SUPREME COURT OF SOUTH DAKOTA

Nelson v. Schellpfeffer

656 N.W.2d 740 (S.D. 2003) · No. No. 22117 · Decided January 15, 2003

SUMMARY

The Supreme Court of South Dakota affirmed a judgment crediting a $110,057.96 distribution from a limited partnership against Donald Schellpfeffer’s obligation to Robert Nelson under an indemnity agreement. The court held that treating the partnership’s return of capital as a distribution Nelson could retain, while also requiring Schellpfeffer to repay the full investment with interest, would produce an absurd result inconsistent with the agreement’s purpose. The court therefore interpreted the agreement to require credit for the partnership payment.

CASE DETAILS

COURT	Supreme Court of South Dakota
WRITING FOR THE COURT	Timm, Circuit Judge; Gilbertson, Chief Justice; Zinter, Justice; Amundson, Retired Justice; Von Wald, Circuit Judge
JURISDICTION	South Dakota
DECIDED	January 15, 2003
DOCKET	No. 22117
DISPOSITION	affirmed
PROCEDURAL POSTURE	Nelson appealed a judgment crediting a payment he received from Sunshine Partners Limited Partnership against Schellpfeffer's separate contractual obligation to Nelson.
STANDARD OF REVIEW	Contract interpretation is a question of law reviewed de novo. To the extent the trial court relied on factual findings concerning ambiguity, those findings were reviewed under the clearly erroneous standard.
PRECEDENTIAL VALUE	Published opinion of the Supreme Court of South Dakota; precedential.
PARTIES	Robert E. Nelson v. Donald A. Schellpfeffer

TOPICS

contract interpretation · contracts · commercial litigation · partnership law · appellate procedure

PRACTICE AREAS

contract law · commercial litigation · partnership law · appellate practice

QUESTIONS PRESENTED

1. Whether the written agreement required Schellpfeffer to pay Nelson the full amount of his Sunshine capital contributions plus twelve percent interest without credit for the $110,057.96 return-of-capital payment made by Sunshine.
2. Whether the term "distributions" in paragraph two of the agreement included a return of capital from Sunshine.
3. Whether interpreting "distributions" to include the return of capital would produce an absurd result contrary to the parties' intent.

HOLDINGS

1. The agreement did not require Schellpfeffer to pay Nelson the full $197,000 investment plus interest without credit for the $110,057.96 Sunshine payment. Schellpfeffer's obligation was reduced by the amount Sunshine had already returned to Nelson.
2. Although a return of capital falls within the literal dictionary definition of "distribution," the term as used in this agreement did not include capital returned by the partnership.
3. Even if "distributions" were reasonably understood to include or exclude a return of capital, the record supported the trial court's decision and its factual determination was not clearly erroneous.

KEY QUOTATIONS

> *“An absurd result is one that is "ridiculously incongruous or unreasonable;" a result that the parties, presumed to be rational persons pursuing rational ends, are very unlikely to have agreed upon.”* (656 N.W.2d at 743)

> *“The parties sought to take the risk out of the investment for Nelson, not to have any partnership capital returns doubled by Schellpfeffer.”* (656 N.W.2d at 744)

FACTUAL BACKGROUND

Nelson invested in Sunshine Partners Limited Partnership after Schellpfeffer agreed in a written agreement to indemnify Nelson by repaying his cash capital contributions with twelve percent annual interest upon demand after January 1, 1993. Nelson's contributions eventually totaled $197,000, and he demanded payment from Schellpfeffer in June 1999. Sunshine later paid Nelson $110,057.96 as his share of proceeds from the sale of partnership property. The trial court credited that payment against Schellpfeffer's obligation, rather than allowing Nelson to retain the Sunshine payment and recover the entire investment plus interest from Schellpfeffer.

PROCEDURAL HISTORY

Nelson demanded payment under the parties' written agreement after investing in Sunshine. After Schellpfeffer failed to pay, Nelson sued. Following a piecemeal bench trial, the trial court ruled that the $110,057.96 payment from Sunshine reduced Schellpfeffer's obligation. Nelson appealed, and the Supreme Court of South Dakota affirmed.

DISPOSITION

affirmed

CASES CITED

- AFSCME v. Sioux Falls School District, 2000 SD 20, 605 N.W.2d 811
- Hayes v. Northern Hills General Hospital, 1999 SD 28, 590 N.W.2d 243
- Singpiel v. Morris, 1998 SD 86, 582 N.W.2d 715
- Crowley v. Texaco, Inc., 306 N.W.2d 871 (S.D. 1981)
- Frost v. Williams, 2 S.D. 457, 50 N.W. 964 (1892)
- Giddings v. Nefsy, 51 S.D. 73, 212 N.W. 507 (1927)
- Beanstalk Group, Inc. v. AM General Corp., 283 F.3d 856 (7th Cir. 2002)

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