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First Circuit Affirms Honda's Decision Concerning Internet Sales of Extended Warranties

In *Saccucci Auto Group v. American Honda Motor Co.,* 617 F.3d 14 (1st Cir. Aug. 4, 2010), the court held that a car manufacturer's decision to suspend temporarily the sale by its dealers of extended warranty plans over the Internet did not violate the Rhode Island "Dealer Act." Although Honda had allowed its dealers to sell extended warranties online since 1997, the practice had come under criticism by some dealers, including its Dealer Advisory Board, which complained that the lower prices offered for the plans over the Internet damaged goodwill with customers who were sold higher-priced plans at dealerships. As a result, Honda formed a committee that studied the issue for several months and considered alternatives to allowing the extended warranties to be sold online. In the end, Honda announced a temporary prohibition on the sale of the extended warranties over the Internet and established a range of graduated penalties for noncompliant dealers. In response, a Honda dealer in Rhode Island sued the company for, among other things, violation of the Dealer Act, claiming that the prohibition was coercive, arbitrary in nature, and predatory in practice. A federal district court granted Honda's motion for summary judgment, holding that the Dealer Act did not apply and, even if it did, the prohibition on Internet sales did not violate the statute.

The First Circuit affirmed the lower court's decision on the ground that Honda's decision did not violate the Dealer Act, sidestepping the question of whether the statute applied at all. The court concluded that Honda's decision was not arbitrary because the company had studied the question thoroughly and taken alternative measures into account. Further, the court held that the prohibition on Internet sales did not constitute a "wrongful demand" on the dealer because the decision was "at bottom, a commercial judgment" based on its concern that the sales were "harming brand image and loyalty" and leading some dealers to offer competing warranty plans. Similarly, the court found that Honda's action was not a predatory practice because there was nothing in the record that suggested that it was taken solely for its own benefit. "To the contrary," the court found, "the evidence indicates that Honda enacted the policy to protect brand loyalty and image, something in the best interest of Honda's dealers."