** with **reasonable certainty.**

> [p]rofits which are largely speculative, as from an activity dependent on uncertain or changing market conditions, or on chancy business opportunities, or on portion of untested products or entry into unknown or unviable markets, or on the success of a new and unproven enterprise, cannot be recovered. Factors like these and others which make a business venture risky introspect preclude recovery of lost profits in retrospect.

Tex. Instruments, Inc. v. Teletron Energy Mgmt., Inc., 877 S.W.2d 276, 279 (Tex.1994)

- a **fact intensive determination**.
- Opinions or estimates of lost profits must be based on **objective facts, figures, or data** from which the amount of lost profits can be ascertained.
- Uncertainty as to the exact amount of damages does not generally disqualify the damage model.

Hypothetical Contract Price Must Be Sufficiently Connected to Evidence

- Damages model based on $1.3 theoretical million bid.
- Speculative because Plaintiff received two bids **lower than $1.3 million.**
- “an entirely hypothetical, speculative bargain that was never struck and would not have been consummated.”
- *Formosa Plastics Corp. USA v. Presidio Engineers and Contractors, Inc*., 960 S.W.2d 41 (Tex. 1998).

Overreaching Can Create A Speculative Damages Model

- Expert opinions **projected future revenues.**
- No recovery because **the experts' assumptions failed to match the actual data**.
- Data from a "test run" that showed the success of the business "very much in doubt."
- *SBC Operations, Inc. v. The Business Equation, Inc.*, 75 S.W. 3d 462 (Tex. App.—San Antonio 2001).

Sound Methodology Must Be Supported With Proper Evidence From The Correct Time Frame.

- Suit for oil pipeline's failure of to hook up wells.
- The wells stopped producing in 1987.
- The expert relied on figures from a well test done in 1985 in his calculation.
- No evidence that calculations based on "subjective facts, figures and data from historical" production.
- The underlying factual basis used to determine the extent of lost profits was merely speculative.
- *Aquila Sw. Pipeline, Inc. v. Harmony Exploration, Inc.,* 48 S.W.3d 225 (Tex. App.—San Antonio, 2001)

Reasonable Certainty Standard Also Applies in Market Value Cases

- Fair Market Value damages calculated using:
  - Comparable market sales
  - Replacement cost – depreciation
  - Capitalizing net income/profits
- When using net income/profits to establish fair market value, reasonable certainty requirement applies.
- But no more certainty than "the market itself would" require.
- *Phillips v. Carlton Energy Group*, 58 Tex. Sup. Ct. J. 803 (2015)

Disgorgement Is Available In Addition To Lost Profits In Some Cases

- Forfeiture and lost profits awards **can be sustained based upon the same conduct**.
- In ERI, a partner fraudulently induced another partner to buy out his interest.
- Plaintiff was entitled to lost profits as actual damages and the **consideration received for the business was subject to equitable forfeiture**.
- Awards serve different purposes.
- *ERI Consulting Engineers, Inc. v. Swinnea*, 318 S.W.3d 867, 870 (Tex. 2010)

Theft of Confidential Information & Trade Secrets

Misappropriation Damages

Damages in misappropriation cases can take several forms:

- the value of plaintiff's lost profits;
- the defendant's actual profits from the use of the secret;
- the value that a reasonable prudent investor would have paid for the trade secret;
- the development costs the defendant avoided incurring through misappropriation; or
- a “reasonable royalty”.

Misappropriation Damages

Lost profits damages are not always required.

- Value of the misappropriated trade secrets *to the defendant.*
- Proof of actual profits not required.
- *Univ. Computing Co. v. Lykes–Youngstown Corp.*, 504 F.2d 518, 535 (5th Cir.1974)

Misappropriation Damages

Actual negotiations establish the value a reasonably prudent investor would pay for the trade secret.

- A drilling company and the engineer negotiated over the use of the device for several years.
- the terms negotiated were sufficient evidence to prove the value of the device.

- *Bohnsack v. Varco, L.P,* 668 F.3d 262, 280 (5th Cir. 2012)

- *In Wellogix v. Accenture,* 716 F.3d 867, the Fifth Circuit upheld damage model based upon investment in the plaintiff establishing company valuation.

Misappropriation Damages

- Reasonable royalty "is calculated based on what a willing buyer and seller would settle on as the value of the trade secret."
- Courts consider:
  - (1) the resulting and foreseeable changes in the parties' competitive posture;
  - (2) prices paid by licensees in the past;
  - (3) the total value of the secret to the plaintiff, including the plaintiff's development cost and the importance of the secret to the plaintiff's business;
  - (4) the nature and extent of the use the defendant intended for the secret; and
  - (5) whatever other unique factors in the particular case might have been affected by the parties' agreement, such as the ready availability of alternative process.

See Myriad Dev., Inc. v. Alltech, Inc., 817 F. Supp. 2d 946, 970-71 (W.D. Tex. 2011)

Patent Damages

- Lost Profits or Reasonable Royalty

Reasonable Royalty

- A hypothetical negotiation between the patentee and the infringer at a time before the infringement began. *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed.Cir.1983).

- Presumes
  - patentee is a willing licensor;
  - infringer is a willing licensee; and
  - both parties assume the patent is valid, enforceable, and infringed. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F.Supp. 1116, 1120 (S.D.N.Y.1970).

