SUPREME COURT OF TENNESSEE

Ellis v. Pauline S. Sprouse Residuary Trust

280 S.W.3d 806 (Tenn. 2009) · No. E2006-01771-SC-R11-CV · Decided March 23, 2009

SUMMARY

The Tennessee Supreme Court held that a lessee effectively exercised an option to extend a lease by holding over and continuing to pay the required rent when the lease did not specify how or when the option had to be exercised. The court distinguished Norton v. McCaskill and reaffirmed the rule from Carhart v. White Mantel & Tile Co. The judgment of the Court of Appeals was reversed, and the case was remanded for consideration of additional issues concerning the statute of frauds, lost profits, and punitive damages.

CASE DETAILS

COURT	Supreme Court of Tennessee
WRITING FOR THE COURT	William C. Koch, Jr., J.; William C. Koch, Jr.; Janice M. Holder; William M. Barker; Cornelia A. Clark; Gary R. Wade
JURISDICTION	Tennessee
DECIDED	March 23, 2009
DOCKET	E2006-01771-SC-R11-CV
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	The lessee sought permission to appeal from the Tennessee Court of Appeals' decision reversing most of a jury's damages award and remanding for a new trial on punitive damages. The Tennessee Supreme Court granted the application, reversed the Court of Appeals, and remanded for consideration of issues that court had not previously decided.
STANDARD OF REVIEW	The Supreme Court reviewed the legal interpretation and application of the lease-option rule de novo and examined whether material evidence supported the jury's factual finding that Ellis effectively exercised the option.
PRECEDENTIAL VALUE	Published, precedential Tennessee Supreme Court opinion
PARTIES	Mike Ellis v. Pauline S. Sprouse Residuary Trust, Kerry M. Sprouse

TOPICS

landlord tenant | contract interpretation | real estate | appellate procedure | remedies

PRACTICE AREAS

landlord-tenant law | contract law | real estate | appellate procedure | damages and remedies

QUESTIONS PRESENTED

1. Whether a lessee effectively exercises an option to extend a lease that contains no specific provision prescribing the time or method of exercise by holding over and paying the rent required by the lease.
2. Whether Norton v. McCaskill required exercise of the option during the original lease term even though the lease did not require exercise at the end of or termination of the term.
3. Whether the evidence supported the jury's finding that Ellis effectively extended the lease.
4. Whether the statute of frauds, the proof of lost profits, and the proof supporting punitive damages required reversal or modification of the judgment.

HOLDINGS

1. When a lease grants an option to extend but does not specify how or when the option must be exercised, the lessee may effectively exercise the option by remaining in possession after expiration of the initial term and paying the rent required by the lease, with the lessor's acceptance of that rent creating a rebuttable presumption that the option was exercised.
2. Norton v. McCaskill applies to leases requiring renewal at the end of or at the termination of the lease, or containing substantially similar language; it does not eliminate the Carhart rule for leases lacking such language.
3. Material evidence supported the jury's conclusion that Ellis effectively exercised the option to extend the lease for five additional years.

KEY QUOTATIONS

> *"[W]e are of [the] opinion that the mere continuance of occupancy by the tenant or lessee after the expiration of the lease period is ordinarily accepted as the exercise of the option reserved in the lease to occupy the premises for an additional term."* (811)

> *"Norton v. McCaskill, by its own terms, has no application to the lease at issue in this case."* (813)

> *"Therefore, despite the fact that Ms. Bagwell and Mr. Sprouse denied having conversations about the lease with Mr. Ellis, the record contains material evidence to support the jury's conclusion that Mr. Ellis had effectively exercised his option to extend the lease for another five years."* (814)

FACTUAL BACKGROUND

In 1997, Mike Ellis entered into a five-year lease for a 103.3-acre farm tract that gave him an option for five additional years but did not specify how or when the option had to be exercised. After the initial term expired, Ellis remained in possession, continued farming, and timely paid the $3,000 annual rent in 2002, 2003, and

2004, which the lessor accepted. The property was later sold to Kerry M. Sprouse, who knew that Ellis had some interest in the property, entered the land and damaged Ellis's corn crop, and ultimately required Ellis to vacate. A jury found that Ellis had extended the lease and awarded damages.

