The Comprehensive Guide to
Lost Profits Damages
For Experts and Attorneys

Edited by: Nancy J. Fannon

A Business Valuation Resources/ BVR Legal Special Guide
The Comprehensive Guide to Lost Profits Damages For Experts and Attorneys

The comprehensive body of knowledge for lost profits damages is brought together in one complete guide, providing an invaluable resource for attorneys and financial experts alike. Extracted from the rich body of lost profits damages case law, this hands-on reference book provides a thorough review of issues relevant to the damage calculation including standards, discovery, evidence, and methodology.

The Guide covers a range of topics including:

- *Daubert* and other motions to exclude financial experts in lost profits cases by federal jurisdiction and by state. This comprehensive analysis, provided by Jonathan Dunitz, Esq., is an extremely valuable contribution to attorneys and experts seeking to gain insight into what the courts require to meet the bar of “relevance and reliability” in making their damage claims.

- Comprehensive discussion of methodology for lost profits damages, including what is required for evidence to support the damage claim; case law provides guidance and insight to methods, lost business versus lost profits, length of damage claim, discount rates, and a host of other issues surrounding the lost profit calculations.

- An overview of the U.S. Court system, from initiation of a claim through discovery and appeal—valuable for experts who must know the rules within which they must operate in his area.

- An extensive chapter on the rules of evidence and discovery, and a comprehensive overview of case law and the rules relating to spoliation of evidence.

Get Your Copy Today at www.BVResources.com/LostProfits

If you prefer, fax this form to: (503) 291-7955 or call (503) 291-7963

- Yes! Please send me ___ copies of *The Comprehensive Guide to Lost Profits Damages* for $329.00 (plus $9.95 S&H) – a $50.00 savings! (Priority code: PRIOR9602)

Name: ________________________________ Firm: ________________________________
Address: ________________________________ City,State,Zip: ________________________________
Phone: ________________________________ Fax: ________________________________ E-mail: ________________________________

Billing Information:
- Visa    - MasterCard    - AMEX    - Check payable to: Business Valuation Resources, LLC (please include $9.95 S&H)
Credit Card #: ________________________________ Exp. Date: ____________ Sec. Code: ____________
Cardholder Name & Address (if different): ________________________________
The Comprehensive Guide to
Lost Profits Damages for
Experts and Attorneys
Table of Contents

Foreword
Authors’ biographies

Introduction

1) Context of the Lost Profits Damage Claim

2) Professional Standards for Experts
   A. Certified Public Accountants
   B. Economists and Other Financial Experts (Non-CPAs)
   C. Conclusion

3) The Process: A Brief Introduction to the U.S. Court Systems from Filing to
   Appeal
   A. Introduction and overview of U.S. Court and trial system
      1. Initiating a suit
         a) State court
         b) Federal court
      2. Understanding of a typical scheduling order
      3. Discovery
      4. Trial
      5. Appeal
   B. Discovery
      1. General discovery devices
         a) Depositions
         b) Requests for production of documents
         c) Interrogatories
         d) Requests for admissions
      2. Notable federal discovery rules
         a) Initial disclosures
         b) Expert designations
         c) Disclosure of digitally or electronically stored information
      3. Discovery pursuant to the American Arbitration rules
   C. The Rules of Evidence
      1. Admissible evidence
      2. Expert testimony

4) Spoliation of evidence
   A. Introduction and overview
   B. Attorney-expert privilege
   C. Draft reports
D. Experts prior publications  
E. Electronically stored information (“ESI”)  
F. Sanctions  
G. “What” and “When” to preserve  
H. Summary  

5) **Lost Profits Calculations—Methods and Procedures**  
A. Introduction  
B. Lost Profits – Defined  
C. General Issues  
D. Reasonable Certainty Standard  
E. Causation, Burden of Proof and Other Possible Causes of the Loss  
F. Limitations on Period of Recovery  
G. Damage Calculation  
H. Lost Profits Calculations in a “But-For” World  
1) Yardstick  
2) Before and After  
3) Sales Projection  
4) Market Model  
I. Method of Cost Allocation and Drivers  
J. Consideration of Mitigation  
K. Special Issues and other common lost profit calculation scenarios  
1) Establishing lost profits for new businesses  
2) Collateral sales  
3) Breaches of: non-compete contracts  
4) Breach of warranty agreements  
L. Warranty Agreements  
M. Summary  

