CARLTON FIELDS

Court Denies Vacatur of Zero-Damage Arbitration Award, Finding No Manifest Disregard of the Law

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The case involved a dispute between a medical device manufacturer and a purchaser. The petitioner, Northgate Technologies Inc., alleged that United States Endoscopy Group Inc. breached a requirements contract by purchasing medical devices and supplies from a different manufacturer. U.S. Endoscopy had been purchasing the devices and supplies from Northgate for years, but, in 2021, U.S. Endoscopy began purchasing devices and supplies from a new competing company that had been acquired by its corporate parent. Northgate alleged that this change resulted in nearly $4 million in damages from lost sales. In February 2024, Northgate filed a demand for arbitration against U.S. Endoscopy, contending that U.S. Endoscopy breached the parties' agreement. The parties attended an American Arbitration Association commercial arbitration in which the arbitrator found that U.S. Endoscopy's parent company breached the parties' agreement. The arbitrator determined, however, that there were no damages for lost profits because, among other reasons, the number of devices that U.S. Endoscopy or its affiliates purchased from Northgate remained consistent throughout the term of their agreement. In October 2024, Northgate filed a petition in federal court to vacate the arbitration award, contending that the arbitrator exceeded his powers and displayed a manifest disregard of the law (a doctrine recognized in certain circuits, including the Sixth Circuit). The court denied the petition under the Federal Arbitration Act and the Illinois Uniform Arbitration Act. The court explained that, to show manifest disregard, a party must show more than a mere error in interpretation or application of the law. A party must provide evidence that the arbitrators were aware of the relevant law but chose to ignore it. Here, the court held that section 2-708(2) of the Uniform Commercial Code provided the applicable measure of lost profit damages and that recovery of lost profits in Illinois is allowable if the loss is proved with a reasonable degree of certainty and such profits were within the reasonable contemplation of the parties at the time the contract was entered. The arbitrator considered applicable case law and analyzed whether the breach was reasonably foreseeable at the time of contracting, and rendered his decision based on finding a lack of evidence that met that legal standard. The court therefore found that the arbitrator came to a "legally plausible" conclusion and did not manifestly disregard the law. The court rejected Northgate's arguments, which conflated proof of the breach of contract with proof of damages, and which incorrectly contended that the arbitrator erred by considering evidence of historic sales and past profits. The court concluded: "[Northgate] fails to show that the arbitrator manifestly disregarded the law. Instead, [Northgate's] arguments amount to a general dissatisfaction with the arbitrator's decision." Accordingly, the court denied Northgate's motion to vacate the arbitrator's award and granted U.S. Endoscopy's motion to confirm the award. *Northgate Technologies Inc. v. United States Endoscopy Group, Inc.*, No. 1:24-cv-01885 (N.D. Ohio Apr. 29, 2025).

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