**Nos. 11-17357, 11-17373**

# In the United States Court of Appeals for the Ninth Circuit

SMITHKLINE BEECHAM CORP. D/B/A GLAXOSMITHKLINE,
PLAINTIFF/APPELLEE/CROSS-APPELLANT

*v.*

ABBOTT LABORATORIES,
DEFENDANT/APPELLANT/CROSS-APPELLEE

*APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA, NO. 4:07-CV-5702*
*HON. CLAUDIA WILKEN, PRESIDING*

## ABBOTT LABORATORIES' FIRST BRIEF ON CROSS-APPEAL

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## CORPORATE DISCLOSURE STATEMENT

Defendant-Appellant Abbott Laboratories is a publicly traded corporation. It has no parent corporations and no publicly traded corporation owns more than 10% of its stock.

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## INTRODUCTION

This appeal relates to a license to valid patents on a drug and a particular method of using that drug. The question is whether the owner of those patents, by licensing them to a direct competitor, implicitly loses its right to control the amount and timing of price increases for the underlying drug.

Defendant-Appellant Abbott Laboratories holds patents on the prescription drug Norvir®—a protease inhibitor (PI) used to treat the Human Immunodeficiency Virus (HIV)—and on Norvir's use as a "booster" for other PIs. In 2002, Abbott licensed those patents to Plaintiff-Appellee GlaxoSmithKline (GSK), a direct competitor that wished to avoid infringement liability for its marketing practice of encouraging doctors to combine Norvir with GSK's own PIs. ER-315:25-316:17. When negotiating the license, the parties deliberately avoided discussing each other's prices, as a precaution against running afoul of the antitrust laws. As GSK's lead negotiator acknowledged: "*We did not introduce a price control in the agreement on Norvir's price*." ER-313:8-9 (emphasis added); *accord* ER-299:24-25; ER-306:21-24; ER-311:18-313:9; ER-262:2-5; ER-260:24-262:5; ER-262:21-263:1; ER-273:4-18; ER-275:15-20. The license was therefore silent as to Norvir's price, leaving that to Abbott and the market. ER-313:3-5. And when demand for Norvir's use as a "booster" drug grew dramatically during the year after the li-

cense was signed, Abbott did what patent holders routinely do when demand for their patented product increases significantly—Abbott re-priced Norvir.

Four years later, GSK sued Abbott, asserting that Abbott's pricing conduct both violated tort law (based on antitrust and unfair competition theories) and breached an implied covenant of good faith and fair dealing in the parties' patent license. According to GSK, Abbott's re-pricing "targeted" Lexiva, a PI that GSK promotes for use with Norvir. Specifically, GSK asserted that the re-pricing was "intentionally tim[ed] … to match Lexiva's launch" and harm its sales. ER-352:13-15. But as GSK's expert conceded, "GSK has used Abbott's boosting invention to try to drive sales for boosted Lexiva continuously since 2002," and these "sales of boosted Lexiva occur[red] because [GSK had] a license" from Abbott. ER-253:20-254:4. In fact, Lexiva's market share increased for years (ER-419), and GSK had reaped profits on nearly $1 billion of Lexiva sales by the time of trial (ER-170:14-23). Thus, GSK was left to argue that the Norvir re-pricing "injured GSK's right to *enhance* its profits from Lexiva." ER-351:24-25 (emphasis added).

After trial in 2011, the jury rejected all of GSK's core arguments, including both the notion that Abbott intended to harm GSK and GSK's tort theories. The jury answered "No" in response to special interrogatories posed by GSK, which asked whether Abbott increased Norvir's price or timed the increase to harm GSK by "undermin[ing] and disrupt[ing] Leviva's launch and sales." ER-76. The jury

found for GSK on only one claim—its claim for *contractual* liability for breach of an *implied* covenant. ER-75-76. But in so doing, the jury *rejected* the notion that Abbott's pricing conduct had anything more than a negligible impact on GSK's profits. While finding that Abbott committed a "grossly negligent" breach of the implied covenant, the jury awarded lost profits damages of $3.5 million—a mere 0.4% of GSK's overall Lexiva sales of $927 million and only 0.6% of the $571 million that GSK sought. *Compare* ER-75-76 (award); *with* ER-170:14-23 ($927 million in sales), ER-89:2-90:7 (seeking $571 million in damages).

In denying Abbott's Rule 50(b) motion for judgment as a matter of law, the district court committed two legal errors. First, the district court erroneously found the evidence sufficient to support liability for breach of the license. Under New York law, the implied covenant of good faith and fair dealing serves only "in aid and furtherance of other terms of the agreement." *Sabetay v. Sterling Drug, Inc.*, 69 N.Y.2d 329, 335 (1987). Here, there was no connection between GSK's theory of liability and any term of the license. No reasonable jury could find that Abbott, in licensing a *patented* product to GSK, a sophisticated competitor, *implicitly* promised to price that product at a level that allowed GSK "to enhance its profits from Lexiva." ER-351:24-25. As GSK conceded, the contract here is a "simple patent license" (ER-732)—which is "nothing more than a promise by the licensor not to sue" for infringement. *Spindelfabrik Suessen-Schurr Stahlecker & Grill*

*GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081 (Fed. Cir. 1987). Absent an express contractual term regarding price—something the parties intentionally avoided—there can be no implied agreement to set the price at a particular level, much less one that allowed GSK to "enhance its profits."

In any event, even assuming the contract somehow contained an "implied" promise to set some reasonable price, GSK received the benefit of its bargain. Even after Abbott re-priced Norvir, GSK continued to enjoy increased market share for years, reaping profits on some $927 million in Lexiva sales as of trial. ER-170:14-23. While the jury found that Abbott's pricing conduct reduced GSK's profits by $3.5 million—again, one-half of one percent of Lexiva's overall sales—New York law permits Abbott to "act on its own interests in a way that may *incidentally lessen*" GSK's profits. *Van Valkenburgh, Nooger & Neville v. Hayden Publ. Co.*, 30 N.Y.2d 34, 46 (1972) (emphasis added). The record cannot support a finding that Abbott's pricing conduct "frustrated the basic purpose of the parties' contract," in breach of the implied covenant. *Forman v. Guardian Life Ins. Co. of Am.*, 76 A.D.3d 886, 888 (N.Y. App. Div. 2010). The district court erred as a matter of law in holding otherwise.

Second, and quite apart from the lack of evidence of any breach, the damages verdict is foreclosed by the express terms of the license, which states that "nei-

ther party shall be liable for any special, incidental, indirect or consequential losses arising out of or relating to this agreement." ER-720. The district court recognized that alleged lost profits are "consequential" damages under this limitation-of-liability clause, but nonetheless held that clause unenforceable on *public policy grounds*. ER-4, ER-11-15. According to the court, controlling New York law permits "avoidance of an exculpatory clause" based on a "grossly negligent" breach of contract—even where, as here, the defendant did not intend to inflict harm and did not commit any tort. ER-14. That holding is contrary to New York law and requires reversal.

As New York's highest court has expressly held, even "intentional nonperformance" of a contract is "insufficient as a matter of law" to warrant overriding a limitation-of-liability provision, and a "grossly negligent" breach necessarily falls short as well. *Metropolitan Life Ins. Co. v. Noble Lowndes Int'l*, 84 N.Y.2d 430, 438, 439 (N.Y. 1994). To override the limitation on liability, New York law required GSK to prove either that "[Abbott] *willfully intended to inflict harm on* [*GSK*] through its abandonment of the contract," or that Abbott engaged in "conduct which is tortious in nature." *Id*. at 438 (emphasis added). But, as the verdict form's special interrogatories confirm, the jury rejected *both* any notion that Abbott's re-pricing of Norvir was intended to harm GSK *and* GSK's tort theories.

ER-76. Thus, there was no basis for the district court to set aside the parties' bargained-for limitation-of-liability clause.

If allowed to stand, the judgment below threatens to stymie pro-competitive licensing activity. Competitors in the pharmaceutical, software, electronics, and other industries routinely license patented inventions to one another. Such licensing allows multiple companies to commercialize and improve upon inventions that were costly to develop and that would otherwise be controlled by just one patentee. Under the district court's reasoning, however, licensees may assert an *implied* contractual right to bar their competitors—patentees with lawful monopolies—from engaging in legitimate competitive activity (pricing conduct) that might incidentally decrease the licensees' profits. And this where the licenses not only are *silent* as to price, but contain *express* prohibitions on consequential damages for breach.

If licensees could expose patent holders to lost profits damages that far exceed bargained-for royalties—even in the face of limitation-of-liability clauses—simply by alleging a "grossly negligent" breach of an implied promise not to price their products so as to incidentally decrease their competitors' profits, pro-competitive licenses would be chilled—to the ultimate detriment of the public.

For all of these reasons, the decision below should be reversed.

## JURISDICTION

The district court had jurisdiction over GSK's federal antitrust claims under 28 U.S.C. §§ 1331 and 1337, as well as 15 U.S.C. § 15(a). The district court had supplemental jurisdiction over GSK's state-law tort and contract claims under 28 U.S.C. § 1367.

This Court has appellate jurisdiction under 28 U.S.C. § 1291. Final judgment was entered on September 6, 2011. ER-1. Abbott timely filed a notice of appeal on October 3, 2011. ER-23.

## ISSUES PRESENTED

This appeal of the district court's denial of Abbott's Rule 50(b) motion raises two issues:

1. Whether the district court erred as a matter of New York law in permitting a jury to construe an ordinary patent license that was silent as to price to give GSK, Abbott's direct competitor, an implied right to control the timing and amount of changes to the pricing of Abbott's own product, on which Abbott held a lawful monopoly.

2. Whether the district court misinterpreted New York law in holding that the jury's finding of a "grossly negligent" breach of contract is sufficient to nullify, on public policy grounds, a limitation-of-liability provision that bars GSK's lost profits damages award.

## STATEMENT OF THE CASE

GSK sued Abbott on November 9, 2007, and the case proceeded on GSK's First Amended Complaint, filed on August 13, 2009. ER-452, ER-431. GSK alleged two tort theories—one based on federal and state antitrust statutes, and one based on an unfair competition theory under North Carolina law (ER-446-447, ¶¶ 59-67 & ER-448-449, ¶¶ 72-81)—and a contract claim based solely on an alleged breach of the "implied covenant of good-faith and fair dealing." ER-447-448, ¶¶ 68-71. GSK asserted no claim for breach of any written term of the parties' patent license.

