SUPREME COURT OF ALASKA

AAA Valley Gravel, Inc. v. Totaro

219 P.3d 153 (Alaska 2009) · No. Nos. S-12207, S-12237 · Decided October 30, 2009

SUMMARY

The Alaska Supreme Court reviewed disputes arising from gravel-mining leases, assignments of overriding royalty interests, and the purchaser's obligations after acquiring the property by warranty deed. The court held that the assignment of overriding royalties was irrevocable and that a later oral reassignment of a second assignee's interest was effective. It vacated and remanded portions of the judgment because the trial court had not made necessary findings regarding lease exclusivity and potential reformation or application of the warranty deed's title covenants.

CASE DETAILS

COURT	Supreme Court of Alaska
WRITING FOR THE COURT	Per curiam; Fabe, Chief Justice; Matthews, Justice; Eastaugh, Justice; Carpeneti, Justice; Winfree, Justice
JURISDICTION	Alaska
DECIDED	October 30, 2009
DOCKET	Nos. S-12207, S-12237
DISPOSITION	vacated
PROCEDURAL POSTURE	AAA appealed the superior court's judgment holding it liable for overriding royalty payments and ordering specific performance. Totaro cross-appealed the denial of her claim to the entire unpaid royalty interest and other contract-related rulings. AAA also challenged the superior court's refusal to hold Ramirez liable under the warranty deed.
STANDARD OF REVIEW	Questions of law, including contract interpretation and the validity of assignments, were reviewed independently. Factual findings were reviewed for clear error, with particular deference to findings based primarily on oral testimony.
PRECEDENTIAL VALUE	Published Alaska Supreme Court opinion; majority opinion is precedential, with separate partial dissents.
PARTIES	AAA Valley Gravel, Inc. v. Alicia Totaro, Herman Ramirez

TOPICS

breach of contract · contract interpretation · assignment and delegation · mineral rights · real estate

PRACTICE AREAS

contract law · real estate law · mineral rights · appellate law · equitable remedies

QUESTIONS PRESENTED

1. Whether Cosmos's assignment of the overriding royalty rights to Totaro was gratuitous, revocable, and terminated by Cosmos's later dissolution.
2. Whether AAA's liability for overriding royalties after purchasing the property depended on whether the Ramirez/Cosmos lease was exclusive and whether AAA could exercise owner-retained gravel-extraction rights.
3. Whether the warranty deed's covenants against encumbrances potentially required Ramirez to indemnify AAA for liability arising from the Ramirez/Cosmos lease, and whether the deed should be reformed based on the parties' alleged agreement.
4. Whether Palmquist orally assigned his interest in the unpaid overriding royalties to Totaro.
5. Whether the trial court's description of the lease's possible termination upon suitability for residential development was binding.
6. Whether the trial court clearly erred by allowing AAA to deduct additives from the royalty-producing tonnage.

HOLDINGS

1. The assignment was irrevocable and remained valid after Cosmos was dissolved.
2. The judgment concerning AAA's liability to Totaro had to be vacated because the trial court failed to determine whether the Ramirez/Cosmos lease was exclusive and failed to resolve the related factual and legal questions concerning AAA's owner-retained gravel rights.
3. The portion of the judgment favoring Ramirez was vacated and remanded. Ramirez was permitted to establish standing to seek reformation and to prove by clear and convincing evidence that AAA agreed to accept a deed without a warranty against the Ramirez/Cosmos lease. If reformation could not be established, AAA could recover provable damages for breach of the title covenants.
4. Palmquist's oral assignment to Totaro was effective, and Totaro was entitled to claim all of the unpaid overriding royalties rather than only one-half.
5. The trial court's statement that the lease would terminate when the property became suitable for residential development was not binding because it was not included in the final judgment and was not the focus of the litigation.
6. The trial court's decision allowing AAA to exclude additives from royalty-producing tonnage was upheld.

