Responding to a county's written advertisement for bids, a tire company was the successful bidder for the sale of tires to the county for its vehicles. The tire company and the county entered into a signed, written agreement that specified, "It is agreed that the tire company will deliver all tires required by this agreement to the county, in accordance with the attached bid form and specifications, for a one-year period beginning September 1, 2019." Attached to the agreement was a copy of the bid form and specifications. No definite quantity of tires to be bought by the county from the tire company was specified in any of these documents.

In January 2020, the tire company learned that the county was buying some of its tires from one of the company's competitors. A court has determined the tire company–county agreement is a requirements contract.

If the tire company sues the county for damages caused by the county's purchase of some of its tires from the competitor, is the tire company likely to prevail?

A. No, because the agreement is indefinite as to quantity.

B. No, because the agreement lacks mutuality of obligation.

C. Yes, under the contracts clause of the United States Constitution.

D. Yes, under the provisions of the Uniform Commercial Code.

Explanation:

Buyer's duty of good faith & fair dealing under requirements contract

Buyer must purchase goods in question from seller only

Requirements must approximate reasonably foreseeable figure

Reasonable elasticity in requirements permitted (so long as any variations are in good faith)

Article 2 of the **Uniform Commercial Code** (UCC) governs contracts for the **sale of goods**. Under the UCC, a requirements contract is a contract for the sale of as many goods as the buyer requires during a specified period. This creates an **exclusive agreement** between the **buyer and seller**. As a result, the **duty of good faith and fair dealing** implied in every contract **requires the buyer** to **purchase goods from** the **seller only**. A failure to do so violates that duty and is a breach of contract.

Here, a court determined that the tire company–county agreement was a requirements contract. As a result, the implied duty of good faith and fair dealing required the county to purchase *all* its tires from the tire company. The county violated that duty, and breached the contract, when it purchased tires from the tire company's competitor. Therefore, the tire company will likely prevail in its suit against the county for damages.

(Choice A) The quantity term is sufficiently definite in a requirements contract because the quantity can be made certain by reference to objective facts (ie, the buyer's actual requirements).

(Choice B) An agreement lacks mutuality of obligation when one of the parties to the agreement is not obligated to perform. Requirements contracts *have* mutuality of obligation because the seller must provide, and the buyer must purchase, as many goods as the buyer requires during the contract term.

(Choice C) The contracts clause generally prohibits state legislatures from enacting laws that substantially impair existing contract rights (not seen here).

Educational objective:

A requirements contract is an exclusive agreement between the buyer and seller for the sale of as many goods as the buyer requires during a specified period. The buyer's failure to purchase the goods from the seller violates the implied duty of good faith and fair dealing and constitutes a breach of contract.

References

U.C.C. § 2-306 (Am. Law Inst. & Unif. Law Comm'n 2020) (requirements contract).