The district court denied Abbott's motion for summary judgment, and the parties tried the case to a jury in February and March of 2011. ER-358 (MSJ Order); ER-129 (Order Admitting Exhibits); ER-78, 81-84, 167-68, 174, 185, 219, 223, 238, 248-49, 256, 289, 321-22, 333, 338 (Civil Trial Minutes). After the evidence closed, Abbott moved for judgment as a matter of law under Federal Rule of Civil Procedure 50(a). ER-133. The district court, however, submitted the case to the jury without deciding Abbott's motion. ER-5:13-14.

The jury returned a verdict on March 30, 2011. The jury found for Abbott on the antitrust theory. ER-72-75. The jury also answered special interrogatories related to GSK's unfair competition claim, which the district court was required to resolve as a matter of law. ER-76-77. Specifically, the jury found that Abbott did

not increase Norvir's price or manipulate the timing of the re-pricing "in order to disrupt Lexiva's launch and undermine Lexiva's future sales." *Id*. Finally, the jury found for GSK on its claim for breach of the implied covenant of good faith and fair dealing and found lost profits damages of $3,486,240. ER-75-76.

On July 8, 2011, the district court held that the jury's answers to special interrogatories compelled judgment for Abbott on GSK's unfair competition claim. ER-17. That same day, the court entered judgment for Abbott on the tort claims and for GSK on the claim for breach of the implied covenant. ER-16.

Abbott renewed its motion for judgment as a matter of law under Rule 50(b) to challenge the adverse judgment on the claim for breach of the implied covenant. ER-47. On September 6, 2011, the district court denied Abbott's motion and entered final judgment for GSK on the implied covenant claim, awarding damages of $4,661,772.65 (including pre-judgment interest). ER-2; ER-1.

Abbott timely appealed. ER-23.

## FACTS

Abbott and GSK are direct competitors. ER-270:19-24. Both pharmaceutical companies manufacture and market, among other things, HIV prescription drugs known as protease inhibitors (PIs). ER-2:25-27. This case focuses on the re-pricing of Abbott's PI Norvir® (whose active ingredient is ritonavir) and the alleged effect of that pricing conduct on a patent license between Abbott and GSK.

### A. Pricing In The Pharmaceutical Industry

By way of background, pricing is critical in the pharmaceutical industry. As Abbott's pricing and marketing expert explained without contradiction, "[o]nly one drug of about 5,000 that goes into research comes out as an approved new drug. And of those that do get approved, only three out of ten … earn their money back." ER-228: 16-18. Developing new drug compounds is very expensive, so "it's the products that are available today … that generate the profits that are invested in research that bring us out tomorrow's products." ER-227:24-228:3.

Pharmaceutical companies seek to patent drugs they develop to help "protect these inventions" if and when a product turns out to be commercially successful. ER-229:2-10. To maximize profits, "[y]ou've got to get your pricing right." ER-229:12-16. Pricing pharmaceuticals is "very complex" (ER-230:23-231:3), and depends on the value that the drug brings to the market. Thus, a change in the drug's value "should be reflected [in] a different price." ER-197:2-4.

When a drug's value changes, such as when a new and more valuable use for the drug is discovered, companies often "re-price[]" the drug to reflect that new value. ER-187:10-215:20. There are "literally dozens" of "examples where drugs had different prices depending on the use[.]" ER-191: 7-10. One such example is a drug called Acthar HT. Originally launched to treat Multiple Sclerosis, the drug was later discovered to treat a rare disorder called Infantile Spasm. ER-190:16-22.

The product was re-priced "from $1600 a dose to $23,000 a dose"—mathematically a 1,310% increase, but really a different price for a different use. ER-190:23-191:2. As discussed below, the use and value of Norvir went through a similar (though less extreme) transformation.

### B. Abbott's Introduction Of Norvir As A Standalone PI In 1996

In March 1996, the U.S. Food and Drug Administration approved Abbott's patented compound ritonavir (the active ingredient in Norvir) as one of the first PIs used to treat HIV. ER-222:19-22. The recommended daily dose for Norvir was large (1,200 milligrams), requiring patients to take twelve 100-mg capsules a day at a cost of about $18. ER-359:19-24; ER-180:17-21.

PIs like Norvir are considered the most potent class of drugs to combat the HIV virus. ER-2:25-27; ER-224:23-225:14. They work by preventing the HIV cells from replicating in the body. ER-340:12. For PIs to be effective, however, concentrations of the drug in the blood must be high enough to prevent the virus from growing. ER-224:23-225:2. Unfortunately, the body metabolizes and eliminates PIs very quickly, which initially limited the effectiveness of PIs. ER-225:6-9.

### C. Norvir Becomes A PI "Booster"

Although Norvir initially required a large daily dose as a PI, Abbott scientists later discovered that "when used in small quantities with another PI, Norvir

would 'boost' the anti-viral properties of that PI" in HIV patients by slowing down the process by which that PI gets metabolized. ER-3:2-5; ER-223:24-225:14. As one of Abbott's scientists explained, the metabolic process is analogous to a kitchen sink. When a patient's body metabolizes a drug, the drug effectively is "going down a metabolic … drain." ER-224:9-11. When used as a booster of other PIs, Norvir "blocks" this "drain," such that "other drugs that go down that same drain"—for example, another PI—"cannot go down [the drain] so fast, and … their levels stay elevated." ER-224:15-19.

Norvir's use as a PI "booster" was a "revolutionary" invention in the treatment of HIV, and has enabled HIV patients to live longer. ER-223:24-225:14; ER-360:3-4. Just a small daily dose of Norvir—most commonly 400 milligrams, or four pills, as of the late 1990s—was able to make other PIs more effective and decrease the side effects associated with high doses. ER-359:27-3:1; ER-326:13-22. GSK's own expert recognized Norvir's "enormous value to patients[.]" ER-335:21-336:4, ER-324:10-12.

The U.S. Patent and Trademark Office (and foreign patent offices) granted Abbott a number of patents that recognize Abbott's "boosting" innovation. These patents cover, among other things, the use of ritonavir (Norvir's active ingredient) in combination with other PIs to treat HIV—including combinations involving separate pills and co-formulation of the drugs into a single pill. *E.g.*, ER-725; ER-

846 (U.S. Patent 5,674,882), ER-779 (U.S. Patent 6,037,157), ER-790 (U.S. Patent 5,886,036).

In 2000, Abbott exercised these patent rights by introducing a drug branded as Kaletra®, which combines Abbott's other PI (lopinavir) with ritonavir into a single pill. ER-360:11-15; ER-241:7-17. Kaletra was an immediate success, becoming the "number one protease inhibitor in the market." ER-330:18-331:4.

Absent license agreements, Abbott's patents bar competitors from marketing their own PIs with instructions that they be "boosted" by Norvir—and thus from copying Kaletra's success as a boosted PI. ER-706; ER-306:2-6. Abbott was free to keep this invention to itself, given its patent on that use. ER-241: 20-22. But instead, Abbott decided to grant patent licenses to several direct competitors—including GSK—to allow them to market their PIs for use with Norvir. ER-271:18-272:14.

### D. Abbott And GSK Negotiate Their Patent License

GSK began selling a PI branded as Agenerase in about 1999, and doctors later began prescribing Agenerase with Norvir. ER-316:3-5, ER-276:14-17. In the late 1990s, GSK also was developing a new PI, which it would later sell under the brand name Lexiva, to compete with Abbott's Kaletra. ER-291:22-292:8; ER-293:16-20. "GSK expected that the vast majority of Lexiva sales would be

boosted" by Norvir. ER-307:9-11. In fact, GSK anticipated that Lexiva "would not be viable unless promoted and used with Norvir." ER-307:14-15.

Because GSK sought to market and actively promote Lexiva for use with Norvir as a booster, Abbott determined that, through a patent license, it "should get compensation for that patent infringement" and any such past infringement. ER-316:6-14. As GSK's witnesses explained at trial, "the purpose of the [license] agreement" was to avoid "the risks and uncertainties" of patent litigation, "particularly when launching a new product." ER-302:19-24; ER-308:9-15. GSK thus instructed its negotiators "to secure a license" to assure not only "that the license addressed any claims that Abbott may have with respect to earlier sales of Agenerase," but also GSK's freedom to promote its "upcoming product" (Lexiva) with Norvir. ER-303:3-7; ER-304:1-10.

Norvir's price was never part of the license negotiations. The lead negotiators for both sides—John Keller for GSK (ER-301:3-9) and John Poulos for Abbott (ER-258:11-13)—agreed on this point. When asked at trial, "Was there any discussion about price with Abbott?" GSK's Mr. Keller testified: "No, there was not." ER-306:23-24. Similarly, Mr. Poulos testified that nobody at GSK—or, for that matter, any of the other companies that took a license from Abbott regarding Norvir—ever raised the topic of Norvir's price during the license negotiations. ER-273:2-10. Mr. Poulos was asked directly: "Did you reach an agreement with

any of these companies about the pricing levels for Norvir?" He responded: "No." ER-275:18-20.

### E. The Parties Execute The Patent License In Late 2002

On December 13, 2002, after about a year of negotiations, Abbott and GSK executed their "Non-Exclusive License Agreement." ER-259:2-4; ER-706. The license went through multiple layers of review and was signed by GSK's Chief Executive Officer. ER-309:21-310:7; E-724.

GSK's negotiators referred to the agreement as a "simple patent license." ER-732. The "Whereas" clauses recognize that "Abbott owns certain patents related to the use, marketing and promotion of [Norvir] … in combination with other products indicated for the treatment of HIV," and that GSK was "interested in obtaining a license from Abbott to promote and market certain of GSK's HIV products with [Norvir] for the purpose of co-prescription/co-administration[.]" ER-706.

Article II of the agreement contains its operative provision, i.e., the license grant:

> *License Grant to GSK*. Abbott hereby grants to GSK a non-exclusive, worldwide, royalty bearing license under the Licensed Patents … to: (i) recommend, label, market, use, sell, have sold, and offer to sell one or more of the GSK Products … in co-prescription and/or co-administration with Ritonavir … ; and (ii) develop, obtain and maintain any Regulatory Approval [necessary to do so].

ER-710. Abbott thus promised not to sue for infringement if GSK sought "Regulatory Approval" from the FDA or foreign authorities to label and market its PIs for use with Norvir, or if GSK marketed its PIs for such use after receiving regulatory approval. *Id.* Abbott also promised not to sue GSK for any past infringement relating to Agenerase sales. ER-711.

This was the extent of Abbott's promises. The license explicitly stated that "the relationship between the two parties shall not constitute, nor shall it be deemed to be, a partnership, joint venture or agency." ER-722 (Article 11.8). Abbott did not agree to co-promote GSK's drugs or guarantee their commercial success. ER-264:22-265:3, ER-265:14-267:13, ER-268:10-269:16. Nor did Abbott grant GSK access to Abbott's patents covering the ritonavir compound (protecting Norvir itself), or its patents covering the co-formulation of a PI with ritonavir into a single pill (protecting Kaletra). ER-710 (Article 2.3).