6) **Establishing Evidence**  
A. Introduction  
B. Establishing reliable foundation for the claim  
C. Data and information generally available from plaintiff or defendant  
1. Business history  
2. Plaintiff’s prior experience  
3. Plaintiff’s or defendant’s subsequent experience  
4. Plaintiff’s experience at other locations  
5. Pre-litigation profit projections  
6. Other factors to consider  
   a) Capacity  
   b) Impact of competition  
    vii. Other sources of evidence for damage claim from parties  
D. Market and demand for product  
1. Market share  
2. Demand  
E. Industry and economic data  
1. Comparable experience of others  
2. Trade and industry data
3. Other sources of evidence for damage claim from parties
   F. Adequate consideration of all available data

7) Use of Forensic Evidence in a Lost Profits Case
   A. Introduction
   B. Indicators of the need for forensic accounting and economic evidence
   C. Cases demonstrating the use of forensic accounting and economic evidence

8) Lost Profits versus Lost Business
   A. Considerations in making the claim for lost business or profits
   B. Comparison of lost profits versus the loss of the value of a business
   C. Can you have both lost profits and lost value?

9) Practical Considerations: Collection of Electronically Stored Information

10A Discounting Lost Profits Damage Measurements
   A. Introduction
   B. Objective of compensatory damages: to make the plaintiff whole
   C. Interest rates, rates of return, and discount rates
      1. Prejudgment and post-judgment interest
      2. Discounting future profits to determine damages
         a) Discount rate as the safe rate of return, as a matter of law
         b) Discount rate as the injured party’s rate of return from investing the award
         c) Discount rate based on rate of return commensurate with the risk in receiving the lost profits
      3. Discounting to the date of trial (ex post) or date of injury (ex ante)
      4. Using hindsight (The Book of Wisdom)
      5. Nominal and real dollars
   D. Conclusion

10B Discounting Damages—Case Law
   A. Introduction
   B. Cases allowing a risk free rate
      1) what is allowed as a risk-free rate?
   C. Cases requiring a risk-adjusted rate
      1) What have the courts said about the “proper” risk-adjusted discount rate?
   D. Cases allowing a reinvestment rate
   E. Alternatives to challenge the discount rate outside of cross-examination or rebuttal testimony
      1) Judgment as a matter of law
      2) Appellate review of discount rate determination in jury trials
      3) Daubert challenges to experts based on selection of discount rate
   F. Conclusion

11 Intellectual Property Overview
   E. Overview of Intellectual property valuation versus intellectual property damage measurements
1. History and finance theory of discounted cash flow (DCF) model
2. Models for valuing an IP asset used by an operating company
3. Models for IP Damage Measurement
4. IP Lost Profits
5. Models using royalties for IP damage measurements and valuations
6. Disgorgement of the offending party’s profits
7. Summary

12. **Lost profit damages in patent infringement lawsuits**
   A. Introduction
   B. The patented technology at issue
   C. Lost profits in patent infringement cases
   D. Market share damages
   E. Price erosion
   F. Conveyed sales
   G. Other lost profits concepts
   H. Reasonable royalty
   I. Limitations on damages
   J. Damages against U.S. Government under §1498
   K. Prejudgment interest

13. **Lost profits in trademark and copyright cases**
    A. Introduction
    B. How a trademark generates value
    C. Trademark litigation and damage measurement
    D. Copyright damages

14. **Business Interruption Insurance and damage claims**
    A. Introduction
    B. Business Interruption Insurance policy issues
       1) Covered peril
       2) Policy limit
       3) Period of restoration
       4) Waiting period
       5) Coinsurance
       6) Extra expense
       7) Extended period of indemnity
    C. Business interruption measurement issues
    D. Post-loss windfall
    E. Making a business interruption claim
    F. Disputes regarding business interruption measurement
    G. Summary of “Lost profits” recovery via insurance versus typical litigation

15. **Lost Profits for Physician Practices**
    A. Overview
    B. Basic factors to consider
       1. Basic compensation analysis
       2. General measures of productivity
3. Ancillary testing income
4. Collections for services
5. Payor mix
6. Compensation
7. Competition
C. An in-depth look at some special issues in identifying damages
   1. Physician compensation systems
   2. Large practices and integrated providers
   3. Growth rates in but-for and future earnings
   4. Regulatory considerations
   5. Examples of typical claims that do not fly
   6. Conclusion
D. Glossary of terms

