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BLOGS

Relocation of Dealership

Auto Dealer Wins \$12 Million for Breach of Implied Covenant of Good Faith and Fair Dealing

Person Ford v. Ford Motor Company, 2008 WL 2486824 (Cal. Ct. App. June 23, 2008), concerned a dispute that initially arose in 1988 when Ford decided to relocate a California dealership to a site 2.9 miles from Person Ford, an existing dealer. The parties resolved their disagreement through a 1999 settlement agreement that gave Person five years to move to a site in Rancho Cucamonga near a new freeway that was to be completed. The agreement provided that “if an extension [of the relocation agreement] should be needed due to circumstances beyond the control of Person Ford (e.g., completion of highway), Ford would not withhold approval for what in its opinion is a reasonable extension period if supported by the then current Market Study.” A Ford market study in 1996 had supported Person’s relocation to Rancho Cucamonga.

Person did not relocate during the five years provided for in the agreement because the new freeway was not completed. Ford ultimately declined to grant an extension, citing a subsequent 2001 market study. At trial, the jury awarded Person \$2.6 million for past economic loss and \$9.5 million for future economic loss as a result of not being able to relocate to Rancho Cucamonga.

On appeal, Ford contended that Person’s claim for breach of the implied covenant of good faith and fair dealing should fail as a matter of law. Ford argued that because the contract gave it discretion to extend the commitment period, Ford cannot be held liable for declining to agree to an extension. The court disagreed, holding that the purpose of the agreement was to give Person the opportunity to relocate. That purpose – and Person’s legitimate expectation – would be defeated if Ford was not required to act in good faith when exercising its discretion to terminate the agreement. The jury was entitled to decide that Ford’s 2001 market study was not an honest and good faith assessment of Person’s prospects in Rancho Cucamonga and therefore was not a legitimate basis to decline to extend the relocation agreement.