

SUPREME COURT OF SOUTH DAKOTA

Granite Buick GMC, Inc. v. Ray

2015 S.D. 93 · No. #27356 · Decided December 9, 2015

SUMMARY

The South Dakota Supreme Court affirmed the denial of injunctive relief sought to enforce non-compete agreements against former employees who established a competing automobile dealership. The court held that Adam Ray’s covenant was fraudulently induced and that McKie Ford waived its right to enforce Scott Hanna’s covenant. The court therefore did not reach the parties’ remaining arguments concerning the other affirmative defenses.

CASE DETAILS

COURT	Supreme Court of South Dakota
WRITING FOR THE COURT	Severson, Justice; Gilbertson, Chief Justice; Zinter, Justice; Wilbur, Justice; Houwman, Circuit Court Judge, sitting for Kern, Justice
JURISDICTION	South Dakota
DECIDED	December 9, 2015
DOCKET	#27356
DISPOSITION	affirmed
PROCEDURAL POSTURE	Appeal from the circuit court's decision, on remand, denying injunctive enforcement of two noncompete agreements based on affirmative defenses.
STANDARD OF REVIEW	Findings of fact are reviewed for clear error and will not be set aside unless the appellate court is left with a definite and firm conviction that a mistake has been made.
PRECEDENTIAL VALUE	Published opinion; precedential South Dakota Supreme Court decision.
PARTIES	Granite Buick GMC, Inc., formerly McKie Buick GMC, Inc., McKie Ford Lincoln, Inc. v. Adam Ray, Scott Hanna, Gateway Autoplex, LLC

TOPICS

- noncompete agreements
- fraudulent inducement
- waiver of breach
- equitable relief
- appellate procedure

PRACTICE AREAS

contracts

employment law

remedies

evidence

appellate procedure

QUESTIONS PRESENTED

1. Whether parol or extrinsic evidence could be considered in evaluating Ray's affirmative defenses to enforcement of the noncompete agreement.
2. Whether Ray established fraudulent inducement sufficient to defeat enforcement of his noncompete agreement.
3. Whether Hanna established waiver sufficient to defeat enforcement of his noncompete agreement.
4. Whether the circuit court clearly erred in its factual findings supporting the affirmative defenses.

HOLDINGS

1. Parol or extrinsic evidence is admissible to prove fraud in the inducement, even when the contract is clear and unambiguous.
2. Ray established fraudulent inducement because the evidence supported the finding that Granite Buick made, without intending to perform, a promise that the covenant would be enforced only against an employee making a lateral move.
3. McKie Ford waived its right to enforce Hanna's noncompete agreement when its sole shareholder, with knowledge of Hanna's intention to open a competing dealership, unequivocally indicated that he would not come after Hanna.

KEY QUOTATIONS

“No matter how clear and unambiguous a contract might be, parol evidence may be offered to show that the contract is invalid because of fraud in its inducement.” (§ 7)

“Because the court did not err in finding that Ray was fraudulently induced into entering the contract, Ray had a valid affirmative defense to enforcement of the contract.” (§ 10)

“Therefore, we affirm the court’s decision to deny Appellants the injunctive relief sought and do not address Appellants’ remaining arguments.” (§ 13)

FACTUAL BACKGROUND

Adam Ray and Scott Hanna signed noncompete agreements while employed by automobile dealerships affiliated with the McKie Automotive Group. Before signing, Ray was told that the covenant would be enforced only against employees making a lateral move to a competitor, and he was pressured to sign despite the agreement being voluntary. Hanna later told McKie Ford's sole shareholder that he intended to leave and open a competing dealership, and the shareholder responded that he would not come after Hanna in any way. Ray and Hanna then formed Gateway Autoplex, and their former employers sought injunctions enforcing the covenants.

PROCEDURAL HISTORY

Granite Buick and McKie Ford sought injunctions enforcing noncompete agreements against former employees Adam Ray and Scott Hanna after they formed Gateway Autoplex. A jury was impaneled to determine affirmative defenses, and the circuit court initially treated the jury verdict as binding. In a prior appeal, the Supreme Court of South Dakota reversed and remanded for findings of fact and conclusions of law. On remand, the circuit court found the agreements valid under SDCL 53-9-11 but denied injunctive relief after finding that Ray established fraudulent inducement, equitable estoppel, and promissory estoppel, and that Hanna established waiver, equitable estoppel, and promissory estoppel. The Supreme Court affirmed.

DISPOSITION

affirmed

CASES CITED

- Granite Buick GMC, Inc. v. Ray, 2014 S.D. 78, 856 N.W.2d 799
- Poeppel v. Lester, 2013 S.D. 17, ¶¶ 20-21, 827 N.W.2d 580, 585
- Miller v. Jacobsen, 2006 S.D. 33, ¶ 19, 714 N.W.2d 69, 76
- Funke v. Holland Furnace Co., 78 S.D. 374, 378, 102 N.W.2d 668, 670 (S.D. 1960)
- Auto-Owners Ins. v. Hansen Hous., Inc., 2000 S.D. 13, ¶ 30, 604 N.W.2d 504, 512
- Harms v. Northland Ford Dealers, 1999 S.D. 143, ¶ 17, 602 N.W.2d 58, 62
- Wehrkamp v. Wehrkamp, 2009 S.D. 84, ¶ 8, 773 N.W.2d 212, 215
- W. Cas. & Sur. Co. v. Am. Nat'l Fire Ins., 318 N.W.2d 126, 128 (S.D. 1982)
- Donat v. Johnson, 2015 S.D. 16, ¶ 18, 862 N.W.2d 122, 129

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