

Assets and Finances: Calculating Intellectual Property Damages

2008 Edition

Richard B. Troxel
William O. Kerr

International Series

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Calculating Intellectual
Property Damages**

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About the Author

Richard B. Troxel Richard Troxel consults in accounting and finance issues to attorneys and corporate counsel in litigation-related matters.

Mr. Troxel is the former President of Capital Accounting, a Washington D.C.-based consulting firm. Prior to establishing Capital Accounting in 1990, Mr. Troxel served for 17 years as a partner in the management consulting department of KPMG Peat Marwick. While with Peat Marwick, he conducted and directed consulting engagements for a wide array of industrial, financial, and government clients.

Before joining Peat Marwick in 1967, Mr. Troxel was employed by The Pillsbury Company, where his final position was controller for that firm's Latin American operations, located in Caracas, Venezuela. Prior to that posting, he held a variety of managerial accounting positions with Pillsbury throughout the United States.

Mr. Troxel's litigation experience includes the calculation and analysis of major damage models in patent infringement, antitrust, contract matters and telecommunications rate cases. He has testified and been deposed as an expert accounting witness on more than 100 occasions regarding damages, profitability measurement issues, and cost allocation and assignment methods. Most of this work has been in the field of intellectual property damages, where he has testified in approximately 35 trials and 50 depositions.

Mr. Troxel received a Master of Business Administration degree from the University of Minnesota and a Bachelor of Science degree from Ohio State University. He has published articles in various technical journals and has been a frequent speaker before management and professional groups. He has taught accounting, cost accounting and management courses at the University of Minnesota and St. Thomas University.

Mr. Troxel is a Certified Management Accountant and a Certified Public Accountant. Mr. Troxel represented Peat Marwick on the internationally prominent CAM-I Cost Management System Project and served as the sponsors' elected chairman for that project for two years. He served consecutive terms on the Board of Regents of the Institute of Certified Management Accountants. Mr. Troxel was co-Editor-in-Chief of the *Journal of Cost Management* during the first two years of its publication. He has served as a member of the Board of Advisors for the *Journal of Cost Management* and the *Editorial Advisory Board of Management Accounting*.

William Owen Kerr, Ph.D., Director, LECG Dr. Kerr is an economist with more than 30 years of professional experience. His practice covers a wide range of economic, financial and statistical consulting areas including: market studies, valuation of intellectual property and business assets, economic policy analysis and the application of economic, statistical and financial methods to issues in litigation.

His areas of specialization in litigation include: commercial damages, intellectual property damages, antitrust and industrial organization matters and labor economics. He has testified as an expert in federal and state courts, in arbitration proceedings and before government agencies, such as: the International Trade Commission, the U.S. Department of Commerce, the Federal Trade Commission and the Federal Communications Commission.

Dr. Kerr has led a number of consulting projects involving the use and value of intellectual property assets. An important part of that consulting has involved issues in litigation. He has testified on damages - lost profits, reasonable royalties, and infringer's profits - and on other economic issues in patent, trademark and copyright matters. He has also consulted with clients to develop licensing and pricing strategy for intellectual property assets and products and lectured and written on economic issues related to IP.

Dr. Kerr provides consulting services to clients on economic issues related to both liability and damages in antitrust matters. He has testified on market definition, damages and competitive effects in antitrust litigation. He

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has analyzed competitive issues in connection with mergers, acquisitions, patent licenses and joint ventures in investigations by the Federal Trade Commission and the Antitrust Division of the Department of Justice.

Dr. Kerr and Mr. Troxel have testified jointly in patent related cases and have worked together on numerous other intellectual property matters.

Introduction

The purpose of this book is to explain from an economic and financial perspective, how to evaluate, calculate and present evidence on compensatory damages and other financial remedies related to the litigation involving infringement or misappropriation of intellectual property ("IP") assets. We intend the book to provide a useful resource to economists, accountants and other financial professionals who may serve as testifying experts or consultants to owners or users of intellectual property. It should also be useful to executives who manage intellectual property and intellectual property litigation attorneys. It should serve as a how-to primer for someone encountering intellectual property damages issues for the first time, as well as a reference guide to those who are experienced practitioners. We hope that all will find the book clear and helpful.

We are not attorneys and our book does not provide legal advice. We limit our explanations and discussions to the measurement and calculation of damages, avoiding any interpretation of the purely legal aspects of damages and the other financial remedies we deal with. However, in calculating damages and conducting financial and economic analysis in litigation, experts and consultants must apply their expertise within the context of case law and statutory instructions. Therefore, we necessarily discuss below our understanding of the legal rules, practices and requirements we face.

There are a number of fine books available that deal with the interpretation of patent and other IP law. We intend our work to complement those texts. Additionally, throughout our book we address and identify many texts and articles that we have found thoughtful and useful.

Whenever we think it is reasonable to do so, we present alternative approaches to analyzing and computing

damages. We attempt to evaluate these alternatives clearly and to present our opinions as to the relative strengths and weaknesses of the various approaches.

Organization of the book

Chapter 1 deals with a number of matters relating to the role, requirements and obligations of the damages expert. Chapter 2 is an overview of the types of damages and other remedies that may be called for in litigation involving various types of intellectual property assets, including: utility and design patents, trademarks and trade dress, copyrights, and trade secrets.

Chapters 3, 4 and 5 are presented from the perspective of patent law. Chapter 3 covers the basis for evaluating claims of damages from lost profits from lost sales. Chapter 4 covers claims involving lost profits from price erosion. Chapter 5 covers computation of the form of compensation known as a reasonable royalty.

The economic and financial underpinnings for these types of damages are more fully developed in patent law than in the case of other types of IP assets. We deal with damages related to these other types of IP assets in Chapter 6, in the context of infringement or misappropriation of trademarks, trade dress, trade secrets and copyrights. We also describe in that chapter how the various types of compensatory damages are dealt with in the context of the non-patent IP assets and also cover items of actual damage that may be specific to these other IP assets.

Chapter 7 covers situations in which the potential financial remedy involves a claim for unjust enrichment, generally measured as the profits or benefits received by the infringer or misappropriator of the intellectual property.

Chapter 8 describes the computation of prejudgment interest and the situations where that computation is warranted.

Chapter 9 describes the four attached appendices.

Our gratitude

Over the years we have worked in this field, we both have learned a great deal from our clients, both lawyers and business or technical people and from other expert witnesses we have worked with or who opposed our views. The group of professionals who regularly serve as damages expert witnesses form a relatively small community. We have consistently encountered competent and bright people in this community. This is an exciting profession and it attracts talented people; we are proud to be associated with them.

Our wives have tolerated not only our long days, frequent travel, and interrupted family vacations but have allowed us to devote much of our non-billable hours to writing this book. Thank you, Anita and Cherry.

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