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Frost National Bank v. L&F Distributors 2005 WL 1252269 (Tex. May 27, 2005)

Frost National Bank (öLessorö) purchased fourteen delivery vehicles for the purpose of leasing them to Williams Distributors (öLesseeö). The terminal rental adjustment clause (TRAC) gave the lessee the right to purchase the vehicles by giving 90 day written notice and provided for payment "on the last day of [the lease's] expiration in an amount in cash equal to the then Fair Market Value . . ." The standard TRAC also provided that Lessor would be guaranteed a payment of 20% of the invoice price of the vehicles when they were sold.

Approximately a year into the lease term, Lessee assigned the lease to another company (öAssigneeö). Assignee notified Lessor of its intent to exercise to purchase option at that time, and promptly sued Lessor for a declaratory judgment, adding a claim for specific performance.

The court first considered the rules of construction of agreements in determining whether the TRAC had an unambiguous meaning. While the trial court had found that the clause unambiguously provided that Assignee had the right to exercise the option at any time with due notice, and that Lessor was in breach by refusing to sell the vehicles, the Texas Supreme Court reached the opposite conclusion. The court first pointed to the language of the contract as a whole, finding that, based on the definition of the term "expiration"



within the contract, the TRAC unambiguously allows Assignee to purchase the vehicles only at the end of the lease term. Specifically, the court noted that the court of appeals failed to distinguish between the terms "expiration" and "termination." The latter, rather than the former, refers to premature termination of the lease period, as would be required for exercise of the purchase option before the lease term was up. Finally, the court held that application of the TRAC in the manner advocated by Assignee would be "unreasonable, inequitable, and oppressive." Such construction would require Lessor to sell the vehicles at the lessee's discretion at 20% percent of their original value, foregoing a potentially great proportion of their rental value. Accordingly, the court reversed and rendered judgment on the declaratory judgment action, remanding the other claim for trial proceedings.

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