Most importantly, Abbott never relinquished its right to price and sell its *own* drugs as it saw fit. *Id*. As GSK's negotiator Mr. Keller acknowledged at trial: "*We did not introduce a price control in the agreement on Norvir's price*." ER-313:8-9 (emphasis added). Abbott's negotiator agreed, explaining that Abbott did not "give up the right through the agreement to set the price of Norvir at whatever level it deemed to be appropriate." ER-262:2-5.

In return for Abbott's limited license grant, GSK paid "two and a half million [dollars] up front, and another two and a half million … on the launch of Lexiva." ER-305:11-13. GSK also agreed to pay a small percentage royalty on certain net sales of GSK's products. ER-711-12. To date, however, GSK has not owed any royalty on product sales within the United States. ER-310:11-16. Instead, all royalties paid so far have pertained to sales overseas. ER-311:6-14.

The parties understood that this simple agreement—a license grant in return for a royalty—would be enforced according to its express terms. For example, the license states: "EXCEPT AS EXPRESSLY STATED IN THIS AGREEMENT, NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES TO THE OTHER PARTY." ER-716 (Article 5.4). The parties further agreed that the license "contains the entire understanding of the parties with respect to the subject matter thereof." ER-722 (Article 11.5). Thus, "[a]ll express or implied agreements and understandings, either oral or written, heretofore made are superseded by this Agreement." *Id*.

The parties further agreed to a limitation-of-liability clause that bars, among other things, liability for consequential damages in the event of a breach:

> EXCEPT AS OTHERWISE PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR ANY SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL LOSSES ARISING OUT OF OR RELATING TO THIS AGREEMENT.

ER-721 (Article 11.1). The parties separately agreed that this limit on consequential damages would apply even if Abbott were "unable to supply" Norvir in a given market, thus rendering the licensed right to promote "completely valueless" in that territory. ER-319:4-8. In that situation, GSK got no right to lost profits or even the return of upfront payments. Instead, it would merely be "relieved of its obligations to pay royalties … in the Territory in which the insufficiency of supply exists until the supply … is re-established"—i.e., GSK would not be entitled to any lost profits. ER-713 (Article 3.9).

The parties also agreed that any dispute about the agreement would be governed by New York law. ER-722 (Article 11.4).

### F. While Norvir's Value Continues To Increase, The Price Of A Daily Norvir Dose Bottoms Out In Mid-2003

In mid-2003, Bristol–Myers Squibb (BMS) introduced a new PI branded as Reyataz® for use with Norvir. ER-360:16-17; ER-287:16-18. Before Reyataz's release, the most common boosting dose of Norvir ranged from 200 mg to 400 mg (two to four pills) a day. ER-361:2-4; ER-326:13-22; ER-180:17-24. Clinical trials, however, showed that a Norvir dose of only 100 mg (one pill) a day effectively boosted Reyataz. ER-361:4-5; ER-326:23-327:8.

The launch of Reyataz thus marked an "inflection point" for Norvir. ER-182:3-14. For the first time in the drug's life cycle, the FDA declared that just *one* Norvir pill a day could "boost" the efficacy of a PI. ER-329:20-22. "[A]s the

number of pills went down, the relative value of Norvir as a booster went up." ER-240:24-25.

With the success of Reyataz, "[t]he most common [daily] dosage level from that point on was 100 milligrams"—again, just one Norvir pill a day. ER-180:25-181:1. This meant that, "[b]y 2003, the average price for [the most common] daily dose of Norvir was $1.71." ER-360:9-10; ER-325:4-7. In contrast, the daily dose for other HIV drugs was generally priced between $22 and $32. ER-328:4-12 (unboosted Lexiva cost $32); ER-251: 5-8 (unboosted Reyataz cost $22.08). Unlike other HIV drugs, however, Norvir was unique—it was (and still is) the only PI booster on the market. ER-300:13-14.

The launch of Reyataz thus caused an anomaly: Norvir's value reached an all-time high, while "the price for an average daily dose of Norvir … plummeted[.]" ER-360:4-9; *see also* ER-242:25-243:19. In short, "Norvir was launched as a treatment product at 12 pills a day. And it had become a very powerful booster taken at its most common dose [of] one pill a day at one-twelfth the price." ER-242:11-14.

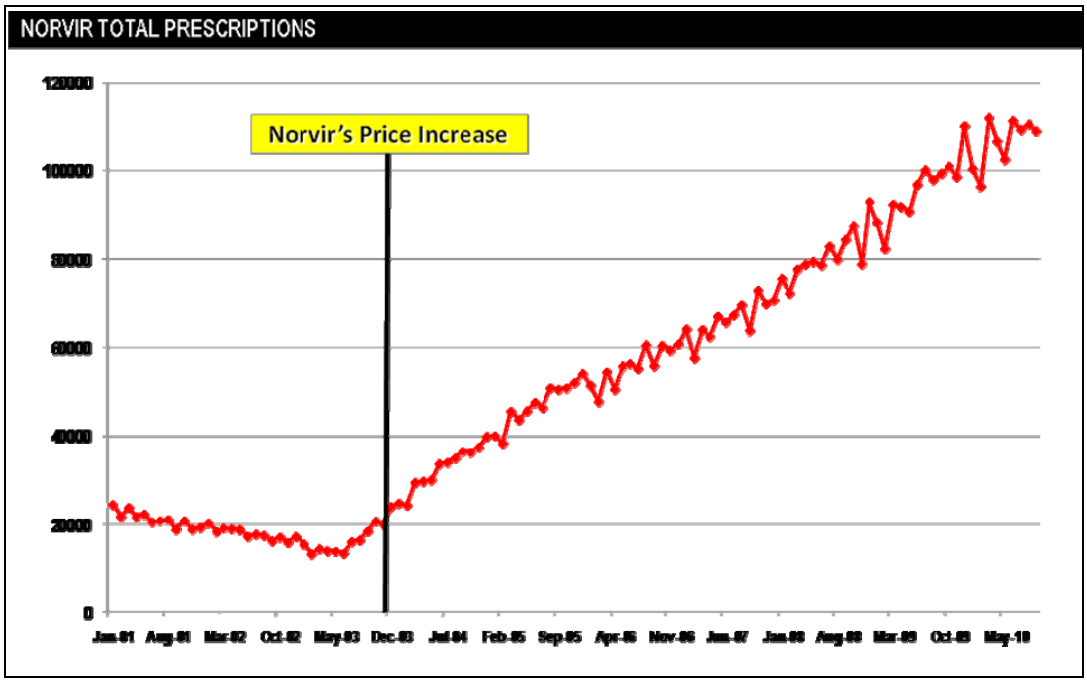
In mid-2003, therefore, Abbott considered re-pricing Norvir. The contemporaneous documents show Abbott's observation that "Norvir's clinical value has significantly increased since its launch while its financial value has simultaneously decreased." ER-699. As these documents further explain: "Re-pricing Norvir will

align the clinical and financial value of [Norvir], while maintaining its superior cost-effectiveness compared to competitive PIs." ER-700. Consistent with the pharmaceutical pricing principles discussed above, Abbott's executives believed that bringing Norvir's clinical and financial value into alignment would "[f]und[] development of new [HIV drugs] and re-formulations." *Id.*

### G. Abbott's Re-Pricing Of Norvir In December 2003

In December 2003, about six months after Reyataz launched, Abbott re-priced Norvir in the United States. The price of one Norvir pill (again, the most common daily dose at the time) increased $6.86, from $1.71 to $8.57—a 400 percent increase. ER-3:25-26; ER-240:12-15. Yet Norvir's price would remain low, less than half of Norvir's price when launched as a standalone PI. ER-700. In fact, even after the re-pricing, the price of Norvir's most common daily dose as a booster remained lower than that of any other HIV drug. ER-226:6-18. GSK, for example, raised the price of Lexiva nine times prior to trial and was $49.32 per day as of trial, which is 54% higher than its price at launch and 475% higher than Norvir. ER-294:8-295:18; ER-328:4-12; ER-128 (trial demonstrative based on data introduced as evidence in TX995, TX999, TX1014, TX1021, TX843, TX 1090, TX1154, TX1076 (ER-406)) & ER-126 (trial demonstrative based on data introduced as evidence in TX995, TX 1076 (ER-406)); *see also* ER-91:1-4.

Throughout trial, even though Norvir remained the lowest-cost HIV drug as a "booster," GSK characterized the Norvir price increase as an "outrage" that was "manipulating the market." ER-86:23-87:3; ER-88:8. But the market disagreed, as evidenced by the reality that Norvir's prescription volume continued to skyrocket even after the price increase:




ER-127 (modified trial demonstrative based on data introduced as evidence in TX1351); *see also* ER-92:14-17 & ER-93:4.

Abbott took extensive steps to ensure continued access to Norvir for patients. For example, Abbott committed to maintaining the $1.71 price-per-pill for patients on government programs, which account for nearly half of the sales of HIV medicines. ER-176:25-177:14. Abbott also expanded its public access program to ensure that all patients lacking health insurance received Norvir for free.

ER-178:10-179:3. As GSK's own witnesses conceded, the Norvir re-pricing also did not affect the out-of-pocket expenses of the vast majority of patients with private insurance requiring fixed co-pays. ER-177:19-25; ER-282:4-17. Although the district court noted that Abbott's price increase "commensurately increased the cost of a boosted Lexiva therapy to some consumers" (ER-3:27-28), GSK never identified a single HIV patient who actually paid more for Norvir after the re-pricing. ER-283:5-9.

### H. GSK's Marketing Of Lexiva

GSK took full advantage of its rights under the license. The license enabled GSK to ask the FDA to approve the use of Lexiva in combination with Norvir as a booster, and the FDA did so in October 2003. ER-235:14-17; ER-171:24-172:4. GSK launched Lexiva in November 2003, shortly before Abbott re-priced Norvir. ER-284:19-24.

With Norvir boosting indicated in its FDA-approved label, GSK engaged in extensive marketing efforts for Lexiva both before and after the Norvir re-pricing. For example, by February 2004, GSK had made an average of 6.3 visits (or "details") to 90% of the physicians most likely to prescribe Lexiva. ER-636; ER-285:1-10; *see also* ER-671 & ER-236:8-25. GSK's own documents describe the Lexiva launch as successful despite any effects of the Norvir re-pricing: "All reports from the field have been positive, the positioning is resonating with physi-

cians and our messages are being parroted back to us in market research." ER-671; *see also* ER-216:19-217:4. Other internal GSK documents repeatedly characterized Lexiva as having had a "successful launch." ER-666; ER-656; *see also* ER-296:8-298:24.

