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Cain v. Price C/W 69889/70864, 134 Nev. Adv. Op. 26 (April 12, 2018)

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CONTRACT LAW: BREACH OF CONTRACT

Summary

The Nevada Supreme Court held that one party's material breach of contract releases the non-breaching party's contractual obligation to a third-party beneficiary.

Facts and Procedural History

Appellants Peggy and Jeffrey Cain, as owners of Heli Ops International, entered into a joint venture agreement (JVA) with C4 Worldwide, Inc. The JVA stipulated that Heli Ops would loan $1,000,000 to C4 to obtain and leverage Collateralized Mortgage Obligations (CMOs). In exchange, Heli Ops would receive the first $20,000,000 in profits resulting from C4's asset leverage, while retaining a 49 percent security interest in the CMOs until C4 fulfilled the JVA. The Cains transferred $1,000,000 to C4, but C4 did not disburse any profits.

Subsequently, the Cains entered into a "Settlement Agreement and Release of All Claims" with C4 and its CEO. C4 agreed to pay the $20,000,000 to the Cains within ninety days of the agreement. In return, the Cains agreed to release C4's officers from liability. However, C4 failed to pay the Cains by the date stipulated to in the Settlement Agreement. The Cains sued C4 and six officers, including Price and Shackleford, for breach of the Settlement Agreement, fraud, civil conspiracy, negligence, conversion, and intentional interference with contractual relations.

The district court awarded default judgment against C4, its CEO, and Price and Shackelford on all claims for the amount $20,000,000 plus costs. The district court granted summary judgment because the Settlement Agreement was supported by consideration and the Cains bound themselves to the release provision. This appeal followed.

Discussion

The district court erred in granting summary judgment because the Cains are not bound by the Settlement Agreement's release provision

The Cains argued that summary judgment was inappropriate for two reasons. First, the Settlement Agreement (and release provision) was invalid. Second, if the Agreement was valid, then C4's material breach released the Cains from the obligation not to sue C4's officers. Upon de novo review, the court agreed summary judgment was improper.

The Settlement Agreement was a valid contract

The Cains contended that the Settlement Agreement did not release Price or Shackelford from liability because the Agreement was invalid for lack of consideration. They argued that the Agreement did not provide them consideration in exchange for the release of liability because the Agreement only acknowledged C4's preexisting duty to pay the Cains $20,000,000. The Court

[1] By Jeff Chronister.

disagreed, finding consideration by removing a condition precedent in exchange for payment. If a party's promise differs from one already promised, sufficient consideration is present.

Here, the JVA stated C4 would pay the Cains the first $20,000,000 in proceeds and profits. Implicit in that statement is that C4 must profited $20,000,000 for the Cains to receive the money. Thus, earning $20,000,000 was a condition precedent to C4 paying the Cains that amount. However, the Settlement Agreement removed the precedent and demanded C4 to pay by a specific date. Eliminating the condition precedent constitutes enough consideration to enforce the Agreement. The district court was correct to find the Settlement Agreement valid.

C4's breach of the Settlement Agreement releases the Gains from their obligation under that Agreement

The Cains further argued that the Agreement does not release Price and Shackelford from liability even if the Agreement was valid. The district court erred by finding the Cains bound themselves to the Settlement Agreement when they declined to rescind that Agreement and instead sought damages from C4. The Cains were excused from contractual obligations and entitled to damages due to C4's breach. C4 promised the Cains $20,000,000 in exchange for the promise to release C4's officers from liability; however, C4 breached said promise. Accordingly, the Cains were released from their promise not to sue because of the breach.

The problem here is that the district court stated that the Cains honored the Settlement Agreement by enforcing the default judgment. The district court erroneously interpreted the $20,000,000 default judgment to be an order for specific performance. However, the Cains never asked for specific performance. Instead, when the district court granted the default judgment, it granted the Cains damages. The order for damages, however, did not bind the Cains to the Settlement Agreement. Thus, C4's breach of the Settlement Agreement relieved the Cains from any obligation to Price and Shackelford. The Court overruled summary judgment to Price and Shackelford and vacated the award of attorneys fees for initially prevailing on the matter.

The district court abused its discretion when it denied the Cains' motion to compel discovery of Price and Shackelford's personal financial documents

Following the motion to compel discovery of Price and Shackelford's financial documents, the district court found that the Cains presented insufficient evidence for fraud to support a claim for punitive damages; therefore, discovery was inappropriate. Here, the Court reviews whether a district court has applied the proper legal standard de novo.

Due to the sensitive nature of financial information, the plaintiff must prove sufficient facts to support a claim for punitive damages.[2] To succeed on a claim for punitive damages in contracts case, the plaintiff must prove by clear and convincing evidence that the defendant was guilty of "oppression, fraud, or malice."[3] The Cains presented evidence showing that their loan proceeds were not being used to purchase CMOs, but were instead used to pay C4's officers. This alleged misuse of loans is enough to constitute factual basis to support the claims and render discovery proper. The district court erred by denying the discovery of Price and Shackelford's personal finances.

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[2] Hetter v. Eighth Judicial District Court, 110 Nev. 520, 874 P.2d 762, 766 (1994).
[3] NEV. REV. STAT. § 42.005(1) (1989).

The Cains' remaining claims are without merit

The Cains asserted the district court abused discretion when it resolved issues of personal jurisdiction and alter ego in a pretrial evidentiary hearing. The Court disagreed. Furthermore, the Cains argued that reversing summary judgment also requires reversing other post-judgment orders, such as the $9,514 in litigation sanctions for serving subpoenas to Price and Shackelford after the case was dismissed. The Court affirmed the sanction.

Conclusion

Absent exceptions, one party's material breach of contract discharges the non-breaching party's duty to perform under that contract. Here, C4's failure to pay the Cains $20,000,000 released the Cains from the promise not to hold C4's officers liable. The Court reversed summary judgment and remanded the case to district court for further proceedings.