IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

ROBERT E. GILSON, M.D., WISCONSIN ALUMNI RESEARCH FOUNDATION, GILSON INC., and GILSON S.A.S.

Plaintiffs,

v.

MEMORANDUM AND ORDER
04-C-852-S

RAININ INSTRUMENT, LLC, RAININ GROUP, INC., and METTLER-TOLEDO, INC.,

Defendants.

This action for breach of contract and violation of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A) & (B), was tried to a jury which returned a verdict in plaintiffs' favor finding that defendants materially breached the parties' exclusive distributorship contract. Plaintiffs opted to terminate the contract, and the jury awarded damages to plaintiffs Robert E. Gilson and the Wisconsin Alumni Research Foundation for lost royalties in the amount of $70,000 and to plaintiff Gilson S.A.S. for lost profits in the amount of $500,000. Judgment was entered accordingly. The matter is presently before the Court on plaintiffs' and defendants' Rule 50(b) renewed motions for judgment as a matter of law.

MEMORANDUM

In considering a motion for judgment as a matter of law pursuant to Rule 50(b) the Court determines whether the evidence presented, viewed in the light most favorable to the prevailing party and combined with all reasonable inferences that may be drawn in favor of the prevailing party, is sufficient to support the verdict. Tennes v. Mass. Dep't of Revenue, 944 F.2d 372, 377 (7th Cir. 1991). The Court does not reevaluate the credibility of witnesses nor otherwise weigh the evidence. Id.

Liability Verdict:

At the close of the liability phase of trial, the jury was asked two special verdict questions relating to plaintiffs' breach of contract claim:

> 1. Did defendant Rainin materially breach its obligation to use its best efforts to promote and sell plaintiff Gilson's Pipetman?
>
> 2. Did Rainin materially breach its obligation to promote and sell in good faith Gilson's Pipetman?

The jury answered "no" to the first question and "yes" to the second.

Implied Covenant of Good Faith and Fair Dealing

Defendants maintain two objections to the second question. First, they contend that their failure to promote and sell in good faith does not support a cause of action for breach of contract. Second, they repeat their summary judgment argument that the parties agreed to an objective performance standard by which their compliance with this obligation should be measured, which they satisfied by selling at least 43,336 Gilson pipettes per year.

Defendants' first challenge relies on the mantra, acknowledged by the Court on summary judgment, that the implied duty of good faith and fair dealing in § 1-203 of the Uniform Commercial Code (UCC), Wis. Stat. § 401.203, "does not support an independent cause of action for failure to perform or enforce in good faith." Wis. Stat. § 401.203 cmt.; Hauer v. Union State Bank, 192 Wis. 2d 576, 597, 532 N.W.2d 456, 464 (Ct. App. 1995). The UCC Permanent Editorial Board (PEB) added this statement to the § 1-203 Official Comment in 1994. The addition reads in full as follows:

> This section does not support an independent cause of action for failure to perform or enforce in good faith. Rather, this section means that a failure to perform or enforce, in good faith, a specific duty or obligation under the contract, constitutes a breach of that contract or makes unavailable, under the particular circumstances, a remedial right or power. This distinction makes it clear that the doctrine of good faith merely directs a court towards interpreting contracts within the commercial context in which they are created, performed, and enforced, and does not create a separate duty of fairness and reasonableness which can be independently breached.

Wis. Stat. § 401.203 cmt. The PEB issued Commentary No. 10 to clarify the meaning of this addition, and the Wisconsin Court of Appeals has quoted this Commentary with approval. Hauer, 192 Wis. 2d at 597 n.7, 532 N.W.2d at 464 n.7. It explains:

> The inherent flaw in the view that § 1-203 supports an independent cause of action is the belief that the obligation of good faith has an existence which is conceptually separate from the underlying agreement. . .

> . [T]his is an incorrect view of the duty. "A party cannot simply 'act in good faith.' One acts in good faith relative to the agreement of the parties. Thus the real question is 'What is the Agreement of the parties?'" Put differently, good faith merely directs attention to the parties' reasonable expectations; it is not an independent source from which rights and duties evolve. . . . Consequently, resort to principles of law or equity outside the Code are not appropriate to create rights, duties, and liabilities inconsistent with those stated in the Code. For example, a breach of a contract or duty within the Code arising from a failure to act in good faith does not give rise to a claim for punitive damages unless specifically permitted.

PEB Commentary No. 10: Section 1-203 (Feb. 10, 1994), reprinted in Unif. Commercial Code app. 2, 3B U.L.A. 135, 136-37 (Supp. 2002) (quoting Dennis Patterson, Good Faith and Lender Liability 143 (1990)).