GSK's lost profits expert agreed: "GSK has used Abbott's boosting invention to try to drive sales for boosted Lexiva continuously since 2002," and these sales "occur[red] because [GSK had] a license" from Abbott. ER-253:20-254:4; *accord* ER-221:4-7. Marketing data confirm that, since the re-pricing, sales of Lexiva continued to increase for years, reaching a peak in late 2005. ER-419. Even as of trial, GSK's website "Lexiva.com" still "reference[d] Norvir in combination with Lexiva" because the parties' patent license authorized such advertising. ER-278:21-279:18. By that time, GSK had made almost $1 billion in Lexiva sales. ER-170:14-23.

GSK relied on documents forecasting that Lexiva would be even more successful. As other GSK documents explained, however, factors unrelated to Norvir's price contributed to Lexiva's sales being lower than expected—most significantly, the unexpected success of Reyataz, which "got there first." ER-631. As these documents show, the prescribers not only perceived Reyataz as having "more clinical experience due to its earlier launch" (ER-591), but also "rated" Reyataz "higher on all attributes than Lexiva" (ER-568). In fact, GSK's market research

concluded that "Lexiva rated lowest in the 4 categories deemed most important" by doctors (ER-493), such that doctors did "not know where to use Lexiva[.]" (ER-538).

Regardless of how one characterizes the market performance of Lexiva, Abbott made no effort to frustrate that performance by suing for patent infringement. GSK's lead negotiator, Mr. Keller, testified that GSK "got the benefit" of Abbott's promise not to sue for infringement relating to Agenerase sales. ER-316:11-17. Mr. Keller further testified that he did not "quarrel with the fact that GSK got the right to obtain regulatory approval combining the use of ritonavir to boost the Lexiva sales[.]" ER-317:10-17. And he conceded that "GSK got the right" it negotiated for "to promote … the use of ritonavir or Norvir to boost Lexiva[.]" ER-317:25-318:8. This explains why GSK never terminated the license, either voluntarily (under Article 7.2) or under a theory that Abbott "materially breach[ed]" it (under Article 7.3). ER-314:2-12, ER-280:9-14.

### I. Other Competitors Sign Norvir Patent Licenses After The Re-Pricing

Norvir's new price did not stop Abbott's competitors from continuing to enter into Norvir patent licenses with the "same basic structure" as GSK's agreement. ER-272:15-22. Pfizer received a Norvir license in July 2004, more than six months *after* the re-pricing. ER-604; ER-274:25-275:12. BMS also renegotiated its Norvir license, signing a new one in 2007. ER-272:9-14. As with Abbott's

other patent licenses concerning Norvir (including GSK's), neither Pfizer nor BMS addressed the price of Norvir when negotiating their licenses, and neither of these licenses negotiated after the Norvir re-pricing refers to Norvir's price. ER-273:7-10, ER-275:15-17.

### J. GSK's Lawsuit

Almost four years after the Norvir re-pricing, GSK sued Abbott, alleging that the re-pricing violated tort and contract law. ER-452. GSK's theory throughout the case was that Abbott increased Norvir's price around the time of Lexiva's launch "to exact the greatest toll on Lexiva"—that is, to "deliberately prevent[]… GSK from gaining a foothold in the market." ER-349:21-23 & 350:2. On the eve of trial, GSK asserted that the evidence would show that Abbott re-priced Norvir "to disrupt and undermine Lexiva's sales," causing lost profits damages of up to $571.6 million. ER-350:17-19; ER-252:5-7.

The jury disagreed. First, the jury rejected GSK's theory of antitrust liability. ER-72-75. Second, it expressly found, in response to special interrogatories posed by GSK, that Abbott did *not* increase Norvir's price or manipulate the timing of the re-pricing "in order to disrupt Lexiva's launch and undermine Lexiva's future sales":

b. Abbott inequitably asserted its power over Norvir by increasing Norvir's price by 400 percent to undermine and disrupt Lexiva's launch and future sales.

Yes ____ ("Yes" is a finding for GSK.)

No ✓ ("No" is a finding for Abbott.)

c. Abbott manipulated the timing of the 400-percent Norvir price increase in order to disrupt Lexiva's launch and undermine Lexiva's future sales.

Yes ____ ("Yes" is a finding for GSK.)

No ✓ ("No" is a finding for Abbott.)

ER-76; *see also* ER-20:15-25.

A third interrogatory asked whether, "[d]uring the negotiation of the Norvir Boosting License, Abbott was considering how to use its control over Norvir to limit competition with Kaltera and deliberately withheld this from GSK." ER-76. The jury answered this interrogatory in the affirmative, but found that Abbott's internal discussions about strategies that Abbott never pursued did not proximately cause any injury to GSK. ER-76-77; *see also* ER-6:12-17.

The jury did find, however, that Abbott's pricing conduct breached the implied covenant of good faith and fair dealing. ER-75-76. In a special interrogatory, the jury found this breach "grossly negligent"—defined in the instructions to

include "reckless indifference."[1] ER-120:18-22. According to the jury, however, this "grossly negligent" breach of the implied covenant caused lost profits of only $3.5 million, 0.6% of GSK's $572 million demand and 0.4% of GSK's overall Lexiva sales of $927 million. ER-75-76.

Abbott argued in its Rule 50(b) motion that there was insufficient evidence to support the jury's finding that there had been a breach of any implied covenant, and that the limitation-of-liability provision in the parties' license agreement barred the damages award to GSK. ER-55-70. The district court rejected both arguments. ER-2.

## SUMMARY OF ARGUMENT

The district court erred as a matter of New York law in denying Abbott's Rule 50(b) motion and granting judgment to GSK on its implied covenant claim. Abbott does not request a new trial. Instead, the judgment against Abbott should be reversed, and judgment rendered for Abbott, for two independent reasons.

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[1] The jury was instructed that "gross negligence" could mean either "reckless indifference to the rights of others" or "intentional wrongdoing." ER-120:18-22. But having found that Abbott did not act "in order to disrupt Lexiva's launch and undermine Lexiva's future sales," the jury necessarily relied on the "reckless indifference" standard. ER-76; *see also* ER-80:8-21 (during deliberations, the jury asked: "Can we get a definition of quote 'reckless indifference to the rights of others?'"); *Atl. & Gulf Stevedores, Inc. v. Ellerman Lines, Ltd.*, 369 U.S. 355, 364 (1962) (On account of the Seventh Amendment, "[w]here there is a view of the case that makes the jury's answers to special interrogatories consistent, they must be resolved that way.").

First, the district court erred in holding that the parties' simple patent license could be read as giving GSK an implicit right to prevent Abbott from repricing Norvir. For this reason alone, the implied covenant claim never should have gone to the jury.

The implied covenant is a limited exception to the general rule that parties—especially sophisticated parties—are bound to their express rights and obligations. Under New York law, the covenant serves only "in aid and furtherance of other terms of the agreement," *Sabetay v. Sterling Drug, Inc.*, 69 N.Y.2d 329, 335 (1987), and "courts should be extremely reluctant to interpret an agreement as impliedly stating something which the parties have neglected to specifically include." *Vermont Teddy Bear Co. v. 538 Madison Realty Co.*, 1 N.Y.3d 470, 475 (N.Y. 2004) (quotation omitted).

Here, however, the parties' license was *silent* as to price—and it is undisputed that this was so by the parties' design. Thus, there is no basis for any finding that Abbott, a lawful monopolist with patents on Norvir's use, *implicitly* promised GSK—which competes directly with Abbott's Kaletra—to price Norvir at a particular level, let alone one that enabled GSK "to enhance its profits from Lexiva." ER-351:24-25.

The implied covenant also "does not extend so far as to undermine a party's general right to act on its own interests in a way that may *incidentally lessen* the

other party's anticipated fruits." *M/A-COM Sec. Corp. v. Galesi*, 904 F.2d 134, 136 (2d Cir. 1990) (quotation omitted, emphasis added).[2] But as the jury confirmed in awarding GSK less than 1% of its requested lost profits damages (ER-75-76), Abbott's decision to re-price Norvir at most "incidentally lessen[ed]" GSK's anticipated contractual benefits. New York law forbids a finding of breach of the implied covenant under these circumstances, where GSK received the benefit of its bargain.

Second, even if the jury's finding of a breach could be sustained (and it cannot), the license here contains a limitation-of-liability clause that expressly bars GSK from recovering lost profits and other consequential damages for any such breach. The district court voided that clause on public policy grounds, but the jury's express factual findings foreclose that holding as a matter of law.

Under New York law, a court may void a limitation-of-liability clause only if the defendant either "*willfully intended to inflict harm on* [*GSK*] through its abandonment of the contract," or engaged in "conduct which is *tortious* in nature." *Metropolitan Life Ins. Co. v. Noble Lowndes Int'l*, 84 N.Y.2d 430, 438 (N.Y. 1994) (emphasis added). But this exception has no application here. As the district court recognized, the jury both rejected Abbott's tort claims and "concluded that GSK

[2] All Second Circuit and New York federal court decisions cited in this brief apply New York law.

did *not* prove that Abbott increased Norvir's price by 400 percent to undermine and disrupt Lexiva's launch." ER-20:17-18 (emphasis added).

The district court could avoid this binding New York authority only by creating a new exception to the rule requiring enforcement of contractual limitations on liability—an exception for situations in which a defendant commits a "grossly negligent" breach, or where "a breaching party[]" shows "reckless indifference" to the contract rights of the non-breaching party. ER-13-15. But the notion of a "grossly negligent" breach—a concept unrecognized in contract law—is frankly nonsensical. As black-letter authorities have long confirmed, it is *tort liability* that cannot be avoided by contract: "A term exempting a party from *tort liability* for harm caused intentionally or recklessly is unenforceable on grounds of public policy." *Metropolitan Life*, 84 N.Y.2d at 439 (quotation omitted). By contrast, the New York Court of Appeals has squarely held that even "intentional non-performance" of a contract is insufficient to overcome a limitation-of-liability clause. *Id.* at 438. Grossly negligent breaches necessarily fall short as well. *Id.*

The jury's findings thus take GSK's claim outside of the public policy exceptions recognized by New York law and require the limitation-of-liability clause to be enforced as written. At trial, GSK was awarded only consequential damages in the form of lost profits, so enforcement of the limitation-of-liability clause precluding consequential damages bars the entire breach claim as a matter of law.

## STANDARD OF REVIEW

The district court's denial of Abbott's request for judgment as a matter of law is reviewed de novo. *Byrd v. Maricopa County Sheriff's Dept.*, 629 F.3d 1135, 1138 (9th Cir. 2011) (en banc). Such a judgment is required "when the evidence presented at trial permits only one reasonable conclusion," and where that conclusion does not allow a "reasonable juror [to] find in the non-moving party's favor." *Id.* (quotation omitted); *see also Fisher v. City of San Jose*, 588 F.3d 1069, 1074 (9th Cir. 2009) (en banc) ("[W]hen reviewing a motion for judgment as a matter of law, we apply the law as it should be, rather than the law as it was read to the jury ….") (quotation omitted).

