

U.S. UPDATE

CHRYSLER WINS A SIGNIFICANT RULING IN REINSTATEMENT CASE

A Federal District Court in California has handed Chrysler a victory in a reinstatement case brought by a terminated dealer. The decision, if it stands, will likely help Chrysler in other, similar litigation, given that the Court essentially validated the terms and conditions offered by Chrysler to terminated dealers who have won a reinstatement award in arbitration.

Some history is important here. In 2008 Old Chrysler sought to restructure under Chapter 11 of the U.S. Bankruptcy Code. As part of the restructuring, New Chrysler assumed about 2,400 of Old Chrysler's dealer sales and services agreements. Contracts with 789 dealers were terminated. In December, 2009 the dealers persuaded Congress to enact a law granting them an arbitration remedy for those terminated dealers who sought continuation or reinstatement. The law provided that those terminated dealers who prevailed in arbitration were entitled to receive from New Chrysler a "customary and usual letter of intent to enter into a sale and service agreement."

Los Feliz Ford, Inc. d/b/a Star Chrysler Jeep ("Star"), a terminated dealer, filed for arbitration. Star, a long-time and apparently profitable dealer, prevailed in arbitration. The arbitrator ordered New Chrysler to provide Star with its customary and usual letter of intent. New Chrysler did so, but Star objected to a number of conditions in the letter. Star particularly objected to New Chrysler conditioning reinstatement on Star's establishment of a new facility. Star objected to other conditions as well, and brought suit against New Chrysler in the U.S. District Court for the Central District of California.

Recently, in ruling on cross-motions for summary judgment filed by both sides, the Court found for New Chrysler. Star essentially submitted evidence, in the way of expert testimony, that New Chrysler's offer letter was unfair and unreasonable in light of other automobile industry offer letters. The Court found that the evidence submitted by Star missed the point. New Chrysler submitted evidence that essentially set out a detailed comparison of the Star offer letter with New Chrysler's other offer letters. Statistical analysis demonstrated that the terms to which Star objected were contained in anywhere from 75% to 100%, depending on the specific term, of New Chrysler's offer letters. As a result, the Court found that New Chrysler had met the statutory requirement. The Court explicitly rejected Star's contention that the offer letter was unlawful because it was not fair and reasonable. According to the Court, fair and reasonable is not the proper test. Rather, the proper analysis required comparing the Star offer letter to other offer letters issued by New Chrysler.

The Court's ruling is a significant victory for New Chrysler. Assuming other dealers challenge other offer letters, Chrysler will likely be able to point to this decision to support its position, assuming the challenged offer letter is consistent with its other offer letters.