Accordingly, the duty of good faith does not provide an independent source of obligations from which a court may draw to reform agreements because they appear with the benefit of hindsight to be inequitable or unreasonable. Original Great Am. Chocolate Chip Cookie Co., Inc. v. River Valley Cookies, Ltd., 970 F.2d 273, 280 (7th Cir. 1992). "Good faith" requires only that a party to an agreement perform its obligations under the agreement with fidelity to the other party's promise-induced reasonable expectations. As Professor Corbin explains:

> If the purpose of contract law is to enforce the reasonable expectations of parties induced by promises, then at some point it becomes necessary for courts to look to the substance rather than to the form of the agreement, and to hold that substance controls over form. What courts are doing here, whether calling the process "implication" of promises, or interpreting the

> requirements of "good faith," as the current fashion may be, is but a recognition that the parties occasionally have understandings or expectations that were so fundamental that they did not need to negotiate about those expectations. When the court "implies a promise" or holds that "good faith" requires a party not to violate those expectations, it is recognizing that sometimes silence says more than words, and it is understanding its duty to the spirit of the bargain is higher than its duty to the technicalities of the language.

Arthur Linton Corbin, Corbin on Contracts § 570 (West Supp. 1993), quoted in PEB Commentary No. 10: Section 1-203, supra, 3B U.L.A. at 138 n.13. Accordingly, Judge Manion observed for the Seventh Circuit in Beraha v. Baxter Health Care Corp., 956 F.2d 1436, 1445 (7th Cir. 1992), that although the implied covenant of good faith and fair dealing does not create "an enforceable legal duty to be nice or to behave decently in a general way," it does require each party to an agreement to exercise any discretion afforded it by the agreement in a manner consistent with the reasonable expectations of the other party.

This is the standard to which defendants have been held. The special verdict did not ask whether defendants had breached some independent duty of good faith or invite the jury to substitute some amorphous standard of community morality for the parties' reasonable promise-induced and investment-backed expectations. Under the parties' exclusive dealing agreement, defendants had an obligation to promote and sell Gilson's Pipetman pipettes. The agreement left to Rainin discretion to determine how it would do so. Although the agreement allowed Rainin significant discretion in this regard, its discretion was not unlimited. To the contrary, its discretion was fettered by the obligation that it perform its obligation in good faith (i.e., in a manner consistent with Gilson's reasonable promise-induced expectations). Consequently, the Court instructed the jury as follows:

> BREACH OF CONTRACT: DUTY OF GOOD FAITH
>
> Under Wisconsin law, the contract between Rainin and Gilson requires that each party act in good faith towards the other party and deal fairly with that party when carrying out the terms of the contract. This requirement to act in good faith is a part of the contract just as though the contract stated it.
>
> Rainin had an obligation to use good faith when promoting and selling Gilson pipettes. Gilson claims that Rainin breached its good faith obligation by attempting to convince customers to purchase Rainin's pipettes instead of Gilson's pipettes or by replacing customers' Gilson pipettes with Rainin pipettes.
>
> Whether the duty to act in good faith has been met in this case should be determined by deciding what the contractual expectations of the parties were. Therefore, in deciding whether Rainin breached the duty of good faith by attempting to convince customers to purchase Rainin's pipettes instead of Gilson's pipettes or by replacing customers' Gilson pipettes with Rainin pipettes, you should determine the purpose of the agreement; that is, the benefits the parties expected at the time the agreement was made.
>
> This duty of good faith means honesty in fact and the observance of reasonable commercial standards of fair dealing in the trade.

The jury was then asked, "Did Rainin materially breach its obligation to promote and sell in good faith Gilson's Pipetman?" Responding in the affirmative, the jury found in Rainin's conduct not a breach of some independent duty but a material breach of contract, the terms of which found meaning in their entirety from the promise-induced expectations of the parties.

Defendants' second challenge repeats their summary judgment argument that the parties agreed to an objective performance standard by which their compliance with their obligation to promote and sell in good faith should be measured, which they argue that they satisfied by selling at least 43,336 Gilson pipettes per year. Although the obligation to perform in good faith may not be disclaimed by agreement, the parties may agree to determine the standard by which the performance of this obligation is to be measured. Wis. Stat. § 401.102(3)("the obligations of good faith, diligence, reasonableness and care prescribed by chs. 401 to 411 may not be disclaimed by agreement but the parties may by agreement determine the standards by which the performance of such obligations is to be measured if such standards are not manifestly unreasonable"). However, as the Court found on summary judgment, defendants' argument that the parties here intended to set such a standard is unpersuasive. Defendants point to the following clause within the agreement:

