

Los Angeles Times

# BUSINESS

Thursday, September 25, 2003

latimes.com/business

## Massive Verdict for Biomedical Company

Jury orders Flextronics to pay Beckman Coulter \$934 million for fraud and breach of contract.

By LISA GIRION  
AND DEBORA VRANA  
*Times Staff Writers*

An Orange County jury has hit **Flextronics International Ltd.** with a \$934-million verdict after finding the Singapore-based electronics manufacturer engaged in fraud and broke its contract to provide circuit boards to **Beckman Coulter Inc.**, a biomedical testing firm.

The award to Fullerton-based Beckman Coulter consisted of \$931 million in punitive damages on top of \$3 million in actual damages. The jury's decision in a trial that began in July was unsealed Wednesday in Superior Court in Santa Ana.

The verdict is unusually large, but it does not rank among the nation's biggest. In the last decade, there have been at least eight awards of \$3 billion or more, three of them in California. Although huge jury awards grab headlines, they are usually reduced on appeal or prompt a smaller settlement.

Still, trading in Flextronics shares on the Nasdaq Stock Market was halted Wednesday afternoon. Late Wednesday, Flextronics, which has an operational base in San Jose and several plants in California, said it was appalled by the verdict amount and vowed to appeal, saying the judgment was "unsupported by either the law or the facts."

[See Flextronics, Page C11]

## Trading in Flextronics Is Halted

[Flextronics, from Page C1]

Beckman Coulter sued Flextronics two years ago, alleging that the electronics firm reneged on a contract to make circuit boards for Beckman's flagship product, the LX20, a blood chemistry analyzer.

Beckman Coulter said Flextronics abruptly stopped making the circuit boards three years into a five-year agreement in order to pursue a more lucrative contract. The biomedical firm faced losing as much as \$300 million in revenue if it could not bring the LX20 to market in 1998 as planned, said Daniel J. Callahan, a lawyer for Beckman Coulter.

The company ultimately decided to make the circuit boards in-house, Callahan said.

The suit also accused Flextronics of withholding parts for the circuit boards until Beckman Coulter paid money beyond what was in the contract. Callahan said that demand could have jeopardized patients in hospitals in need of replacement parts for LX20 blood analyzers.

"The jury said they wanted to send a message to the shareholders of Flextronics that this type of corporate philosophy of putting profits ahead of the public's health and safety cannot be tolerated," Callahan said.

Lawyers and analysts said they did not believe the Flextronics verdict would survive an appeal because the punitive damages were more than 300 times the actual damages. The U.S. Supreme Court, in slashing a \$145-million jury award earlier this year in a case involving **State Farm Mutual Automobile Insurance Co.**, held that punitive damages that were more than nine times compensatory damages may violate a defendant's due process rights.

Callahan said, however, that jurors in the Flextronics case were properly instructed that they could "look at the actual and/or potential damages that the plaintiff faced as a result of the wrongful conduct."

Jurors concluded that Beckman Coulter's potential damages were more than \$341 million and set punitive damages at less than three times that amount, Callahan said.

Theodore J. Boutrous Jr., a partner with Gibson, Dunn & Crutcher in Los Angeles who tracks large punitive awards, said the recent Supreme Court opinion allows jurors to consider potential damages only in cases where there are no substantial actual damages.

"Plaintiffs are trying to make that the loophole, saying, 'Oh let's look at the potential harm,'" Boutrous said.

Jurors deliberated for about 3½ days before they reached a decision Tuesday afternoon. Superior Court Judge Greg Lewis sealed the verdicts until Wednesday morning, allowing the two sides an eleventh-hour opportunity to settle the case. When they did not settle, the verdicts were read.

Flextronics is hosting a conference in New York today to update analysts and investors on the company's future.

The verdict "is really going to put a damper on things," said David Miller, analyst with Kim & Co., an independent research firm in New York. "It caught everyone by surprise."

Christopher Lippencott, an analyst who follows Flextronics for McDonald Investments, a New York brokerage that has a "buy" rating on the stock, said he expected Flextronics' shares to drop \$1 or \$2 a share when trading opens today, but he believes the stock eventually will recover.

"My guess is that this award is going directly to appeals where it will get cut down to about \$250 million," Lippencott said.

Flextronics had about \$1.6 billion in liquidity and could handle such a reduced award, he said.

Before trading was halted in Flextronics shares Wednesday, they had declined 82 cents to \$15 on Nasdaq. Beckman Coulter shares closed at \$46.70, up 95 cents, on the New York Stock Exchange.

Reuters was used in compiling this report.