KEY QUOTATIONS

> *“We therefore conclude that the assignment was irrevocable and Cosmos's subsequent dissolution did not affect its continuing validity.”* (160)

> *“Contract interpretation involves fact-finding when facially ambiguous contract language read in the context of all relevant extrinsic evidence remains ambiguous.”* (161)

> *“Oral assignments are legally effective and no special form of words is required, so long as "the transfer is clearly intended as a present assignment of the interest held by the assignor."”* (167)

> *“We are unable to say that the court's findings in this respect are clearly erroneous, and therefore they will be upheld.”* (168)

FACTUAL BACKGROUND

Ramirez leased gravel-mining rights to Cosmos, which subleased the rights to AAA under an expressly exclusive sublease requiring AAA to pay Ramirez's royalties and overriding royalties to Cosmos. Cosmos assigned its overriding royalty rights to Alicia Totaro, and AAA paid her for years. In 1998 AAA purchased Ramirez's property by statutory warranty deed that did not except the Ramirez/Cosmos lease, then stopped paying the overriding royalties. A second assignment had transferred half of the overriding royalties to Sam Oil Company; after AAA stopped paying, Sam Oil's owner told Totaro she could have his interest.

PROCEDURAL HISTORY

Totaro sued AAA and Fuger for unpaid overriding royalties. AAA brought a third-party action against Ramirez for breach of contract and breach of warranty of title. The superior court granted partial summary judgment on several claims, tried the remaining claims, awarded Totaro one-half of the overriding royalties, ordered specific performance, and dismissed AAA's claim against Ramirez. The Supreme Court vacated the final judgment and remanded for further proceedings, while holding that Totaro's assignment was irrevocable and that Palmquist's oral reassignment was effective.

DISPOSITION

vacated

REMAND INSTRUCTIONS

Vacate the final judgment and conduct further proceedings consistent with the opinion. The superior court must determine whether the Ramirez/Cosmos lease was exclusive and resolve the related factual issues concerning AAA's owner-retained gravel rights. It must also allow Ramirez to establish standing to seek reformation and to prove by clear and convincing evidence any agreement by AAA to accept a deed without a covenant against the lease encumbrance. Totaro's entitlement to all unpaid overriding royalties based on Palmquist's assignment must be recognized.

CASES CITED

- Allen v. Alaska Oil & Gas Conservation Comm'n, 1 P.3d 699, 700 n. 1 (Alaska 2000)

- Andersen v. Edwards, 625 P.2d 282, 290-91 (Alaska 1981)
- Casey v. Semco Energy, Inc., 92 P.3d 379, 383 (Alaska 2004)
- Chicago, Mobile Devel. Co. v. G.C. Coggin Co., 259 Ala. 152, 66 So. 2d 151, 155 (1953)
- Domer v. Sleeper, 533 P.2d 9, 11 n. 5 (Alaska 1975)
- Ellingstad v. State, Dep't of Natural Res., 979 P.2d 1000, 1004 (Alaska 1999)
- Exxon Corp. v. State, 40 P.3d 786, 793 (Alaska 2001)
- Groff v. Kohler, 922 P.2d 870, 873-74 (Alaska 1996)
- Little Susitna Construction Co. v. Soil Processing, Inc., 944 P.2d 20, 23 (Alaska 1997)
- Methonen v. Stone, 941 P.2d 1248, 1252 (Alaska 1997)
- Neal & Co. v. Ass'n of Village Council Presidents Reg'l Hous. Auth., 895 P.2d 497, 502 (Alaska 1995)
- Norville v. Carr-Gottstein Foods Co., 84 P.3d 996, 1004 (Alaska 2004)
- Old Harbor Native Corp. v. Afognak Joint Venture, 30 P.3d 101, 104 (Alaska 2001)
- RAN Corp. v. Hudesman, 823 P.2d 646, 649 (Alaska 1991)
- Summers v. Hagen, 852 P.2d 1165, 1169 (Alaska 1993)
- Wasser & Winters Co. v. Ritchie Bros. Auctioneers, Inc., 185 P.3d 73, 77, 82 (Alaska 2008)