Abbott's appeal also asks this Court to "conform[]" the verdict "to the factual findings" made by the jury when answering special interrogatories. *Zhang v. Am. Gem Seafoods, Inc.*, 339 F.3d 1020, 1037-38 (9th Cir. 2003). Whether the jury's factual findings are legally sufficient to support the verdict also raises a pure question of law reviewed de novo. *See Poland v. Chertoff*, 494 F.3d 1174, 1184 (9th Cir. 2007).

## ARGUMENT

### I. GSK's Theory Of Liability Was Legally Insufficient To Support A Finding That Abbott Breached The Implied Covenant.

The district court erred in denying Abbott's motion for judgment as a matter of law and submitting to the jury GSK's theory that the "implied covenant of good

faith and fair dealing" *implicitly* gave it the right to control the amount and timing of changes to the price of a direct competitor's product.

According to the district court, the evidence supported liability on the theory that Abbott breached a broad implied promise not to "use its control over Norvir to interfere with GSK's ability to promote and market boosted Lexiva." ER-7:14-17 (quoting GSK's Opp'n (DE 529) at 17 n.6). In fact, Abbott's license merely committed the company not to sue GSK for patent infringement. But even assuming that Abbott granted GSK some *affirmative* right to promote products in direct competition with Abbott's, GSK received the benefit of its bargain. It is undisputed that GSK successfully promoted Lexiva for use with Norvir, enjoying increasing market share for three years after Lexiva's launch and profiting from some $927 million in Lexiva sales as of trial. ER-170:14-23.

It is thus evident that the court below did not sustain Abbott's liability based simply on a theory that GSK obtained an implied contractual right to promote Norvir-boosted Lexiva—or even an implied contractual right to do so profitably. The court sustained liability based on GSK's theory that Abbott's re-pricing of Norvir "injured GSK's right to *enhance* its profits from Lexiva." ER-351:24-25 (emphasis added). This boils down to an argument that Abbott *implicitly* granted GSK control over the amount and timing of any "price increase" for a product on which Abbott held a lawful monopoly. ER-9 ("Evidence likewise supports the conclu-

sion that the Norvir price increase interfered with GSK's ability to market and sell Lexiva."). New York law forecloses liability under that theory.

### A. The Implied Covenant Is A Limited Exception To The General Rule That Holds Parties To Their Express Promises.

Under New York law, a contract "should … be enforced according to its terms," and "courts should be extremely reluctant to interpret an agreement as impliedly stating something which the parties have neglected to specifically include." *Vermont Teddy Bear Co. v. 538 Madison Realty Co.*, 1 N.Y.3d 470, 475 (N.Y. 2004) (quotation omitted). This rule is "especially important in commercial transactions negotiated between sophisticated parties." *White Plains Plaza Realty, LLC v. Town Sports Int'l, LLC*, 79 A.D.3d 1025, 1028 (N.Y. App. Div. 2010) (quotation omitted).

Like other states, however, New York recognizes a limited exception to this rule in the doctrine of the implied covenant of good faith and fair dealing. *See 511 West 232nd Owners Corp. v. Jennifer Realty Co.*, 773 N.E.2d 496, 500 (N.Y. 2002). Applying an objective standard, New York's courts hold that the implied covenant encompasses only those "promises which a reasonable person in the position of the promisee would be justified in understanding were included." *Id.* at 501 (quotation omitted).

The implied covenant, however, serves merely "in aid and furtherance of other terms of the agreement of the parties." *Sabetay v. Sterling Drug, Inc.*, 69

N.Y.2d 329, 335 (1987). "The covenant does not create duties which are not fairly inferable from *the express terms of that contract*." *Interallianz Bank AG v. Nycal Corp.*, 1994 WL 177745, at *8 (S.D.N.Y. May 6, 1994) (emphasis added). Instead, it "ensures that parties to a contract perform the substantive bargained-for terms of their agreement" in good faith. *Geren v. Quantum Chem. Corp.*, 832 F. Supp. 728, 732 (S.D.N.Y. 1993) (quotation omitted).

New York courts have thus restricted the implied covenant to unwritten promises that are "so interwoven in the whole writing of a contract as to be necessary for effectuation of the purposes of the contract." *M/A-COM Sec. Corp. v. Galesi*, 904 F.2d 134, 136 (2d Cir. 1990) (quotation omitted). This ordinarily encompasses prohibitions on conduct that either would "so drastically undermine[] the contract that its fundamental objective … has been subverted," *511 West*, 773 N.E.2d at 500; would "frustrate[] the basic purpose of the parties' contracts," *Forman v. Guardian Life Ins. Co. of Am.*, 76 A.D.3d 886, 888 (N.Y. App. Div. 2010); or would render the contract "illusory," *Zurakov v. Register.Com, Inc.*, 304 A.D.2d 176, 179, 182 (N.Y. App. Div. 2003). In essence, therefore, GSK needed to show that it "would not have entered into the [agreement] without [the implied promise], for it is only in such a situation that it can be said with the requisite certainty that to refuse to recognize such a covenant would be to deprive [GSK] of the fruits of [its] bargain." *Rowe v. Great Atl. & Pac. Tea Co.*, 46 N.Y.2d 62, 70 (N.Y. 1978).

### B. The District Court Erred In Holding That A Reasonable Jury Could Have Construed The License As Granting GSK An Implied Right To Control Norvir's Pricing Decisions.

The district court improperly expanded the implied covenant. The evidence does not allow a reasonable jury to read Abbott's patent grant as giving GSK an *implied* right to limit Abbott's ability to control pricing decisions related to its own product. For two independent reasons, New York law requires reversal. First, the district court improperly allowed the jury to give GSK the benefit of an independent contractual right that was not bargained for by the parties, as confirmed by both a plain reading of the license and the testimony of all negotiators that the parties avoided discussing Norvir's price. Second, as the jury's verdict confirmed, Abbott merely acted in its own interest in a way that incidentally lessened GSK's anticipated contractual benefits—conduct insufficient as a matter of New York law to constitute a breach of the implied covenant.

#### 1. GSK Never Bargained For The Independent Right To Control Norvir's Price.

The district court erred in allowing the jury to read into Abbott's patent grant "an independent contractual right that was not bargained for by the parties." *Madison Apparel Group Ltd. v. Hachette Filipacchi Presse, S.A.*, 861 N.Y.S.2d 296, 297 (N.Y. App. Div. 2008). Under the familiar Rule 50(b) standard, the undisputed record cannot support a judgment that the implied covenant of good faith and

fair dealing gave GSK an implicit right to prevent Abbott from re-pricing Norvir at whatever time it deemed appropriate.

***The license itself.*** This Court need look no further than the terms of the license itself to conclude that the district court improperly "create[d] a free-floating duty unattached to the underlying legal document." *JFK Family Ltd. P'ship v. Millbrae Natural Gas Dev. Fund 2005, L.P.*, 2008 WL 4308289, at *23 (N.Y. Sup. Ct. Sept. 16, 2008) (citation omitted). As GSK has conceded, the parties entered into a "simple patent license" (ER-732)—which is "nothing more than a promise by the licensor not to sue" for patent infringement. *Spindelfabrik Suessen-Schurr Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081 (Fed. Cir. 1987). The license says nothing about price, leaving that matter to Abbott and what the market would bear. Abbott's sole obligation under the patent grant, therefore, was not to sue GSK for patent infringement.

The license's terms confirm its limited scope. Abbott's express obligations to GSK are limited to the patent grant itself, which gave GSK permission to promote or encourage practicing Abbott's patented inventions and thus removed the threat of litigation. In Article II, Abbott promised, in return for certain licensing fees separate and distinct from the drug's price, not to sue for infringement if GSK (1) sought "Regulatory Approval" from the FDA or foreign agencies to label and

market its PIs for use with Norvir, or (2) marketed its PIs for such use after receiving such approval. ER-710 (Article 2.1). The license also included a release for any past infringement of Abbott's patents. ER-711; *see also* ER-277:9-15, ER-281:1-4.

GSK received the full benefit of this bargain. According to GSK's chief negotiator, GSK "got the benefit" of Abbott's patent grant because "GSK got the right to obtain regulatory approval combining the use of ritonavir to boost the Lexiva sales" along with the right "to promote … the use of ritonavir or Norvir to boost Lexiva." ER-316:11-17, ER-317:10-17, ER-317:25-318:8. Consistent with its promise, Abbott never made any effort to enjoin GSK from enjoying the fruits of Abbott's patents—which, to date, amount to almost a billion dollars in sales that GSK otherwise could not have made without fear of infringement. ER-170:14-23. In fact, since 2002 GSK has continuously used Abbott's boosting invention to try to drive sales for boosted Lexiva, and GSK continues to promote Lexiva for use with Norvir today. ER-278: 23-279:18.

As New York's highest court has made clear, implied promises will not be read into an express agreement where, as here, "the contractual objectives were achieved." *EBC I, Inc. v. Goldman Sachs*, 5 N.Y.3d 11, 23 (2005). The district court thus erred in allowing the jury to create an independent contractual right not bargained for by GSK. This Court should follow the lead of the many New York

courts that have "declined" *as a matter of law* "to find that the implied covenant of good faith and fair dealing adds to the contract a substantive provision not included by the parties." *Geren*, 832 F. Supp. at 732; *see also*, *e.g.*, *Madison Apparel Group*, 861 N.Y.S.2d at 297; *Wolff v. Rare Medium, Inc.*, 210 F. Supp. 2d 490, 497 (S.D.N.Y. 2002); *Warner Theatre Assoc. Ltd. P'ship v. Metropolitan Life Ins. Co.*, 1997 WL 685334, at *6 (S.D.N.Y. Nov. 4, 1997); *Interallianz Bank*, 1994 WL 177745, at *8.

***The undisputed evidence of the parties' intent.*** The district court's denial of Rule 50(b) relief is all the more unsupportable given the undisputed evidence that the parties *intentionally* avoided any discussion or contract terms addressing price. As the New York Court of Appeals has cautioned, "courts should be extremely reluctant to interpret an agreement as impliedly stating something which [sophisticated] parties have neglected to specifically include." *Vermont Teddy Bear*, 1 N.Y.3d at 475 (quotation omitted). Indeed, it is black letter law that "a provision should not be found by 'implication' when the testimony convincingly shows that such a provision was intentionally omitted." 3 Corbin, *Contracts* § 564, at 298 (1960); *cf. Dave Greytak Enters., Inc. v. Mazda Motors of Am., Inc.*, 622 A.2d 14, 23 (Del. Ch. 1992) (holding that under Delaware law, where "the contract is intentionally silent as to [a] subject, the implied duty to perform in good faith does not come into play").