Reasonable Royalty The *Georgia Pacific F*actors

The Federal Circuit has sanctioned the use of the following factors to frame the reasonable royalty inquiry:

- royalties actually received by the patentee
- rates paid by the infringer for the use of other similar patents
- nature and scope of the license
- Patentee's policy on licensing
- commercial relationship between the patentee and the infringer
- effect of patented item on infringer's sales
- duration of the patent and the terms of the license;
- established profitability , success, and popularity of the patented product
- utility and advantages of the patent property over the old modes or devices
- Nature and benefits of the patented invention
- extent to which the infringer has made use of the invention
- evidence probative of the value of infringer's use
- portion of the profit or selling price customary in the business to allow for the use of the invention
- portion of the realizable profit credited to the invention as distinguished from nonpatented elements or improvements added by the infringer
- opinion testimony of qualified experts
- amount that a licensor and a licensee would have agreed upon at the time the infringement as fair market value of a license for the use

Ericsson, Inc. v. D-Link Systems, Inc., 773 F.3d 1201 (5th Cir. 2014)

- Holds that trial court should only use the specific *Georgia Pacific* factors that are relevant to the case.

Entire Market Value Rule

- Available if the patented item **substantially created the value** of whole product. *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1549 (Fed.Cir.1995).
- The entire market value rule in the context of royalties requires adequate proof of three conditions:
  - (1) the infringing components must be the **basis for customer demand** for the entire machine including the parts beyond the claimed invention;
  - (2) the individual infringing and noninfringing components must be **sold together** so that they constitute **a functional unit** or are parts of a complete machine or single assembly of parts; and
  - (3) the individual infringing and noninfringing components must be **analogous to a single functioning unit**. It is not enough that the infringing and noninfringing parts are sold together for mere business advantage.
- *Cornell University v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 286 (N.D. N.Y. 2009)

Entire Market Value Rule

- Relying on the "smallest salable unit" is insufficient to invoke the entire market value rule. "Where the smallest salable unit is, in fact, a multi-component product containing several non-infringing features with no relation to the patented feature, the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology."

- The "Nash Bargaining Solution" is an improper model for determining reasonable royalty damages without sufficiently establishing the premise of the theorem actually applies to the specific facts of the case.

VirnetX, Inc. v. Cisco Systems, Inc., 767 F.3d 1308 (Fed. Cir. 2014)

Apportionment

- The court's instructions should always fully explain the need to apportion the ultimate royalty award to the incremental value of the patented feature from the overall product.

- In cases where expert testimony explains to the jury the need to discount reliance on a given license to account only for the value attributed to the licensed technology the fact that licenses predicated on the value of a multi-component product are referenced in the expert's analysis is not reversible error if the court exercises its discretion to allow such references.

Ericsson, Inc. v. D-Link Systems, Inc., 773 F.3d 1201 (Fed. Cir. 2014)

Trademark Damages

- Defendant's Profits
- Damage sustained by the Plaintiff
- Costs
- Exceptional cases – reasonable attorneys fees
- May award three times actual damages

Lost Profits Not Awarded By Default

- Primary relief is to preventing the defendant from trading on its goodwill, using plaintiff's trademark, or passing off plaintiff's goods or services.

- Preferred remedy is an **injunction.**

- Many courts will not award any damages, except in cases of willful or deliberate infringement. *See, e.g., Seatrax, Inc. v. Sonbeck Intern.*, 200 F.3d 358, 359 (5th Cir. 2000).

When Lost Profits Are Appropriate

- under § 1117(a) court consider:
- (1) whether the defendant had the **intent** to confuse or deceive;
- (2) whether **sales** have been **diverted**;
- (3) the **adequacy** of other remedies;
- (4) any unreasonable **delay by the plaintiff** in asserting his rights;
- (5) the **public interest** in making the misconduct unprofitable; and
- (6) whether it is a case of **palming off**.

See *Pebble Beach*, 155 F.3d at 554.

Awards In Excess Of Actual Damages

- “deliberate and fraudulent infringement” ;
- conduct described as “fraudulent” and “willful and calculated to trade upon the plaintiff's good will”;
- wide discretion to determine just amount; and
- The purpose is to eliminate all economic incentive.

Rolex Watch USA, Inc. v. Meese, 158 F.3d 816, 824 (5th Cir. 1998)

Breach of Fiduciary Duty Damages

- In an action for breach of fiduciary duty, the plaintiff can recover actual damages, out of pocket losses, lost profits, and mental anguish damages. In addition, a court may place a constructive trust on proceeds, funds, or property obtained as a result of a breach of fiduciary duty. *Omohundro v. Matthews*, 341 S.W.2d 410, 404-05 (Tex. 1960)

- And a plaintiff may seek forfeiture all or part of the fees collected by the fiduciary; however, this equitable remedy must be specifically pled. *Burrow v. Arce*, 997 S.W.2d 229, 240 (Tex. 1999)

Mental Anguish Damages

Mental anguish is the emotional response of the plaintiff caused by the tortfeasor's conduct. *Birchfield v. Texarkana Mem. Hosp.*, 747 S.W.2d 361 (Tex.1987).

- must be more than “mere worry, anxiety, vexation or anger”;
- not generally recoverable for negligent destruction of property or breach of contract.

Mental Anguish Damages

Hyde Park Baptist Church v. Turner, 2009 WL 211586 (Tex. App.—Austin Jan. 30, 2009, no pet. h.).

- Addressed the factors promulgated by the Texas Supreme Court in *City of Tyler v. Likes*, 962 S.W.2d 489, 495-96 (Tex. 1997).
  - serious bodily injury;
  - a "special relationship" between the parties;
  - injuries of a shocking and disturbing nature;
  - or intent or malice by the defendant.
- The Austin Court of Appeals stated that the holding in *Likes* does not set forth an exhaustive list of the types of cases in which future mental anguish damages are available.

Exemplary Damages

- Plaintiff must prove by “clear and convincing evidence”.
- Aggravated conduct—such as gross negligence, malice, fraud.
- Mere fact that plaintiff has been injured by breach of contract does not preclude exemplary damages if injured party can establish independent tort.
- Normally need actual damages.