

Press Release

Washington Legal Foundation

Advocate for freedom and justice®

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For Immediate Release

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COURT URGED TO REVERSE \$200 MILLION PUNITIVE DAMAGES AWARD

(City of Hope Medical Center v. Genentech, Inc.)

The Washington Legal Foundation (WLF) filed a brief in the California Court of Appeal in Los Angeles urging it to reverse a trial court ruling that imposed an unprecedented \$200 million punitive damages award against a biotech company that was involved in a contract dispute over royalties owed to a developer of synthesized DNA material. If left intact, WLF argued that all businesses involved in typical contract disputes are at risk for lawsuits by plaintiffs' attorneys not only for normal contract damages, but also for multimillion dollar punitive damages awards. WLF also argued that the excessive award was not justified, and should not have been imposed simply because the company could afford to pay the amount without going bankrupt.

In this case, the City of Hope Medical Center sued Genentech, Inc., over a dispute about the meaning of a 1976 contract provision as to what royalties should be paid to City of Hope over certain DNA products developed by Genentech and licensed to third-parties for sale. After a second lengthy trial, the jury ruled 9-3 against Genentech for breach of contract and awarded City of Hope \$300 million in contract damages which Genentech is appealing. Under California law and other jurisdictions, punitive damages are not allowed to be assessed in breach of contract cases; rather, they are reserved for certain intentional torts committed with malice or fraud. Accordingly, the plaintiffs' attorneys made a novel argument that the contract imposed a fiduciary duty on Genentech. Because the breach of a fiduciary duty is a tort, the jury imposed an additional \$200 million punitive damages award after being told that this would be only a small percentage of the company's net worth.

In its brief, WLF decried the pernicious practice of "tortification" of contract law which would adversely affect typical business and contract relations, leaving companies subject to astronomical punitive damages in contract cases. WLF also argued that excessive punitive damages inflict public harms such as higher costs and prices of goods and services, reduced professional services, disincentives to enter into intellectual property agreements, decreased product development, loss of jobs, gratuitous wealth transfers through windfall awards, and public disrespect for the lottery-like civil justice system. WLF also argued that punitive damages should not be based on the wealth of a publicly-held corporation because it would unfairly punish innocent shareholders.

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