A manufacturer entered into a five-year contract with a distributor to supply the distributor with products to be distributed in State A. The manufacturer reserved the right to enter into additional such contracts with other State A distributors. The manufacturer knew that the distributor would, on the basis of the agreement, invest in an expansion of its distribution centers in State A in order to handle the distribution of the manufacturer's products to retail sellers in that state.

At the time the manufacturer entered into the contract, it had already firmly decided to withdraw from the State A market in two years. Because the distributor had heard rumors of such a plan, its chief executive officer, before signing the contract, asked a representative of the manufacturer whether such a plan was in place. The representative denied the existence of any such plan.

Two years into the contract, the manufacturer announced that it no longer intended to sell products in State A and canceled its contract with the distributor. The manufacturer did not thereafter supply products for distribution or sale in State A.

Does the distributor have a viable fraud claim against the manufacturer?

A. No, because the distributor's exclusive remedy is for breach of contract.

B. No, because the manufacturer did not misstate any material facts when entering into the contract.

C. Yes, because the manufacturer denied that it had a withdrawal plan when the distributor asked about it at the time the contract was formed.

D. Yes, because the manufacturer reserved the right to do business with other State A distributors.

Correct

Collecting Statistics

03 mins, 26 secsTime Spent

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Explanation:

To have a viable claim for **fraud** (ie, **intentional misrepresentation** or deceit), the plaintiff must show that:

the **defendant knowingly** or recklessly **misrepresented a material fact** with the **intent to induce** the plaintiff's reliance *and*

the plaintiff **justifiably relied** on the defendant's misrepresentation and suffered **pecuniary loss** (ie, monetary loss).

Here, the manufacturer falsely denied that it had a plan to withdraw from the State A market when the distributor asked about it at the time the contract was formed. The manufacturer misrepresented this material fact with the intent that the distributor would enter the contract. The distributor then entered the contract after justifiably relying on the misrepresentation and will suffer monetary losses as a result of the manufacturer canceling the contact. Therefore, the distributor has a viable fraud claim against the manufacturer.

(Choice A) The distributor may sue for fraud under tort law in addition to a breach-of-contract claim. Therefore, breach of contract is not the distributor's exclusive remedy.

(Choice B) The manufacturer did misstate a material fact when it entered into the contract because it falsely denied that it planned to withdraw from State A even though it knew that the distributor would expand its presence there based on this denial.

(Choice D) Although the manufacturer reserved the right to do business with other State A distributors, the distributor still has a viable claim for fraud since the manufacturer intentionally misrepresented that it would not withdraw from the State A market in two years.

Educational objective:

Fraud (ie, intentional misrepresentation or deceit) liability arises when (1) the defendant knowingly or recklessly misrepresents a material fact with the intent to induce the plaintiff's reliance and (2) the plaintiff reasonably relies on that misrepresentation and suffers pecuniary loss.

References

Restatement (Third) of Torts: Liab. for Econ. Harm § 9 (Am. Law Inst. 2020) (defining fraud).

Restatement (Third) of Torts: Liab. for Econ. Harm §§ 10–11 (Am. Law Inst. 2020) (explaining the elements required for fraud).

Intentional misrepresentation

Defendant must:

- knowingly or recklessly misrepresent a material fact
- with the intent to induce plaintiff's reliance

Plaintiff must:

- reasonably rely on defendant's misrepresentation
- suffer pecuniary loss as a result