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BLOGS

Terminations

Third Circuit Affirms Termination of Dealer Agreement Without Cause

The United States Court of Appeals for the Third Circuit has affirmed in part and reversed in part a Pennsylvania federal court's order dismissing a dealer's claims that arose from the alleged improper termination of its dealer agreement. *Bull Int'l, Inc. v. MTD Consumer Grp., Inc.*, 2016 WL 3542249 (3d Cir. June 29, 2016). MTD terminated, without cause, a termless dealer agreement with Bull in accordance with the express terms of the agreement. Bull claimed that, among other things, the termination breached the implied covenant of good faith and fair dealing because it was motivated by "improper and invidious" reasons – for instance, Bull's advocacy for dealer-friendly legislation. MTD moved to dismiss on the grounds that the parties' agreement expressly permitted termination without cause.

On appeal, the Third Circuit agreed with MTD and affirmed the district court's dismissal of Bull's good faith and fair dealing claim, observing that conduct in accord with express contractual rights cannot constitute a breach of the implied covenant. The court noted that even if, under the applicable law of Ohio, a claim for breach of the implied covenant may arise where the purported justification for the termination of a contract was pretextual, those circumstances did not exist in this case because MTD offered no justification at all for the termination and did not need to do so under the parties' agreement. The court further held that retroactive application of an Ohio law governing the termination of dealer agreements would violate the retroactivity clause of the Ohio Constitution, and that Bull's tortious interference claims were barred by Pennsylvania's "gist of the action" doctrine because they arose from conduct controlled by the express terms of the parties' agreement. Finally, the court agreed with the district court that Bull had not adequately pled a claim for breach of the implied warranty of fitness for a particular purpose, but disagreed that it had not adequately pled a claim for breach of the implied warranty of merchantability and, therefore, reversed the district court's dismissal of that claim.

Related People

Maissa Frank

Partner

Washington, D.C.

202.295.2209

maissa.frank@lathropgpm.com