> Provided that Mettler remains the exclusive distributor of all Gilson volume adjustable mechanical pipettes, <u>if annual sales of PRODUCTS by Mettler in the U.S. in any calendar year are less than one half the unit sales of Current Pipetman Products in calendar year 2000, then the Gilsons shall have the right by written notice to Mettler to convert Mettler's rights under the [1972 Agreement] from exclusive to nonexclusive</u>; provided, however, that

> such exclusivity shall not lapse in the event such volume limitations are not achieved as a result of significant quality problems, Acts of God, significant logistical problems, or similar events causing a significant disruption in supply.

(emphasis added.) As the Court pointed out on summary judgment, this clause provides neither a source nor a measure of contractual obligations. In condition-subsequent form, the clause recognizes a condition the occurrence of which would excuse Gilson's exclusivity commitment to Rainin. It would be manifestly unreasonable to say that a provision of the agreement which does not obligate a party to act or refrain from acting provides the measure by which that party's good faith is to be judged. Were this clause to provide the sole measure of defendants' good faith, then defendants would not be obligated to perform their contractual obligations in good faith. In effect, defendants' interpretation disclaims the duty of good faith contrary to Wis. Stat. § 401.102(3), which expressly precludes such a result.

Implied Covenant of Best Efforts

Plaintiffs maintain that no reasonable juror could have answered "no" to the first question: "Did defendant Rainin materially breach its obligation to use its best efforts to promote and sell plaintiff Gilson's Pipetman?" Defendants now recognize that they were obligated to use best efforts to promote and sell Gilson's Pipetman pipettes. Prior to the liability verdict they had maintained that they had no such duty or, in the alternative, that their compliance with any duty to use best efforts should be measured by the clause which they now propose to be the proper measure of their obligation to promote and sell in good faith. Defendants argue that the evidence presented at trial was sufficient to support the jury's verdict that they did not materially breach their obligation to use best efforts. They argue further that in light of their obligation to use best efforts, a separate question directed to their good faith should not have been asked.

Defendants' concession that Rainin was obligated to use its best efforts to promote and sell Gilson's Pipetman pipettes verifies, a fortiori, that it was obligated to promote and sell in good faith. The "best efforts" standard implied in exclusive dealing agreements by Wis. Stat. § 402.306(2) obligates the parties "to use reasonable diligence as well as good faith in their performance of the contract." Wis. Stat. § 402.306 cmt.

The Seventh Circuit has observed that courts applying the best-efforts and good-faith standards have at times "muddled" the two concepts. Beraha, 956 F.2d at 1443. Professor Farnsworth describes the distinction between the two as follows:

> Because courts sometimes confuse the standard of best efforts with that of good faith, it will be well at the outset to make plain the distinction between the two standards. Good faith is a standard that has honesty and fairness at its core and that is imposed on every party to a contract. Best efforts is a standard that has

> diligence as its essence and is imposed only on those contracting parties that have undertaken such performance. The two standards are distinct and that of best efforts is the more exacting.

E. Allan Farnsworth, On Trying to Keep One's Promises: The Duty of Best Efforts in Contract Law, 46 U. Pitt. L. Rev. 1, 8 (1984) (discussing Zilg v. Prentice-Hall, 717 F.2d 671 (2d Cir. 1983)).

At trial, the Court understood plaintiffs to suggest breaches both of the diligence and good faith aspects of Rainin's duty to use best efforts. Wary of "muddling" these distinct aspects, the Court adopted plaintiffs' suggestion to provide each with its own instruction and corresponding special verdict question. As discussed, one question focused on Rainin's good faith performance of its obligation to promote and sell Gilson's pipettes. The other, titled "best efforts," addressed the additional diligence aspect of Rainin's duty:

> BREACH OF CONTRACT: DUTY OF BEST EFFORTS
>
> The contract between Rainin and Gilson requires Rainin to use its "best efforts" to promote and sell Gilson pipettes. The duty to use best efforts requires Rainin to use reasonable efforts and due diligence in the promotion of Gilson's pipettes.
>
> Gilson claims that Rainin breached its best efforts obligation by using various marketing and sales methods to convince customers to purchase Rainin pipettes instead of Gilson pipettes or to replace Gilson pipettes with Rainin pipettes.
>
> There is no dispute that the parties' agreement permits Rainin to manufacture pipettes which compete with Gilson pipettes. Nevertheless, Rainin's privilege to compete with Gilson is not absolute. The means that Rainin may employ to compete with Gilson are limited by

> Rainin’s obligation to use reasonable efforts and due diligence in the promotion and sale of Gilson’s pipettes. Although Rainin has a general right to promote the sale of a competing brand of pipettes and thereby lessen Gilson’s share of the market, there will be a point where Rainin’s methods are so manifestly harmful to Gilson as to justify the finding that Rainin has breached its obligation to Gilson.

