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## BLOGS

State Franchise and Dealer Laws

# Court Broadly Interprets Inventory Repurchase Obligations Under the North Carolina Farm Machinery Franchise Act

In *Interstate Equipment Co. v. ESCO Corp.*, 2014 U.S. Dist. LEXIS 97263 (W.D.N.C. July 17, 2014), a court established a broad interpretation of a supplier's obligations under the North Carolina Farm Machinery Franchise Act to repurchase inventory from a dealer upon termination of the parties' relationship. In particular, the court held that: (1) the repurchase requirements applied even if the dealer originally purchased the inventory for resale at a location outside of North Carolina; (2) so long as title to inventory would be free and clear at the time it was transferred back to the supplier, it was eligible for repurchase under the Act; (3) the Act's requirement that repurchase of inventory occur within ninety days after termination was either tolled or waived given that litigation ensued prior to expiration of that period; (4) the supplier was not required to meet the Act's deadline to inspect parts within sixty days of issuance of the notice of termination because the pending lawsuit made that impractical; (5) "inventory" purchased more than thirty-six months prior to issuance of the notice of termination need not be repurchased, but the Act has no similar exception for "repair parts"; and (6) although the repurchase prices set by the Act are based on the parts' "current net price," the supplier could not avoid its repurchase obligation by claiming that certain replaced or superseded parts had no current net price and therefore were not required to be repurchased.

The court also held that to the extent there was conflict between the parties' written agreement and the Act, the Act would govern. However, provisions of the agreement that provided the supplier with greater rights than the Act otherwise would have given were still enforceable. Accordingly, although repair parts that were not resalable as new without repackaging or reconditioning are not required to be repurchased under the Act, because the supplier's return policy provided for return of certain repair parts in non-new condition after applying appropriate discounts, that practice would apply to the final repurchase of inventory as well.

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