

When You Have to Be a Party to the Contract ... Court of Appeal Rules That Ford Motor Company Cannot Compel Arbitration for Song-Beverly Consumer Warrant Act Claims Where Both Ford Motor Company and the Dealer Were Sued

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In an Opinion published March 25, 2025, the California Court of Appeal, First Appellate District, issued an important Ruling in regard to the breadth of arbitration obligations under contract. In the case of Armando Ballesteros v. Ford Motor Co. (2025) Cal. App. LEXIS 19 ("Ballesteros case"), Plaintiff Armando Ballesteros entered into a retail installment contract with Fairview Ford Sales, Inc. ("Fairview") in order to purchase a new 2017 Ford Explorer Sport. Ballesteros signed a preprinted form entitled, "RETAIL INSTALLMENT SALE CONTRACT – SIMPLE FINANCE CHARGE (WITH ARBITRATION PROVISION)." The first page of the contract included an "Agreement to Arbitrate." The contract provided that either Ballesteros or Fairview Ford may elect to resolve any dispute by arbitration.

Ballesteros later sued Fairview, as the retailer, and Ford Motor Co. ("Ford"), as the distributor and manufacturer of the Explorer. Ballesteros alleged that the Explorer was delivered with serious defects and "nonconformities." Among other things, Ballesteros claimed that the Explorer did not start, had engine problems, and contained a defective infotainment system. Ballesteros' Complaint did not allege a Cause of Action for Breach of Contract, and instead Ballesteros asserted three Causes of Action under the Song-Beverly Act (the State's Lemon Law). Shortly after suit was filed, Fairview and Ford moved to compel arbitration based upon the arbitration provision in the Ballesteros/Fairview contract. Although not a signatory to the contract, Ford urged it could compel arbitration under the Ballesteros/Fairview contract pursuant to an equitable estoppel theory. Ford primarily relied upon the case of Felisilda v. FCA US LLC (2020) 53 Cal.App.5th 486 ("Felisilda"). Ballesteros opposed the Motion to Compel Arbitration, arguing that Felisilda was incorrectly decided. The trial court granted the Motion to Compel Arbitration as to Fairview but denied it as to Ford. Ford timely appealed.

On appeal, the Court of Appeal noted that, even though there is a strong public policy in favor of arbitration, that public policy did not apply in the Ballesteros case because it was undisputed that there was never an agreement between Ballesteros and Ford to arbitrate anything. The Court also rejected Ford's equitable estoppel arguments. The Court expressed that the issue was whether a Plaintiff's claims against a non-signatory are so tethered to the terms of a contract that Plaintiff should have to arbitrate them pursuant to an arbitration provision of the contract. The Court expressed that such circumstances could occur but were very limited and did not apply here.

The Court also distinguished Felisilda and held that the California Supreme Court's recent opinion in Ford Motor Warranty Cases (2023) 89 Cal.App.5th 1324 was on point and controlled (the California Supreme Court ruled that a manufacturer could not compel arbitration of vehicle defect claims under an equitable estoppel theory because the sale contracts did not broadly authorize arbitration of claims against third party nonsignatories). The Ballesteros case is important in that it clearly places limits on non-signatories' rights to arbitrate, and in particular with respect to retail automobile sales.

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