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Summary of Road & Highway Builders, LLC. v. Northern Nevada Rebar, Inc., 128 Nev. Adv. Op. No. 36

Matthew Vantusko
Nevada Law Journal

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Recommended Citation

Vantusko, Matthew, "Summary of Road & Highway Builders, LLC. v. Northern Nevada Rebar, Inc., 128 Nev. Adv. Op. No. 36" (2012). *Nevada Supreme Court Summaries*. 161.
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Contract & Tort – Fraudulent Inducement, Compensatory Damages, Punitive Damages

Summary

This is a consolidated appeal in a contract action from a district court judgment on a jury verdict, and an order by the district court denying a new trial. The Court addressed whether a fraudulent inducement claim is available when the language of the underlying contract contradicts the required elements of the inducement claim; the propriety of compensatory damages awarded by the jury for lost profits in a contract claim; and the availability of punitive damages without a finding of fraud.

Disposition/ Outcome

The Supreme Court of Nevada affirmed the decision of the district court in granting the compensatory damages awarded by the jury, but reversed the district court’s decision to grant the punitive damages awarded by the jury. The Court held that a fraudulent inducement claim must fail as a matter of law when it contradicts the express terms of the underlying agreement between the parties. The Court also held that a jury can award compensatory relief, under a breach of contract or breach of the implied covenant of good faith and fair dealing theory, for costs incurred and lost consequential profits. Finally, the court held that in the absence of a fiduciary duty or a special element of reliance, punitive damages are not appropriate relief for contract claims.

Factual and Procedural History

Road and Highway Builders, LLC. (“General Contractor”) contracted with Northern Nevada Rebar, Inc. (“Subcontractor” or “NNR”) for NNR to be a subcontractor in a freeway building project in Nevada. Before submitting a written subcontract agreement (the “Agreement”) to Subcontractor, General Contractor completed steps to use a competing subcontractor in the freeway project that would limit the scope of NNR’s work. Without having directly disclosed such plans, General Contractor and Subcontractor entered into the Agreement.

The Agreement included provisions that would allow the General Contractor to make “deletions” or “revisions” to the scope of the work of NNR, to terminate the agreement at any time, to limit damages to payment of work performed before termination, and to limit the contract strictly to the Agreement by means of a merger clause. Soon after, the relationship between the parties soured, resulting in the General Contractor filing suit for breach of contract and the Subcontractor counterclaiming breach of contract, fraud in the inducement, consumer fraud, and breach of the implied covenant of good faith and fair dealing.

General Contractor moved unsuccessfully for summary judgment and later judgment as a matter of law, in regards to the fraudulent inducement claim. The jury did not extend any liability to the Subcontractor. However, the Jury did extend liability to the General Contractor and awarded the Subcontractor \$700,000 in compensatory damages. An award of \$300,000 in

¹ By Matthew Vantusko

punitive damages was also awarded for fraudulent conduct. The district court once again denied the General Contractor's motion for judgment as a matter of law, and denied a new trial. The General Contractor appealed.

Discussion

Fraudulent Inducement Claim:

The Court held that fraudulent inducement cannot be shown, as a matter of law, when such a claim directly contradicts the express language of the underlying contract. Here, the Court found that the language of the Agreement "results in the reasonable interpretation that the parties contemplated a potential alteration in the scope of NNR's work." This was because the Agreement allows for deletions and revisions. The Court attributes any deviation from the Agreement by the General Contractor as a potential breach of contract and not fraud because the language of the Agreement gave notice to the Subcontractor of the potential of such changes, excluding the possibility of a showing of inducement. Thus, the fraudulent inducement claim failed.

Compensatory Damages:

The Court held that the jury's award of \$700,000 in compensatory damages was proper, despite the disallowance of a claim under a fraudulent inducement theory, because lost profits are an appropriate award for either a breach of contract or a breach of the implied covenant of good faith and fair dealing claim. Given deference to the Jury's finding and attempting to make the Subcontractor whole,² the Court allowed compensatory damages in the form of costs and lost profits for work already completed, but not future profits.

Punitive Damages:

The court held that in the absence of a fiduciary duty or a special element of reliance, punitive damages are not appropriate relief for contract claims. As the fraudulent inducement claim failed as a matter of law, the court reversed the jury's award of punitive damages because only liability for contractual claims remains.

Conclusion

The Court held that a fraudulent inducement claim must fail as a matter of law when it contradicts the express terms of the underlying agreement between the parties. The Court also held that a jury can award compensatory relief for lost profits, under a breach of contract or breach of the implied covenant of good faith and fair dealing theory. Finally, the court held that in the absence of a fiduciary duty or a special element of reliance, punitive damages are not appropriate relief for contract claims.

² See RESTATEMENT (SECOND) OF CONTRACTS § 347 (1981).