16. Lost Profit Issues Unique to Government Contracts Industry
   A. Introduction
   B. Government contracting types
   C. Government contracts and cost analysis
      1. Full absorption versus variable cost allocation and analysis
      2. All fixed costs reimbursed by the government
      3. Unallowable costs under FAR Part 31
   D. Conclusions

17. Lost Profits for Automobile Dealerships
   A. Introduction and areas of emphasis
   B. Franchise relationships
      1. Franchise agreements
      2. Franchise damages
   C. Lost profit considerations
   D. Understanding the dealership business
      1. Complexity of the business
      2. Significant considerations
   E. Relevant resources

18. Lost Profits in Construction Claims
   A. Introduction
   B. Claim Pricing Methodologies
      1. Total cost method
      2. Modified total cost method
      3. Actual cost method
      4. Jury verdict
   C. Delay damages
      1. What is delay?
      2. Determining responsibility for delay
      3. Pricing impact of delay
   D. Disruption
      1. What is disruption?
      2. Pricing impact of disruption
E. Acceleration
   1. What is acceleration?
   2. Pricing impact of acceleration
F. Other types of claims
   1. Extra work
   2. Defective specifications
   3. Defective work
   4. Differing site conditions
   5. Termination
G. Conclusion

19. Motions to Exclude Financial Experts
   A. Factors to consider when deciding whether to file a motion to exclude an opposing
      lost profit damages expert.
      1. Basic legal predicate for excluding an expert
      2. Factors to consider in making the decision to file a motion to exclude
   B. Exclusion of experts by jurisdiction
      1. Federal circuits
      2. States

Appendices:

Links to ethical guidelines published by member organizations: Appendix A

  o AICPA (American Institute of Certified Public Accountants)
  o ASA (American Society of Appraisers)
  o IBA (Institute of Business Appraisers)
  o NACVA (National Association of Certified Valuation Analysts)
  o CFA Institute (Certified Financial Analyst)
  o Association of Certified Fraud Examiners
  o NAFE (National Association of Forensic Economists)
  o CICBV (Canadian Institute of Chartered Business Valuators)
  o CICA (Canadian Institute of Chartered Accountants)

  o American Institute of Certified Public Accountants Litigation Services and
    Applicable Professional Standards: Decision Tree to Determine the Application of
    Professional Standards (reprinted with permission) Appendix B

  o American Institute of Certified Public Accountants Litigation Services and
    Applicable Professional Standards: Comparison of AICPA Professional Standards and Federal Rule of Evidence Rule 702
    (reprinted with permission) Appendix C

Links to requirements for certifications, by organization Appendix D

  o AICPA (American Institute of Certified Public Accountants)
- CPA (Certified Public Accountant) (certification issued by state regulators)
  - ABV (Accredited in Business Valuation)
  - CFF (Certified in Financial Forensics)
- ASA (American Society of Appraisers)
  - AM (Accredited Member)
  - ASA (Accredited Senior Appraiser)
- IBA (Institute of Business Appraisers)
  - CBA (Certified Business Appraisers)
  - MCBA (Master Certified Business Appraiser)
- NACVA (National Association of Certified Valuation Analysts)
  - CVA (Certified Valuation Analyst)
  - AVA (Accredited Valuation Analyst)
  - CFFA (Certified Financial Forensics Analyst)
- CFA Institute
  - CFA (Certified Financial Analysts)
- Association of Certified Fraud Examiners
  - CFE (Certified Fraud Examiner)
- NAFE (National Association of Forensic Economists)
  - No designation
- CICBV (Canadian Institute of Chartered Business Valuators)
  - CBV (Certified Business Valuator)
- CICA (Canadian Institute of Chartered Accountants)
  - CA (Chartered Accountant)

Federal Rules of Evidence pertaining to Expert Testimony

Federal Rules of Civil Procedure pertaining to Expert Testimony

**Selected Readings:**

*Proving Lost Profits after Daubert: Five Questions Every Court Should Ask Before Admitting Expert Testimony*, Robert M. Lloyd

**Links to Litigation Studies**

*Interim Report on the Joint Project of The American College of Trial Lawyers Task Force on Discovery and The Institute for the Advancement of the American Legal System, August 1, 2008, American College of Trial Lawyers*

*“Judicial Business of the U.S. Courts 2007”*

*2000-2007 Financial Expert Witness Daubert Challenge Study by PricewaterhouseCooper (PwC)*

**Case Law Abstracts:**

*By Federal Circuit*

*By State*

**Searchable CD of all significant cited cases—full text and summary abstracts of the opinions** Enclosed