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Legal Research Report

Recoverability of Consequential Damages

Prepared for: Attorney of Record, counsel for Meridian Fabrication, LLC

Re: *Meridian Fabrication, LLC v. Coastal Components Inc.* (illustrative matter)

Prepared by: Stephen Scott, Legal Research Support (not an attorney)

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1. Issue Presented

Meridian Fabrication, LLC ("Meridian") ordered custom-machined components from Coastal Components Inc. ("Coastal") under a written purchase agreement specifying delivery by a fixed date. Coastal delivered the components eleven weeks late. Meridian had a downstream supply contract with a third party, Pinnacle Manufacturing, that depended on timely receipt of Coastal's parts; Pinnacle canceled that contract before Coastal's late delivery arrived. Meridian seeks to recover the profits it would have earned under the Pinnacle contract as consequential damages from Coastal.

Question: Are Meridian's lost Pinnacle profits recoverable as consequential damages under UCC § 2-715, given that Meridian did not disclose the Pinnacle contract to Coastal at the time the parties entered their agreement?

2. Summary of Findings

The lost-profits claim faces a significant foreseeability problem and should be flagged to Meridian before it is asserted. Consequential damages under UCC § 2-715(2)(a) are recoverable only for losses arising from needs "of which the seller at the time of contracting had reason to know." *Hadley v. Baxendale*, 9 Ex. 341, 156 Eng. Rep. 145 (1854) — the foundational case underlying this rule — held that special, non-obvious losses (like a specific downstream contract) are recoverable only if the breaching party had actual or constructive notice of the special circumstances when the contract was formed. On the facts as currently understood, nothing indicates Coastal knew of the Pinnacle contract. That gap should be resolved (through discovery or client interview) before the claim is pursued, not after.

Separately, a mitigation issue is worth flagging: if Meridian could have covered by sourcing substitute components after learning of Coastal's delay, and did not, *Rockingham County v. Luten Bridge Co.*, 35 F.2d 301 (4th Cir. 1929), stands for the principle that a non-breaching party has a duty not to let recoverable damages increase through its own inaction after breach becomes apparent. This is a fact question, not resolved by the research alone — see Open Items below.

3. Authority

Authority	Holding	How It Applies	Verification
UCC § 2-715(2)(a)	Consequential damages recoverable for losses from requirements the seller "had reason to know" at contracting, not preventable by cover	Governs the claim directly — sale of goods, buyer's consequential damages	Cornell LII, official UCC text
Hadley v. Baxendale, 9 Ex. 341, 156 Eng. Rep. 145 (1854)	Special/non-obvious losses recoverable only if the breaching party had notice of the special circumstances at contract formation	Directly on point — Meridian's Pinnacle-contract losses are a "special circumstance" claim; notice to Coastal is the threshold question	Cross-checked holding language against multiple case-brief and treatise summaries; foundational, consistently stated
Rockingham County v. Luten Bridge Co., 35 F.2d 301 (4th Cir. 1929)	Non-breaching party may not recover damages it could have avoided by ceasing reliance/mitigating after breach is apparent	Relevant if Meridian had a reasonable cover opportunity after Coastal's delay became known and did not take it	Justia, full opinion

4. Adversarial Case Review — What Coastal's Counsel Will Likely Argue

- **No notice, no recovery.** Coastal will argue it had no actual or constructive knowledge of the Pinnacle contract, squarely invoking *Hadley*'s notice requirement. Unless Meridian can show it communicated the downstream contract's existence (even informally) before or at contracting, this is a strong argument for Coastal and should be assessed candidly with the client, not minimized.
- **Failure to mitigate.** If Meridian had a reasonable opportunity to cover from an alternate supplier once the delay became apparent and did not, Coastal will argue under the *Rockingham* principle that any damages accruing after that point are not recoverable. Whether a reasonable cover opportunity existed is a factual question outside the scope of this research and should be developed with the client.
- **Damages must still be reasonably certain.** Even if notice is established, Coastal may separately contest the *amount* of lost Pinnacle profits as speculative — a distinct challenge from foreseeability, and one the client will need supporting financial documentation to rebut.

This section is research into likely opposing arguments, not an assessment of Meridian's overall chances — that judgment belongs to counsel, informed by facts this research does not have access to (e.g., the parties' pre-contract communications).

5. Open Items for Counsel

1. Did Meridian communicate the Pinnacle contract's existence to Coastal, in any form, before or at the time the purchase agreement was signed? This is the single most consequential fact.
2. Was a commercially reasonable substitute supplier available to Meridian once Coastal's delay became apparent, and did Meridian pursue it?
3. What documentation exists to support the claimed Pinnacle profit figure?

Verification Status Appendix

UCC § 2-715 text	Verified against Cornell LII's official UCC text
***Hadley v. Baxendale* holding**	Verified against multiple independent case-brief/treatise sources; this is a foundational, widely-taught case with consistent holding statements across sources
***Rockingham County v. Luten Bridge Co.* holding**	Verified against the full opinion via Justia
Application to Meridian's facts	Not independently verified — depends on discovery/client-interview facts listed in §5, none of which this research had access to (the matter is illustrative)