Here, all of the negotiators testified that GSK intentionally avoided the topic of Norvir's price. ER-306:21-24; ER-311:18-313:9; ER-260:24-262:5; ER-262:21-263:1. In fact, GSK's lead negotiator, John Keller, testified that GSK did not expect the license to give it control over Norvir's price:

> We had no control over the setting of the price of Kaletra in the agreement. We did not expect to control Abbott's—how Abbott set the price. …
>
> Q. *That's not something competitors do, they don't set each other's prices, right?*
>
> A. *Correct.*
>
> Q. And there is no provision in the agreement about Norvir's price either, correct?
>
> A. That is correct.
>
> Q. *And, therefore, Abbott retained the right to set Norvir's price at whatever level it deemed appropriate, correct?*
>
> A. We had no—*we did not introduce a price control in the agreement on Norvir's price*.

ER-312:19-313:9 (emphasis added).

Abbott's lead negotiator, John Poulos, likewise testified that price was never a topic of discussion during license negotiations. ER-273:7-18; ER-275:15-20. As GSK's brand manager for Lexiva put it: "I know you are not supposed to discuss price with competitors." ER-299:24-25.

No "reasonable person in the position of [GSK] would be justified in understanding" that GSK obtained an implied right that it *intentionally* left out of the

bargaining. *Moran v. Erk*, 11 N.Y.3d 452, 457 (2008). This is particularly true here, where the alleged implied right concerns as highly sensitive and commercially valuable an issue as a direct competitor's pricing. Indeed, the jury's verdict in effect punished Abbott for its employees' efforts to avoid any possible appearance of price-fixing—which can have severe civil and criminal consequences.

***Commercial Reasonableness.*** Quite apart from the contract itself and the evidence of the parties' intent, there is no reason to believe that Abbott, a lawful monopolist, would have agreed to an implicit limitation on its right to price its product as it wished.

"Integral to a finding of a breach of the implied covenant is a party's action that directly violates an obligation that *may be presumed to have been intended by the parties*." *M/A-COM*, 904 F.2d at 136 (emphasis added). This is because "[a] promise by the defendant should be implied only if the court may rightfully assume that the parties would have included it in their written agreement had their attention been called to it." *Metro. Life Ins. Co. v. RJR Nabisco, Inc.*, 716 F. Supp. 1504, 1521 (S.D.N.Y. 1989) (quotation omitted).

Here, there is no plausible reason to assume that Abbott would have surrendered control over Norvir's price to its direct competitor. On the contrary, that very idea is both "absurd" and "commercially unreasonable." *In re Lipper Holdings, LLC*, 1 A.D.3d 170, 170 (N.Y. App. Div. 2003) ("A contract should not be

interpreted to produce a result that is absurd, commercially unreasonable or contrary to the reasonable expectations of the parties.") (citations omitted). GSK essentially alleges that Abbott made such an important concession in exchange for licensing fees that were dwarfed in comparison to what Abbott stood to gain by pricing its product at the level the market would bear. That is untenable.

Abbott's ability to price its products and determine the appropriate time for increases goes to the heart of its ability to compete in the marketplace. As discussed above (*supra* at 10-11), the business model of a pharmaceutical company like Abbott depends on its ability to profit by pricing successful products appropriately, thus funding costly research and development of new products. Control over pricing is especially important for products like Norvir, which have a unique market position and enjoy patent protection from generic competition. Indeed, the very purpose of the patent laws is to encourage innovation by rewarding inventors like Abbott with the right "to reap monopoly prices from the sale" of patented products. *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1218 n.11 (9th Cir. 1997). The notion that Abbott would have given up not only its right to sue and recover for patent infringement, but also its right to set the price for Norvir at whatever level the market would bear at whatever time it deemed appropriate—in exchange for licensing fees that paled by comparison—is wholly implausible.

Abbott expected to make—and did make—hundreds of millions of dollars by increasing the price of Norvir, which enjoyed a lawful monopoly. ER-704; ER-244:10-12, ER-245:5-14, ER-246:17-25, ER-183:4-10. To imply a promise to limit Abbott's ability to re-price Norvir, one would have to believe that Abbott gave up these profits in return for two modest, lump-sum payments under the license totaling just $5 million. ER-305:7-13. To date, that is all that Abbott has received from GSK for sales in the United States. ER-310:11-16, ER-311:6-14. Given these circumstances, there is no basis to "rightfully assume" that Abbott would have agreed with GSK to give up this valuable right "in their written agreement had their attention been called to it.'" *RJR Nabisco*, 716 F. Supp. at 1521 (noting that "[t]here is no guarantee" that defendant would have accepted alleged implied term).

Nor could a "reasonable person in [GSK's] position … be justified in understanding" that Abbott would do so. *Moran*, 11 N.Y.3d at 457. In fact, there is no evidence that Abbott, GSK, or any other pharmaceutical company has ever surrendered such a valuable, competitive right—much less as part of a mere patent grant. On the contrary, the evidence showed that Abbott entered into multiple licenses involving Norvir's boosting use. But in none of those licenses did Abbott "ever reach an agreement with any of these companies about the future price of Norvir." ER-273:11-14; *see also* ER-762; ER-734; ER-673; ER-604. Indeed, two of these

competitors entered into Norvir licenses *after* the re-pricing—thus confirming the value of the license independent of Norvir's price. ER-604; ER-274:25-275:12.

### 2. The Jury's Findings Confirm That Abbott's Pricing Conduct Only Incidentally Lessened GSK's Anticipated Profits.

The district court also erred in denying Abbott's Rule 50(b) motion because the implied covenant "does not extend so far as to undermine a party's general right to act on its own interests in a way that may *incidentally lessen* the other party's anticipated fruits." *M/A-COM Sec. Corp. v. Galesi*, 904 F.2d 134, 136 (2d Cir. 1990) (quotation omitted, emphasis added). "[S]o long as the promisee is allowed to reap the benefits of the contract, the implied covenant of good faith does not require the promisor to take actions contrary to his own economic interest." *Bank of New York v. Sasson*, 786 F. Supp. 349, 354 (S.D.N.Y. 1992).

Even if there had been evidence to support the jury's verdict that Abbott impliedly promised not to "interfere" with Lexiva's commercial success (and there was not), the record and the jury's special interrogatory responses make clear that Abbott's re-pricing of Norvir was in its own economic interest and at most "incidentally lessen[ed]" GSK's "anticipated fruits" from the license. *Van Valkenburgh*, 30 N.Y.2d at 46. Having reaped profits on $927 million in Lexiva sales, New York law precludes GSK from claiming that it did not get the benefit of its bargain. ER-170:14-23.

Although GSK alleged before trial that Abbott "*severely* impaired GSK's ability to establish Lexiva in the marketplace," the jury resoundingly disagreed. ER-349:24-26 (emphasis added). It rejected GSK's claim to have suffered $572 million in lost sales on Lexiva. Instead, it found that Abbott's price increase caused GSK to lose only $3.5 million—less than one-half of one percent of the $927 million GSK *gained* in Lexiva sales since the license. ER-75-76. At most, therefore, the jury's verdict supports a finding that Abbott's pricing conduct "incidentally lessened" GSK's anticipated profits, which is legally insufficient under New York law to establish a breach of the implied covenant. *M/A COM*, 904 F.2d at 137.

### C. New York Courts Routinely Reject Similar Claims As A Matter Of Law.

Taken collectively, the evidence discussed above leads to only "one reasonable conclusion," *Byrd v. Maricopa County Sheriff's Dept.*, 629 F.3d 1135, 1138 (9th Cir. 2011) (en banc)—that the district court improperly created an independent contractual right that GSK did not bargain for. New York courts have repeatedly rejected, *as a matter of law*, analogous claims by sophisticated parties for breach of the implied covenant. Here, in those cases, the law compels entry of judgment for Abbott.

In *Metropolitan Life Insurance Company v. RJR Nabisco, Inc.*, 716 F. Supp. 1504 (S.D.N.Y. 1989), corporate bondholders sued Nabisco for engaging in a leve-

raged buyout that allegedly "destroy[ed] the investment grade quality of the debt [i.e., bonds]" they held. The court rejected this claim on summary judgment. The court noted that the right the bondholders sought to impose could have "been expressly bargained for," but the parties avoided doing so. *Id*. at 1519. Under those circumstances, implying such a right would make the "covenant of good faith so broad that it imposes a new, substantive term of enormous scope." *Id*.; *accord Geren*, 832 F. Supp. at 732. So too here, where GSK never bargained for the right to control decisions involving Norvir's price.

In *M/A-COM Security Corporation v. Galesi*, 904 F.2d 134 (2d Cir. 1990), the Second Circuit likewise rejected an implied covenant claim where a buyer of company stock alleged that the seller's subsequent efforts to prevent the company's merger "rendered his investment valueless." *Id*. at 135. The parties did not enter into the transaction "in contemplation or anticipation of the merger," and the court refused to use the implied covenant to "impose on [the seller] the obligation to have supported the merger." *Id*. at 137.

These cases have a common theme: Sophisticated parties are held to the terms of the bargain they struck. As New York courts have emphasized, "[f]reedom of contract prevails in an arm's length transaction between sophisticated parties." *Oppenheimer & Co. v. Oppenheim, Appel, Dixon & Co.*, 86 N.Y.2d 685, 695 (1995). Here, Abbott made no promises about Norvir's price or Lexiva's

commercial success, and this Court should not "relieve [GSK] of the consequences of [its] bargain." *Id*.

If GSK was "dissatisfied with the consequences of [its] agreement, the time to say so [was] at the bargaining table." *Id.* (quotation omitted). But to imply, years later, promises that GSK never bargained for would improperly deprive Abbott of its right to align Norvir's price with the demand for and value of that patented product. For this reason alone, the district court's ruling should be reversed.

## II. The Limitation-Of-Liability Clause Bars GSK's Contract Claim As A Matter Of Law.

Even if the jury could lawfully have found a breach of the implied covenant, the jury's findings in response to special interrogatories foreclose GSK from voiding the parties' limitation-of-liability provision—which bars all liability for lost profits arising from any such breach. Because GSK was awarded only lost-profits damages at trial, and because damages are a required element of GSK's contract claim, GSK's inability to meet its burden of voiding the limitation-of-liability clause provides an independent reason why Abbott is entitled to judgment as a matter of law. *Cramer v. Spada*, 203 A.D.2d 739, 741 (N.Y. App. Div. 1994) (noting that "failure to prove damages is also fatal to plaintiff's breach of contract cause of action").

