Electron Trading LLC v Perkins Coie LLP

2019 NY Slip Op 33019(U)

October 9, 2019

Supreme Court, New York County

Docket Number: 652178/2018

Judge: O. Peter Sherwood

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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: COMMERCIAL DIVISION PART 49
- X

ELECTRON TRADING LLC,

Plaintiff,

-against-

PERKINS COIE LLP and BRACEWELL LLP,

Defendants.

- X

DECISION AND ORDER
Index No.: 652178/2018

Motion Seq. Nos.: 002

O. PETER SHERWOOD, J.:

On this motion to dismiss, defendants seek dismissal of Electron's claim for lost profits and diminution in value of the intellectual property contained in its Licensed Patent Applications. The decision of the Appellate Division in *Electron Trading LLC v Morgan Stanley & Co. LLC*, 157 AD 3d 579 (1st Dept 2018) ("Electron II"), sets forth the background to this case succinctly and the court commends the reader to that decision. The following passage sets the context for this case:

> Plaintiff [Electron Trading LLC], a developer of intellectual property relating to "spread" trading, a type of electronic securities trading, entered into two agreements with defendant [Morgan Stanley LLC]: an Exclusive License Agreement (ELA) whereby it granted [Morgan Stanley] an exclusive license for its alternative trading system (ATS) and a Consulting Services Agreement (CSA) whereby it agreed to perform related consulting services. The ELA required [Morgan Stanley] to use commercially reasonable efforts to develop and implement necessary software and systems, to operate and market [***2] the ATS, and to launch the ATS by a defined deadline. Defendant concedes, for purposes of this motion, that it breached the ELA by not performing any of its obligations. The contested issue at the heart of this appeal is whether plaintiff's damages are limited by the ELA's limitation of liability provision. Defendants is willing to make full payment of any damages that would be due under the limitation of liability provision. Plaintiff contends, however, that it sufficiently alleged all wrongdoing on defendant's part to render the limitation intention of liability provision unenforceable.

That court affirmed the Supreme Court's decision to enforce a limitation of liability provision in the ELA.[1] Plaintiff Electron Trading LLC ("Electron") then commenced this legal malpractice action against defendants Perkins Core, LLP ("Perkins") and Bracewell LLP

[1] The court will refer to the Supreme Court decision, reported at 2017 NY Misc LEXIS 1557 (Sup Ct New York Cty April 25, 2017) as "Electron I".

("Bracewell") (together "defendants"). Both firms represented Electron in negotiating the ELA and CSA. Plaintiff claims that defendants failed to properly advise it as to the limitation of liability provision which appears at § 7.3 of the License Agreement ("damages cap").

Defendants assert that the claim for lost profits which is the primary form of damages in this case, is barred because such damages are inherently speculative and because lost profits were not within the parties' contemplation when plaintiff and non-party Morgan Stanley signed the License Agreement. Defendants also claim that any diminution in value of the intellectual property due to Morgan Stanley's breach was not caused by defendants and in any event, such claim is precluded by the Appellate Division decision.

The law in New York is well settled that in order to obtain lost profits for breach of contract, plaintiff must prove the extent of such damages "with a reasonable degree of certainty" *Calif Dairies, Inc. v Penn Station News Corp.*, 262 AD 2d 193, 194 (1st Dept 1999). However, as Electron argues, there is a distinction to be made between (1) lost profits that are general damages and (2) lost profits that are consequential or special damages (*see, e.g. Am List Corp. v U.S. News & World Rpt., Inc.*, 75 NY 2d 38, 42 [1989]). In the former case (which Electron claims is properly pleaded here), such damages may be recovered so long as plaintiff demonstrates a sable foundation for a reasonable estimate. In the latter case (which defendants assert applies), consequential damages must be demonstrated with reasonable certainty. Electron also argues that it has sufficiently pleaded that it could have recovered lost profits even as consequential damages.

"A party may not recover damages for loss profits unless they were within the contemplation of the parties at the time the contract was entered into and are capable of measurement with reasonable certainty" *Ashland Mgt. Inc. v Janien*, 82 NY2d 395, 403 (1993). The first requirement is a rule of foreseeability *(see id.)*. The second requirement "does not require absolute certainty . . . It requires only that damages be capable of measurement based upon known reliable factors without undue speculation" *id.* "[I]n the case of a new business seeking to recover loss of future profits [as here], a stricter standard is imposed because there is no experience from which lost profits may be estimated with reasonable certainly and other methods of evaluation may be too speculative" *id.,* at 404.

