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BLOGS

Terminations

Distributor's Previous Terminations of Distributorship Agreements with Cause Did Not Waive Right to Terminate at Will and Without Cause

In *Haynes Trane Service Agency, Inc. v. American Standard, Inc.* (10th Cir., reissued as amended July 6, 2009), the manufacturer (Trane) entered into an "at-will" distributorship agreement with the distributor (Haynes) pursuant to which Haynes purchased heating and air conditioning products from Trane for resale to the public. Eventually, Trane terminated the agreement after Haynes cheated Trane by submitting false invoices under Trane's rebate program. Haynes filed suit against Trane claiming, among other things, that: (1) Trane had improperly terminated the "at will" distributorship agreement and that, based upon past conduct, Trane could only terminate for "good cause;" (2) Trane was equitably estopped from denying that "good cause" was required for termination; and (3) Trane breached its fiduciary duty to Haynes. The district court denied as a matter of law the Hayne claim that the distributorship agreement was modified by course of conduct or that a fiduciary relationship existed between Haynes and Trane. The court also held that Haynes' own misconduct related to the rebate program precluded application of the equitable estoppel doctrine.

On appeal, the Tenth Circuit agreed that Trane's termination of the distributorship agreement was valid. The appellate court found that Trane's historical pattern of terminating other distributors with cause did not modify the distributorship agreement with Haynes because Trane's conduct involving other distributors was not "unequivocally inconsistent" with Trane's subsequent enforcement of its distributorship agreement with Haynes. In so doing, the court noted that Haynes presented insufficient evidence that the distributorship agreement had been modified under Wisconsin law, which governed the agreement. The court agreed that Haynes' submission of fraudulent invoices to Trane under the rebate program constituted unclean hands, and therefore, found no abuse of discretion by the district court in denying equitable estoppel as a remedy to Haynes under Wisconsin law. With respect to the fiduciary duty claim, the court affirmed the district court's finding that Haynes failed to establish that the parties had a fiduciary relationship.