### A. Under New York Law, The Limitation-Of-Liability Clause Is Presumptively Valid And Enforceable.

It is a bedrock rule of American law that parties—particularly sophisticated commercial entities—must be held to the express terms of their agreements. Nowhere is that rule applied more rigorously than in New York. As the highest court of that state has charged, "[the] most important function of courts of justice is rather to maintain and enforce contracts, than to enable parties thereto to escape from their obligation on the pretext of public policy, unless it clearly appears that they contravene public right or the public welfare." *Miller v. Cont'l Ins. Co.*, 40 N.Y.2d 675, 679 (N.Y. 1976) (quotation omitted).

Here, Article X of the license indisputably provided that neither party could recover consequential damages for breach of the agreement:

> EXCEPT AS OTHERWISE PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR ANY SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL LOSSES ARISING OUT OF OR RELATING TO THIS AGREEMENT.

ER-720. As the district court recognized, GSK's lost profits "are best characterized as consequential … damages," and thus would be barred under the terms of this provision. ER-397:8-9; ER-10 n.2.

Contractual provisions barring consequential damages represent "the parties' [a]greement on the allocation of the risk of economic loss in the event that the contemplated transaction is not fully executed." *Metropolitan Life Ins. Co. v. Noble*

*Lowndes Int'l*, 84 N.Y.2d 430, 436 (N.Y. 1994). Such provisions are a standard part of commercial transactions between sophisticated companies—which understand the consequences of allocating risks—and are presumptively valid and enforceable. "[T]he courts should honor" such obligations (*id.*) and routinely do so. *See*, *e.g.*, *Net2Globe Int'l, Inc. v. Time Warner Telecom of New York*, 273 F. Supp. 2d 436, 450-51 (S.D.N.Y. 2003) (citing cases enforcing limitation-of-liability clauses).

As Article 3.9 of the license, entitled "Failure to Supply Ritonavir," confirms, limiting consequential damages, such as lost profits, was essential to Abbott's decision to license its patents. As discussed above, this provision addresses the eventuality that Abbott might fail to supply Norvir to the market. Yet even in that instance—where the license would be rendered "completely valueless" because patients would have no ability to use GSK's PI with Norvir—GSK still could not recover lost profits or other damages. ER-319:4-8. Rather, its *sole remedy* is to "be relieved of its obligations to pay royalties" where, and for as long as, "the insufficiency of supply exists." ER-713-714.

Here, of course, Abbott did not withdraw Norvir from the market. Rather, Abbott supplied ample amounts of Norvir, with prescription volume nearly quintupling during the relevant period, enabling GSK to enjoy profits on nearly a billion dollars in Lexiva sales. ER-170:14-23. Insofar as GSK hoped to make *even*

*more* profits, Abbott was not responsible for converting that hope into reality. On the contrary, the express terms of Article X confirm that GSK assumed the risk that such profits would not materialize.

Again, sophisticated parties "'may later regret their assumption of the risks,'" but it is critical to contract law—and to parties who make business plans in reliance on the plain terms of their agreements—that "'courts let them lie on the bed they made.'" *Metropolitan Life*, 84 N.Y.2d at 436 (quoting 5 Corbin, *Contracts* § 1068, at 386). Article 3.9 confirms that barring lost profits was critical to the parties. As explained below, moreover, GSK cannot satisfy the narrow exception to New York's general rule requiring enforcement of limitations on liability by pointing to the jury's finding that Abbott committed a "grossly negligent" breach —a concept that the contract law does not recognize.

### B. To Overcome The Limitation-Of-Liability Clause, GSK Had To Prove Either Willful Intent To Inflict Harm Or Tortious Conduct, Both Of Which The Jury Rejected.

GSK's agreement to the limitation-of-liability clause bars it from recovering lost profits absent proof of conduct sufficiently severe to render the clause unenforceable on public policy grounds. But "New York Courts set the bar quite high" for plaintiffs seeking to escape limitation-of-liability clauses to which they agreed. *Deutsche Lufthansa AG v. Boeing Co.*, 2007 WL 403301, at *3 (S.D.N.Y. Feb. 2, 2007). And GSK did not clear that bar.

Under New York's general rule, a contract's limitation-of-liability provision will be enforced even when the defendant breaches the agreement, unless the defendant "*willfully intended to inflict harm* on plaintiff through its abandonment of the contract." *Metropolitan Life*, 84 N.Y.2d at 439 (emphasis added). The only circumstance in which a plaintiff arguably need not show willful intent to inflict harm is where the defendant seeks to avoid liability for violating *non-contractual* duties—for "conduct which is tortious in nature." *Id*. at 438. Grossly negligent conduct that falls short of an actual tort does not justify applying this exception to the general rule. *Id*. And as the verdict form here confirms, the jury rejected *both* any notion that Abbott intended to harm GSK *and* GSK's tort theories—finding mere contractual liability for breach of an implied covenant, and no liability for breaching any extra-contractual duty. ER-72. Thus, New York law provides no basis for allowing GSK to escape from the limitation on liability to which it agreed.

The district court nonetheless permitted the jury to override the limitation on the theory that New York law permits "avoidance of an exculpatory clause" based on "proof of 'willful or grossly negligent acts'"—without regard to whether those acts involved an intent to inflict harm or constituted a tort. ER-14:5-6 (quoting *Kalish-Jarcho, Inc. v. City of New York*, 58 N.Y.2d 377, 385 (1983)). As explained below, that view is squarely foreclosed by New York law.

### 1. Under *Metropolitan Life*, The Jury's Finding That Abbott Did Not Intend To Inflict Harm Bars GSK From Voiding The Limitation-Of-Liability Clause.

In *Metropolitan Life*, the New York Court of Appeals reversed a jury verdict imposing contract damages, finding them barred by the contract's limitation-of-liability clause. Although the jury had found that the defendant's breach was knowing and even "willful," that finding "was insufficient as a matter of law to establish that defendant *willfully intended to inflict harm on plaintiff* through its abandonment of the contract." 84 N.Y.2d at 439 (emphasis added).[3] That the defendant was "motivated by financial self-interest" in its "intentional nonperformance of the [a]greement" with a "competitor" was irrelevant, as "[c]onsequential damages resulting from that kind of contract nonperformance constitute a risk which plaintiff assumed under … the parties' [a]greement." *Id*. at 438, 439.

The jury's verdict here confirms that GSK did not meet its burden under the general rule of *Metropolitan Life*. To be sure, GSK *alleged* that Abbott increased Norvir's price and manipulated the timing of that increase with the specific intent of inflicting harm on GSK by "undermin[ing] and disrupt[ing] Leviva's launch and

[3] Under *Metropolitan Life*, proof of intent to inflict harm arguably requires a showing of tortious conduct. In holding that intentional breach is insufficient to override a limitation on liability, the court there *equated* "wrongful conduct in which defendant willfully intends to inflict harm on plaintiff at least in part through the means of breaching the contract between the parties" with "conduct which is tortious in nature." *Id*. at 438. This Court need not reach that issue, however, as the jury here rejected both any finding of intent to inflict harm and any finding of tort liability.

sales." ER-76. But the jury disagreed, answering "No" to GSK's interrogatories on that very point. *Id*. As the district court acknowledged, "GSK did not prove" these allegations: "the jury concluded" that Abbott did not raise Norvir's price "to undermine and disrupt Lexiva's launch and future sales." ER-20:16-18.

The jury's findings—to which the judgment must be "conformed," *Zhang*, 339 F.3d at 1037-38—thus foreclose GSK's allegation of an intent "to undermine and disrupt" Lexiva's launch. And *Metropolitan Life* bars the lost profits award as a matter of law because, as the jury's verdict confirms, GSK failed to prove that Abbott "willfully intended to inflict harm[.]" 84 N.Y.2d at 438-39.

The district court purported to distinguish *Metropolitan Life* on the basis that "Abbott's gross negligence is at issue" (ER-14:18), reasoning that New York law permits "avoidance of an exculpatory clause" based on "proof of 'willful or grossly negligent acts'"—without regard to whether such acts involve intent to inflict harm. ER-14:5-6; ER-15:12-14 ("a breaching party's reckless indifference can warrant an award of damages notwithstanding an exculpatory clause"). But that view cannot be squared with *Metropolitan Life*'s holding that voiding a limitation-of-liability clause based on a mere contract breach requires a showing of intent to harm the non-breaching party. 84 N.Y.2d at 438.

That the district court erred is confirmed by other federal courts' application of *Metropolitan Life*. As those courts have recognized, absent intent to harm, even

a willful breach is insufficient to override a contract's limitation on liability. *E.g.*, *Net2Globe Int'l*, 273 F. Supp. 2d at 451 ("[An] economically motivated decision cannot, as a matter of law, rise to the level of malice or intentional wrongdoing necessary to invalidate the contracts' limitations on liability provision."); *DynCorp v. GTE Corp.*, 215 F. Supp. 2d 308, 318 (S.D.N.Y. 2002) ("*Metropolitan Life* is authoritative, and it holds that an allegation that a breach of contract was willful rather than involuntary does not [itself] allow a court to disregard an unambiguous limitation of liability provision agreed to by parties of equal bargaining power."). And if a *willful* breach provides GSK with no escape hatch from a bargained-for limitation-of-liability clause, then a "*grossly negligent* breach" necessarily falls short as well. Whether intentional, grossly negligent, or involuntary, a breach is a breach. And a breach does not void a limitation-of-liability provision absent intent to harm.

### 2. GSK Cannot Void The Limitation-Of-Liability Clause Based On A So-Called "Grossly Negligent" Breach Without Proving A Related Tort.

The only circumstance in which New York courts allow a defendant's "gross negligence" to overcome a limitation-of-liability clause is when that gross negligence amounts to "conduct which is tortious in nature"—i.e., to conduct that violates *non-contractual* duties. *Metropolitan Life*, 84 N.Y.2d. at 438. Absent conduct that satisfies the requirements of the tort law, no New York Court of Appeals

decision of which we are aware has voided a limitation-of-liability clause based on "gross negligence" alone. And because the jury here rejected GSK's tort theories, GSK cannot void the limitation-of-liability clause on that basis.

***The origin and purpose of the exception for tort liability.*** By divorcing the "gross negligence" exception from its context in tort, the court below overlooked the exception's origin and purpose, as long understood by black-letter authorities, which explain that the whole point of the exception is to prevent parties from using *contractual* agreements to avoid liability for *tortious* conduct.