The complaint does not allege that the parties ever discussed lost profits damages in the event of breach of the License Agreement. Nor does the License Agreement show or infer any such understanding. Accordingly, the foreseeability branch of the applicable standard has not been alleged.

Electron maintains that its lost royalties flow directly from Morgan Stanley's breach of the License Agreement and are "quintessential general damages" (Opp Br. at 10, Doc. 27). Quoting from *Tactebel Energy Mktg, Inc. v AEP Power Mktg, Inc.,* 487 F 3d 89.110 [2d Cir 207], Electron argues "'[i]t is most certainly a claim for general damages' where plaintiff 'seeks only what it bargained for the amount it would have profited on the payments [breaching party] promised to make'"; *see also Biotronik A.G. v Conor Medsystems Ireland, Ltd.*, 22 NY 3d 799, 809 (2014). Electron continues, "[r]oyalties "are precisely what [Electron] bargained for, and only an award of damages equal to lost profits will put [Electron] in the same position [it] would have occupied had the contract been performed' *Tractebe*l" (Opp Br. at 10-11).

Although Electron bargained for "royalties", neither the License Agreement nor the Consulting Services Agreement provide a guide for calculating the amount of royalties to be paid. This case is unlike *Tractebal* and *Biotronik* where there were stable foundations for estimating lost profits. Both involved supply contracts where prices and quantities at issue are ascertainable. *Tractebel* arose from an energy supply contract where the counterparty was obligated to take a minimum amount of product and to make associated payments at prices stipulated in the contract (*see Tractebel,* 487 F 3d at 93). In *Biotronik*, the parties' agreement provided for plaintiff to resell defendant's stents using complex pricing and guaranteed number of sales formulas (*see id.,* at 803 and 810 [finding that the profits sought by plaintiff "flow directly from the pricing formula"]). No comparable formula can be found in the parties' agreements here. There is no provision for any specific payments to be used in the Spread Trading System. Morgan Stanley was not required to pay Electron any fixed amount. There was no minimum volume of trades acquired or commission amounts provided. In fact, there were no metrics by which the parties could project future receivables and therefore on which lost profits might be calculated.

The License Agreement only required Morgan Stanley to provide Electron 25% of the Net Revenue generated by the Spread Trading System if the parties were successful in fully developing it (*see* License Agreement at p.4 and § 4.1, Doc. 13). Thus, for Electron to receive any payment, third parties would have had to elect to use the system to execute spread trades; Morgan Stanley

and Electron would then have to set a competitive amount of commissions to charge third parties for use of the system; and those commissions would have to generate revenues that exceed various expenses before Morgan Stanley would owe Electron
the type of profit payments Electron might seek to recover. Of course, and as plaintiff states in the complaint, "Electron had no prior track record with the Spread Trading System" (Compl ¶ 87, Doc. 2). There are no allegations that the system was ever tested. The system was never placed in operation and whether or how it would have been received is entirely speculative. Both, the Supreme Court and the Appellate Division reached the same conclusion (*see Electron I* at p. 11, holding that Electron's "damages calculation assumes that had Morgan Stanley provided Electron with the trading forums as allegedly represented, the licensed ATS would have done as projected . . . The proposed measure of damages is legally insufficient." *See also, Electron II*, 157 AD3d at 582, where the Appellate Division rejected Electron's diminution of value claim noting that "even if the alleged loss in the ATS's value could be construed as the requisite out-of-pocket loss, plaintiff's alleged damages are inherently speculative; a factfinder would have to engage in conjecture.").

Accordingly, it is hereby

ORDERED that the motion of defendants is GRANTED and plaintiff's claims for lost profits and diminution-in-value damages are DISMISSED; and it is further

ORDERED that counsel for the parties shall appear at a status conference at Part 49, Courtroom 252, 60 Centre Street, New York, New York on Tuesday, November 26, 2019 at 10:30 AM.

This constitutes the decision and order of the court.

DATED: October 9, 2019 **E N T E R,**

O. PETER SHERWOOD J.S.C.