

## JUNE AT THE MULTIPLEX<sup>©</sup>

The days had been extremely hot. It had been hotter than normal. In addition, the moisture coming up from the gulf had increased the humidity to almost unbearable levels. It was under these circumstances that Tammy decided to go see a movie. The theater would at least be air conditioned and would provide some welcome relief from the weather.

Tammy looked in the movie section of the newspaper to see what movies were being screened in her area. She saw that the highly anticipated movie "The Governator" was being shown at the nearby Royal 18 Theater complex in the Eastfield Mall. The newspaper advertisement indicated that the movie was scheduled to begin in 30 minutes, at 1:00 pm.

Tammy got her wallet and car keys, jumped into her car, and sped off to the mall. Since she always had difficulty finding a seat in the dark, one thing Tammy did not want was to be late for the beginning of the movie. Once the lights were out, she could barely see where she was going.

Tammy made it to the Royal Theater in 15 minutes. While at the ticket window to purchase her ticket, Tammy asked the cashier when the movie was scheduled to begin. The cashier told her that the movie would begin in 15 minutes, at 1:00 pm, the time posted on the marquee.

Tammy asked what was the cost of an admission ticket to see "The Governator." The clerk replied, "nine dollars." Tammy exclaimed, "Nine dollars, why so expensive? Don't you give any discount for an early movie?" The cashier replied that because this was a long awaited "blockbuster movie" the theater owner was not reducing the price for early afternoon showings. Tammy reluctantly paid the nine dollars and was given a ticket of admission that stated the movie would begin at 1 pm. The ticket contained no other relevant statements.

Tammy was not a regular moviegoer. She had not been to the movies for several years because she was too busy. She was a business major at the local university and worked about 20 hours a week. Attending classes, studying, and working left her very little time for entertainment.

Having already parted with nine hard earned dollars, Tammy reluctantly decided to stop at the refreshment counter. The line was long, but Tammy got in line anyway. After spending another nine dollars for a large tub of buttered popcorn, a large iced soda, and a super-sized candy bar, Tammy hurried off in the direction of the sixteen movie viewing rooms in search of the one showing "The Governator."

Tammy found the right theatre room at 12:58 p.m. She walked down the aisle, found a suitable row, and headed for a selected seat. Tammy softly exclaimed, "Pardon me, excuse me, pardon me," as he squeezed and climbed past other moviegoers to finally get to her seat. Tammy settled into her seat as best she could (with a little less popcorn and soda, but still clutching her candy bar). She let out a big sigh of relief. He was seated with 10 seconds to spare. The lights began to dim, and then Tammy uttered ". . . what the (expletive deleted) was this? A commercial!" Tammy was outraged. She had paid eighteen dollars to watch commercials? All that hurrying, all that worrying, all that anxiety to find her seat before the movie would begin. All that, just to see commercials!

As a matter of fact, twenty minutes of commercials were shown before the movie began. Tammy endured the commercials. After all, the theater was air conditioned and comfortable. Finally the movie started. However, very early into the showing, it was clear to Tammy that this was the worst movie ever made. She decided to give the movie a chance to improve. Tammy watched the movie for another 30 minutes, but the movie did not get any better. Tammy stumbled and fumbled her way out of the viewing

room and headed off to find the manager of the theater. Tammy was disgusted. Not only had she been forced to watch 20 minutes of commercials, the movie was, in her opinion, a bust. It was a waste of nine, hard-earned dollars to see the movie. Tammy asked for her money back. The manager explained that it was the policy of the theater owner not to refund the admission fee.

Tammy left the theater, vowing not to let this episode pass without some resolution. She was sure that the theatre had violated her legal rights as well as the rights of other moviegoers, particularly by showing all of those commercials. She returned home, found her Business Law textbook, and began to consider various legal actions she could pursue. There had to be some recourse.

Tammy, remembering a few things from a Business Law course she had taken, wrote a letter to Ms. Sandra Plex, the owner of the Royal Theatre. In the letter Tammy expressed her dissatisfaction with the showing of the commercials and indicated to Ms. Plex that she was going to pursue legal recourse including the possibility of filing a class action lawsuit.

### **Class Action Case: Statistical Analysis**

After reading Tammy's letter and the possibility of a class action lawsuit being filed, Ms. Plex was livid. Not knowing how to proceed, she decided to contact other theatre owners in the area to see if they had also been notified as being potential defendants in Tammy's threatened class action lawsuit. After learning that all of her competitors had been contacted, Ms. Plex's initial reaction was "Good! With my untarnished reputation, I'll prevail in the lawsuit, but my competitors will go under. Then I'll be the only show in town." However, after realizing that he too could go belly up, Ms. Plex decided that it would be better if she and her competitors stuck together and prepared to defend any lawsuit by forming a consortium. Pleased with her *esprit de corps* strategy, Ms. Plex presented her idea to her competitors. The response was overwhelmingly positive and the consortium was formed.

After much debate, the consortium agreed that it would be useful to know the percentage of all theater goers who are unhappy with the practice of showing advertisements before the featured film begins. They reason that if the percentage is small, then Tammy is a "voice in the wilderness" and there is no basis for a class action lawsuit. On the other hand, if the percentage is substantial, then perhaps Tammy's response is not an aberration, in which case the more prudent course of action would be to proceed cautiously in the hope of avoiding the cost of defending a lawsuit. The consortium, while suspecting that the percentage is relatively low, probably less than 10%, decides to apply the following decision rule: if the percentage is actually 10% or more, the consortium will seriously consider negotiating a settlement of any lawsuit filed by Tammy. However, if the percentage is less than 10%, they will vigorously defend any lawsuit filed by Tammy.