While compliance with the “best efforts” standard requires good faith plus diligence, this instruction directed the jury to consider only the additional diligence aspect of the obligation. The instruction makes no mention of the “good faith” limits implicit in Rainin’s duty to diligently promote and sell Gilson’s pipettes. That aspect was separately presented in the other instruction and special verdict question.

At trial, plaintiffs’ argument focused on Rainin’s disparaging use of the Pipetman to promote and sell its own pipettes. Plaintiffs’ argument sounded in the bad faith associated with a party’s failure to honor the other party’s reasonable promise-induced expectations in the performance of its contractual obligations. The evidence presented thus nestled more comfortably in the good faith instruction. Plaintiffs presented less, if any, evidence directed at the additional “diligence” aspect imposed by the more exacting best efforts standard. Plaintiffs’ principal concern was not nonfeasance or competence but malfeasance. Thus the jury reasonably found in plaintiffs’ favor as to the good faith verdict question and rejected a finding that Rainin had breached the additional diligence requirement imposed by the duty to use best efforts. As a matter of law, however, defendants' material failure to promote and sell in good faith violated both the "good faith" and the more exacting "best efforts" standards. Consequently, plaintiffs' Rule 50 motion will be granted.

<u>Damages Verdict</u>

At the close of the damages phase of trial, the jury awarded damages to Gilson S.A.S. for lost profits in the amount of $500,000. Defendants maintain that Gilson S.A.S. is not entitled to recover lost profits from Rainin because Rainin was not obligated to purchase Pipetman pipettes from Gilson.

Plaintiff Dr. Robert E. Gilson and his father Dr. Warren E. Gilson are the named co-inventors of U.S. Patent No. 3,827,305, which was filed for certain adjustable volume manual pipettes on October 24, 1972. In December 1972 Warren and Robert Gilson entered into a "Capital Gains License Agreement" with Rainin Instrument Co., Inc. Under this 1972 Agreement, the Gilsons granted Rainin the exclusive right in the United States to use the method described in the '305 patent and technical information relating to processes, invention and methods relating to the manufacture of pipettes under the patent, including "the exclusive and perpetual right to make, use and sell under the aforesaid technical information and patent application." The '305 patent issued on August 6, 1974.

Gilson S.A.S. has manufactured the pipette disclosed by the ‘305 patent since 1972. Gilson owns the “Gilson” and “Pipetman” trademarks, under which this pipette was promoted and sold by Rainin throughout the United States. Throughout the course of the parties’ relationship, Gilson S.A.S. has sold its pipettes to Rainin for distribution to the public. The Gilson Pipetman pipette is the largest selling pipette in the United States. Known for its reliability and durability, it has become the industry standard. Gilson S.A.S. realized a profit from selling its Pipetman pipettes to Rainin. Additionally, Robert E. Gilson and the Wisconsin Alumni Research Foundation received what the parties describe as a “royalty” of $8.50 for every Pipetman pipette that Rainin sold.

Defendants argue that Rainin was not obligated to purchase pipettes from Gilson because Rainin could manufacture them itself. Consequently, they argue that Gilson had no expectation of profit resulting from their sale to Rainin.

Defendants’ argument overstates its rights under the 1972 Agreement. Pursuant to this agreement, Rainin could manufacture and sell the pipette disclosed by the ‘305 patent. It could not, however, promote and sell its pipettes under the “Gilson” and “Pipetman” names because it had no right to use these trademarks in connection with the promotion and sale of any pipette not manufactured by Gilson. Nor could it do so when the ‘305 patent expired in 1991.

Rainin was the exclusive U.S. distributor of the Pipetman pipette. As a consequence of this exclusive distributorship arrangement, Rainin was obligated to promote and sell Pipetman pipettes. Because Gilson was the only source of Pipetman pipettes, Rainin was obligated to purchase Pipetman pipettes from Gilson. Defendants' motion will be denied.

ORDER

IT IS ORDERED that defendants' renewed motion for judgment on as a matter of law is DENIED.

IT IS FURTHER ORDERED that plaintiffs' renewed motion for judgment as a matter of law is GRANTED.

Entered this 9th day of August, 2005.

BY THE COURT:

S/

JOHN C. SHABAZ
District Judge