PROCEDURAL HISTORY

A Knox County jury found that Mike Ellis had effectively extended his farm lease and that Kerry M. Sprouse had actual notice of the lease and trespassed or interfered with Ellis's possession. The jury awarded $534 for crop damage, $82,000 in lost profits, and $30,000 in punitive damages. The Court of Appeals affirmed the $534 award, vacated the lost-profit and punitive-damages awards, and remanded for a new punitive-damages trial. The Supreme Court reversed and remanded to the Court of Appeals to address the pretermitted statute-of-frauds, lost-profits, and punitive-damages issues.

DISPOSITION

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reversed_and_remanded
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REMAND INSTRUCTIONS

The judgment of the Tennessee Court of Appeals was reversed, and the case was remanded to that court for further proceedings consistent with the opinion, including consideration of the statute-of-frauds issue, the sufficiency of the evidence supporting lost profits, and the sufficiency of the evidence supporting punitive damages.

CASES CITED

- Carhart v. White Mantel & Tile Co., 122 Tenn. 455, 123 S.W. 747 (1909)
- Norton v. McCaskill, 12 S.W.3d 789 (Tenn. 2000)
- Four Eights, LLC v. Salem, 194 S.W.3d 484 (Tenn. Ct. App. 2005)
- Goolsby v. Upper Cumberland Oil, Inc., 34 S.W.3d 309 (Tenn. Ct. App. 2000)
- Carder, Inc. v. Cash, 97 P.3d 174 (Colo. Ct. App. 2003)
- Corthouts v. Connecticut Fire Safety Services Corp., 2 Conn. Cir. Ct. 34, 193 A.2d 909 (1963)
- Head v. Scanlin, 258 Ga. 212, 367 S.E.2d 546 (1987)
- Sanders v. Middleton, 112 Me. 433, 92 A. 488 (1914)
- Straus v. Shaheen, Inc., 310 Mass. 646, 39 N.E.2d 573 (1942)
- Enterprise Co. v. Americom Corp., 1 Neb. App. 1125, 510 N.W.2d 537 (1993)
- Coulter v. Capitol Finance Co., 266 N.C. 214, 146 S.E.2d 97 (1966)
- Kearney v. Hare, 265 N.C. 570, 144 S.E.2d 636 (1965)
- Idol v. Little, 100 N.C. App. 442, 396 S.E.2d 632 (1990)
- Cusamano v. Anthony M. DiLucia, Inc., 281 Pa. Super. 8, 421 A.2d 1120 (1980)
- Willeke v. Bailey, 144 Tex. 157, 189 S.W.2d 477 (1945)
- Painter v. Town of Groveland, 79 So. 2d 765 (Fla. 1955)

- Smithart v. John Hancock Mutual Life Insurance Co., 167 Tenn. 513, 71 S.W.2d 1059 (1934)
- Chapman Drug Co. v. Chapman, 207 Tenn. 502, 341 S.W.2d 392 (1960)
- Boyd v. Comdata Network, Inc., 88 S.W.3d 203 (Tenn. Ct. App. 2002)
- Bob Pearsall Motors, Inc. v. Regal Chrysler-Plymouth, Inc., 521 S.W.2d 578 (Tenn. 1975)
- Home Beneficial Association v. White, 180 Tenn. 585, 177 S.W.2d 545 (1944)
- Sikora v. Vanderploeg, 212 S.W.3d 277 (Tenn. Ct. App. 2006)
- C-Wood Lumber Co. v. Wayne County Bank, 233 S.W.3d 263 (Tenn. Ct. App. 2007)
- Moak v. Continental Casualty Co., 4 Tenn. App. 287 (1927)
