SUPREME COURT OF THE STATE OF MONTANA

First National Properties, LLC v. Joel D. Hillstead Trust, dated February 25, 1982; Rosemary Hillstead Trust, dated February 24, 1982

2020 MT 211 (Mont. 2020) · No. DA 19-0158 · Decided August 18, 2020

SUMMARY

The Montana Supreme Court addresses whether First National Properties, LLC fully performed its obligations after prepaying the balance of a real-estate purchase agreement and whether it owed additional taxes resulting from the prepayment. The Court held that the prepayment did not extinguish the buyer's remaining obligations and that the tax provision required calculation of the Trusts' total additional tax liability over the contract term, rather than only the taxes incurred in the prepayment year. The Court affirmed the denial of prejudgment interest, reversed the damages determination, and remanded.

CASE DETAILS

COURT	Supreme Court of the State of Montana
WRITING FOR THE COURT	Justice James Jeremiah Shea; James Jeremiah Shea; Laurie McKinnon; Jim Rice; Dirk M. Sandefur; Ingrid Gustafson
JURISDICTION	Montana
DECIDED	August 18, 2020
DOCKET	DA 19-0158
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Direct appeal and cross-appeal from a district court judgment following a bench trial on a breach-of-contract counterclaim. The parties also appealed rulings on cross-motions for summary judgment and the denial of prejudgment interest.
STANDARD OF REVIEW	Summary-judgment rulings are reviewed de novo under Montana Rule of Civil Procedure 56. Contract construction and interpretation are reviewed for correctness. Conclusions of law are reviewed for correctness, and findings of fact are reviewed for clear error. Findings are construed in favor of the prevailing party and will not be second-guessed as to witness credibility when supported by substantial evidence.

PRECEDENTIAL VALUE	published precedential opinion
PARTIES	First National Properties, LLC v. Joel D. Hillstead Trust, dated February 25, 1982, Rosemary Hillstead Trust, dated February 24, 1982

TOPICS

breach of contract · contract interpretation · tax · damages · appellate procedure

PRACTICE AREAS

contracts · real estate · tax · remedies · appellate procedure

QUESTIONS PRESENTED

1. Whether First National fully performed under the promissory note or trust indenture by tendering the remaining principal balance, thereby extinguishing any further obligations.
2. Whether the prepayment clause required First National to pay additional taxes incurred by the Trusts in the year of prepayment or the total additional taxes incurred over the term of the contract.
3. Whether the Trusts were entitled to prejudgment interest.

HOLDINGS

1. First National did not fully perform under the promissory note or trust indenture because its prepayment did not include payment of the additional taxes incurred by the Trusts as a result of the prepayment. Tendering the principal balance, and later tendering disputed tax amounts, did not extinguish its remaining contractual obligations.
2. The ambiguous prepayment clause required First National to pay the Trusts' total additional tax liability incurred over the term of the contract as a result of the prepayment, rather than only the additional taxes incurred in the year of prepayment.
3. The Trusts were not entitled to prejudgment interest because the amount of their damages was not certain or capable of being made certain until the court resolved the disputed method for calculating the additional tax liability.

KEY QUOTATIONS

> *"Interpreting an ambiguous contract provision as allowing one party to the contract to unilaterally determine its own contract damages in the event of a breach would lead to an absurd result."* (¶ 30)

> *"Contract damages seek to place a party in the position in which they would have been had the other party not breached the contract."* (¶ 38)

> *"Damages for breach of contract serve the . . . purpose . . . [of making] the injured party whole, but not to make the injured party better off than they were before the damage occurred."* (¶ 38)

FACTUAL BACKGROUND

First National entered into an agreement with the Trusts in 2009 to purchase real property, executing a promissory note, trust indenture, and escrow agreement. The documents permitted prepayment only with the Trusts' written consent and required payment of amounts determined by the Trusts' accountant to cover additional taxes incurred because of the prepayment. In 2014, First National prepaid the remaining balance, but did not include any amount for additional tax liability; the parties thereafter disputed whether the tax obligation should be calculated for the year of prepayment or over the remaining contract term. The District Court adopted the year-of-prepayment calculation and awarded the Trusts $120,415, while denying prejudgment interest.

PROCEDURAL HISTORY

First National Properties, LLC sued the Trusts seeking a declaration that it had satisfied its obligations under a real-property purchase agreement, reconveyance of the property, and damages. The Trusts counterclaimed for breach of contract. The District Court denied the parties' cross-motions for summary judgment, conducted a bench trial, held First National liable for additional taxes resulting from its prepayment, awarded the Trusts $120,415 in damages plus costs and attorney fees, and denied prejudgment interest. The Montana Supreme Court affirmed the ruling that First National had not extinguished its contractual obligations and affirmed the denial of prejudgment interest, but reversed the tax-damage calculation and remanded.

DISPOSITION

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reversed_and_remanded
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REMAND INSTRUCTIONS

The District Court must enter judgment for the Trusts using damages based on the Trusts' total additional tax liability calculated over the term of the contract, rather than only the additional taxes incurred in the year of prepayment.

CASES CITED

- Vision Net Inc. v. State, 2019 MT 205, ¶ 6, 397 Mont. 118, 447 P.3d 1034
- Bailey v. State Farm Mut. Auto. Ins. Co., 2013 MT 119, ¶ 18, 370 Mont. 73, 300 P.3d 1149
- Flathead Bank of Bigfork v. Masonry by Muller, Inc., 2016 MT 269, ¶ 5, 385 Mont. 214, 383 P.3d 215
- State v. Langley, 2016 MT 67, ¶¶ 12, 17, 383 Mont. 39, 369 P.3d 1005
- Ophus v. Fritz, 2000 MT 251, ¶¶ 19, 29, 301 Mont. 447, 11 P.3d 1192
- Kilby Butte Colony, Inc. v. State Farm Mut. Auto. Ins. Co., 2017 MT 246, ¶ 7, 389 Mont. 48, 403 P.3d 664
- Brimstone Mining, Inc. v. Glaus, 2003 MT 236, ¶ 20, 317 Mont. 236, 77 P.3d 175
- Tomlin Enters. Inc. v. Althoff, 2004 MT 383, ¶ 22, 325 Mont. 99, 103 P.3d 1069
- Mont. Health Network, Inc. v. Great Falls Orthopedic Assocs., 2015 MT 186, ¶¶ 21-22, 379 Mont. 513, 353 P.3d 483
- Estate of Irvine v. Oaas, 2013 MT 159, ¶ 22, 372 Mont. 49, 309 P.3d 986
- McEwen v. MCR, LLC, 2012 MT 319, ¶¶ 65-66, 368 Mont. 38, 291 P.3d 1253
- Textana, Inc. v. Klabzuba Oil & Gas, 2009 MT 401, ¶ 52, 353 Mont. 442, 222 P.3d 580

- Kalispell Aircraft Co., LLC v. Patterson, 2019 MT 142, ¶ 32, 396 Mont. 182, 443 P.3d 1100
- DiMarzio v. Crazy Mountain Constr., Inc., 2010 MT 231, ¶ 59, 358 Mont. 119, 243 P.3d 718