For example, in delineating the scope of the public policy exception in *Metropolitan Life*, the court quoted § 195[1] of the Restatement (Second) of Contracts, which explains the exception in terms of tort liability: "A term exempting a party from *tort liability* for harm caused intentionally or recklessly is unenforceable on grounds of public policy." 84 N.Y.2d at 439 (emphasis added). This section of the Restatement, entitled "Term Exempting From Liability For Harm Caused Intentionally, Recklessly Or Negligently," does not acknowledge *any* public policy exception for breaches of contract, but cites scores of decisions applying that exception to torts. Indeed, nothing resembling the district court's "grossly negligent breach" theory can be found anywhere in the Restatement.

Nor can anything like that theory be found in the leading contract treatises, which confirm that limitation-of-liability clauses are voidable only by "tortious"

conduct. For example, the court in *Metropolitan Life* cited Professor Corbin's contract law treatise for the propositions that: (1) "the courts see no harm in express agreements limiting the damages to be recovered for breach of contract," except in cases of "contracts of adhesion *or when the breach is also tortious*," and (2) "contractual exemption from liability for *tortious* conduct may be held against the public interest and illegal." *Id*. at 436 & n.*, 439 (citing 5 Corbin, Contracts § 1068, at 386 & n.84.5, 389) (first emphasis added). If permitted to stand, the district court's "grossly negligent" breach theory would mark a sharp break from this traditional understanding of the public policy exception.

In addition to being unprecedented, the district court's "grossly negligent" breach theory also renders well-understood tort and contract duties incomprehensible. It frankly makes no sense to use tort concepts such as "negligence," "gross negligence," or "reckless indifference" to classify a purported breach of contract, where a party's duties are defined by agreement rather than by some free-floating and ill-defined duty of care. As the court noted in *Metropolitan Life*, "[g]enerally in the law of contract damages, as contrasted with damages in tort, whether the breaching party deliberately rather than inadvertently failed to perform contractual obligations should not affect the measure of damages." 84 N.Y.2d at 435.

Similarly, the intermediate appellate court in *Metropolitan Life* remarked that the concept of "negligent performance of [a] contract" is "noncognizable."

192 A.D.2d 83, 88 (N.Y. App. Div. 1993), *aff'd*, 84 N.Y. 2d 430 (N.Y. 1994). When a party's rights are defined by contract, it "cannot escape the contractual limitations on recovery merely by recasting its breach of contract allegations as tort claims … or by employing language familiar to tort law." *Id*. at 93 (quotation omitted).

The district court's "grossly negligent" breach standard thus threatens to dramatically expand New York's public policy doctrine from a rare and narrowly defined exception to a vague claim that can be alleged in nearly every breach-of-contract case. After all, many parties who breach a contract do so through conduct that could be characterized as "grossly negligent" or "recklessly indifferent" (*e.g*., missing an important, specified deadline), and other parties (as in *Metropolitan Life*) deliberately breach for their own, non-malicious reasons. To void the parties' express agreement as to the consequences of such breaches, without any showing that the defendant breached a *tort law* duty of care, would render limitation-of-liability clauses unenforceable in most cases. The result would be to allow parties "to escape from their obligation on the pretext of public policy"—a result the New York courts have endeavored to avoid. *Miller*, 40 N.Y.2d at 679.

***Other New York precedent.*** In reasoning that a grossly negligent breach could support overriding a limitation-of-liability provision, the district court relied on *Sommer v. Federal Signal Corp*., 79 N.Y.2d 540 (N.Y. 1992), and *Kalisch-*

*Jarcho, Inc. v. City of New York*, 58 N.Y.2d 377, 385 (1983). But *Sommer*, *Kalisch-Jarcho*, and the black-letter authorities upon which they rely strongly support reversal—as confirmed by the New York Court of Appeals' reading of those cases in *Metropolitan Life*.

To our knowledge, *Sommer* is the lone New York Court of Appeals decision to hold that "grossly negligent conduct" can render a limitation-of-liability clause unenforceable, but it did so only because the claim at issue "*sound[ed] in tort*." 79 N.Y.2d at 552-53 (emphasis added). The plaintiffs there brought suit against an alarm company for failing to notify the fire department of a signal indicating that a building was on fire. Although the plaintiffs asserted claims for both breach of contract and gross negligence, the court's holding that the limitation of liability was unenforceable turned on the fact that the plaintiff was "not seeking the benefit of its contractual bargain, but instead seeks recovery of damages for a fire that spread out of control" due to negligence. *Id*. at 553. The only claims that could proceed in the face of the limitation of liability were those based on a special "duty of reasonable care" imposed on alarm companies—a duty "that is *independent of* [*their*] *contractual obligations*." *Id.* at 552-53 (emphasis added). Thus, only after finding that the plaintiff's "claims lie in tort as well as contract" did the court turn to "the effect of the contractual clauses limiting [the defendant's] liability to its customer." *Id.* at 553.

In setting out the tort exception, the court noted: "It is the public policy of [New York] … that a party may not insulate itself from damages caused by grossly negligent conduct[.]" *Id.* at 554. "Gross negligence," the court explained, "when invoked to pierce an agreed-upon limitation of liability in a commercial contract, must 'smack[] of intentional wrongdoing[.] … It is conduct that evinces a reckless indifference to the rights of others." *Id.* (citations omitted). Thus, while "limitation of liability clauses are enforceable against claims of ordinary negligence, those clauses cannot restrict … liability for conduct evincing a reckless disregard for its customers' rights." *Id*.

It makes sense to hold, as did *Sommer*, that a party cannot use a limitation-of-liability clause in a contract to insulate itself from certain *non-contractual* duties imposed by tort law as a matter of public policy. But it is quite another thing to hold, as did the court below, that parties may not use a limitation-of-liability clause to shift the risk of "grossly negligent" *breaches* of the very contract containing the clause. This is especially so, moreover, when *Metropolitan Life* holds that *intentional* breaches have no such consequence absent a willful intent to harm the non-breaching party. 84 N.Y.2d at 438-39.

Indeed, as in *Metropolitan Life* (*id*. at 439), the court in *Sommer* relied on black-letter authorities confirming that it is tort liability for gross negligence, not contract liability, that may override limitation-of-liability clauses on public policy

grounds. 79 N.Y.2d at 554 (citing § 195[1] of the Restatement (Second) of *Torts* for the maxim that "intentional or reckless conduct vitiates [a] contractual term limiting liability"). The court also relied on a New York *tort statute* that addressed actions involving "reckless disregard for the safety of others." 79 N.Y.2d at 554 (quoting CPLR 1602[7]). Further, the court crafted its "gross negligence" standard by reference to the claims that were actually before it—which, again, "sound[ed] in tort." *Id*. at 552-53. The court thus left it to the jury to determine whether the asserted *tort claims* there could be proven with the requisite "gross negligence" state of mind.

The district court also erred in relying on dictum from *Kalisch-Jarcho* indicating that "grossly negligent acts" (or "reckless indifference") are sufficient to overcome a limitation-of-liability clause. ER-11:3-6 (quoting *Kalisch-Jarcho*, 58 N.Y. 2d at 385). But the court misread this dictum in two ways.

First, the court erroneously equated "grossly negligent *acts*" with a grossly negligent breach of contract—a concept not recognized in the contract law and foreclosed by *Metropolitan Life*. "[G]ross negligence" (which New York courts have defined to mean "reckless indifference") is a standard for categorizing tortious conduct—i.e., negligent conduct with a heightened scienter requirement—not a standard that applies to an alleged breach.

There can be no doubt that *Kalisch-Jarcho*'s mention of "grossly negligent acts" referred to the tort exception, rather than some new exception for a grossly negligent breach. All of the authority that *Kalisch-Jarcho* cited for this "grossly negligent" standard involved tort claims. *See* 58 N.Y. 2d at 384-85 (citing two cases and three treatises holding that a contract cannot limit liability for torts of gross negligence). And if any doubt remained, *Metropolitan Life* would put it to rest. 84 N.Y.2d at 439 (citing *Kalisch-Jarcho* along with other black-letter authorities explaining that "[a] contractual exemption from liability for *tortious* conduct may be held against the public interest and illegal" (emphasis in original)).

Second, *Kalisch-Jarcho*'s actual holding was to *reject* the claimed breach of the implied duty, and thus to affirm the ordinary rule that, in breach-of-contract cases, a limitation-of-liability clause will be enforced absent an intent to harm. As in *Metropolitan Life*, the court in *Kalisch-Jarcho* reversed a finding that an intentional breach, without intent to harm, warranted voiding a contractual limitation of liability. 58 N.Y.2d at 386. *Kalisch-Jarcho* involved a claim for breach of a construction contract due to performance delays, and the jury had awarded damages notwithstanding a limitation-of-liability clause. The New York Court of Appeals found that verdict contrary to law, holding that "unless [the plaintiff] proved that 'the [defendant] acted in bad faith *and with deliberate intent delayed the plaintiff* in the performance of its obligation,' the plaintiff could not recover." *Id*. (emphasis

added). Even if this holding did not require a showing of "tortious" conduct—and *Metropolitan Life* suggests that it does (*see supra* at 49-56 & n.3)—it required a finding of intentional harm, which was rejected by the jury here.

The district court gave short shrift to what *Kalisch-Jarcho* actually held, reasoning that the holding was merely "pertinent to the circumstances of that case." ER-15:4-7. But the court's *holding*, and not its misread dictum, is what constitutes New York law. And, of course, *Kalisch-Jarcho* must be read in light of *Metropolitan Life*, which interpreted *Kalisch-Jarcho* to require a finding of "tortious" conduct or, at a minimum, a showing of "willful[] inten[t] to inflict harm on plaintiff through its abandonment of the contract." 84 N.Y.2d at 439. Again, the jury found that neither is present here. Indeed, Abbott did not abandon the contract at all, much less with willful intent to harm GSK.

## CONCLUSION

For the foregoing reasons, this Court should reverse the district court's denial of judgment as a matter of law and enter judgment for Abbott on GSK's breach-of-contract claim.

Respectfully submitted,

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## STATEMENT OF RELATED CASES UNDER CIRCUIT RULE 28-2.6

No other cases presently pending in this Court are deemed related to the present case under Cir. R. 28-2.6.

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**Nos. 11-17357, 11-17373**

# In the United States Court of Appeals for the Ninth Circuit

SMITHKLINE BEECHAM CORP. D/B/A GLAXOSMITHKLINE,
PLAINTIFF/APPELLEE/CROSS-APPELLANT

*v.*

ABBOTT LABORATORIES,
DEFENDANT/APPELLANT/CROSS-APPELLEE

## CERTIFICATE OF COMPLIANCE

I certify that, pursuant to Fed. R. App. P. 32(a)(7)(C) and Ninth Circuit Rule 32-1, the attached opening brief is proportionately spaced, has a typeface of 14 points or more and contains 13,786 words.

In preparing this certificate, I relied on the word count generated by Microsoft Word 2007.

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