The consortium is not sure how to go about surveying its patrons. In addition, the consortium is not sure what to do with the results of the survey if in fact it is conducted. Further, the consortium is concerned about the causes of action that Tammy may include in her lawsuit.

Your law firm handles business law matters, with a specialty in statistical analysis, and has been hired by Ms. Plex. Ms. Plex has indicated to you that she has several concerns and would like your firm to provide her some answers.

### **Required**

Write a report to Ms. Plex using the guidelines for writing a report found on the course web site.

LDC topics: business law topics 1, 5, and 6; statistics concepts 2, 9, and 10.

## **JUNE AT THE MULTIPLEX LIBRARY<sup>©</sup>**

**Lee P. Cao and Louann P. Cao, v. Huan Nguyen and Nega Pham**  
258 Neb. 1027; 607 N.W.2d 528; 2000 Neb. LEXIS 56

**Wright, Justice**

### **NATURE OF THE CASE**

Lee P. Cao and Louann P. Cao (buyers) brought this action in the state trial court seeking rescission of a purchase agreement they entered into with Huan Nguyen and Nega Pham (sellers). The buyers alleged that the sellers fraudulently misrepresented that the property at 2223 R Street in Lincoln, Nebraska, was a duplex and could be rented to two separate families when in fact the property did not conform to the municipal code so as to be rented as a duplex or two-family dwelling.

The trial court found that the buyers had not proved the elements of fraudulent misrepresentation and dismissed their petition. The buyers timely appealed.

### **FACTS**

In May 1997, the buyers responded to an advertisement for the sale of a duplex and arranged to see the property. The buyers inspected the property on several occasions and observed that the property consisted of two units. The buyers informed the sellers that they intended to rent both units and to operate the property as a two-family dwelling. The sellers had rented both units in the past and at trial acknowledged that when they first purchased the house, it had been divided into two units in which two separate families resided.

The buyers decided to purchase the house, and the initial purchase agreement executed by the parties described the property as a "duplex house." The buyers subsequently applied for a building permit to make improvements to the property and were informed by the city building and safety department that the property could not be used as a duplex or two-family dwelling because the lot was not sufficiently wide to comply with the municipal code. The buyers then sought rescission of the purchase agreement, claiming that the sellers had fraudulently misrepresented to them that the property could be rented as a duplex.

The trial court dismissed the action, finding that the buyers had not proved the elements of fraudulent misrepresentation.

### **ANALYSIS**

The party alleging fraud as a basis from rescission must prove all the elements of the fraudulent conduct by clear and convincing evidence.

In order to maintain an action for fraudulent misrepresentation, a plaintiff must allege and prove the following elements: (1) that a representation of fact was made; (2) that the representation was false; (3) that when made, the representation was known to be false or made recklessly without knowledge of its truth; (4) that it was made with the intention that the plaintiff should rely upon it; (5) that the plaintiff reasonably did so rely; and (6) that the plaintiff suffered damage as a result.

## **REPRESENTATION OF FACT**

The representations made by the sellers were representations of fact. The buyers informed the sellers that they intended to use the house as rental property, and upon inspection, the buyers saw that the property consisted of two separate apartments and had two front doors, two mailboxes, and two gas meters. The buyers were told by the sellers that the house was divided into two units, and the sellers admitted that the house had been rented to two separate families in the past. The statement that the home could be rented to two families is a representation of fact.

## **REASONABLE RELIANCE**

We next address whether the buyers' reliance upon the sellers' representations that the property could be used as a duplex or two-family dwelling was reasonable. The trial court concluded that ordinary prudence would have required the buyers to contact the city building and safety department to ascertain whether the property could be rented as a duplex or two-family dwelling.

Whether a party's reliance upon a misrepresentation was reasonable is a question of fact. A party is justified in relying upon a representation made to the party as a positive statement of fact when an investigation would be required to ascertain its falsity.

The trial court's findings suggest it concluded that the buyers' reliance on the representation was unreasonable, since a search of public records would have revealed the falsity of the representations. Standing alone, this fact is insufficient to constitute unreasonable reliance. In *Foxley Cattle Co. v. Bank of Mead*, 196 Neb. 1, 241 N.W.2d 495 (1976), we stated that generally, fraud may be predicated on false representations although the truth could have been ascertained by an examination of public records.

In this case, the means of discovering the truth were not in the buyers' hands. The buyers were not provided with any information which would have placed them on notice that the home did not meet the municipal code requirement for a two-family dwelling. The sellers informed the buyers that the house had been rented to two families in the past. The physical layout of the property suggested that it was divided into two units. The buyers were told by the sellers that the property had been divided into two units, the advertisement for the property described it as a duplex, and the initial contract signed by the parties described the property as a duplex. Although one unit was not rented at the time of inspection, there was no indication that it could not be rented in the future.

In order to prove the sellers' representations were false, the buyers would have had to contact the city, research the public records, and compare the building code to the actual structure of the home. Therefore, the buyers' reliance was reasonable.

We conclude that the sellers made representations that the property could be used as a two-family dwelling, that such representations were false, and that when such representations were made, they were known to be false or were made recklessly without knowledge of the truth and as positive assertions. We also find that the sellers intended for the buyers to rely upon such representations, the buyers did in fact so rely upon the representations, and the buyers were damaged as a result. Thus, the buyers have proved each of the elements of fraudulent misrepresentation.

## **CONCLUSION**

Since we conclude that the buyers have proved the elements of fraudulent misrepresentation, the judgment of the trial court is reversed, and the cause is remanded for further proceedings.