STATE OF MINNESOTA
IN COURT OF APPEALS
A11-363

R. C. Smith Company,
Appellant,

vs.

Commercial Environments, Inc.,
Respondent.

Filed August 29, 2011
Affirmed
Halbrooks, Judge

Hennepin County District Court
File No. 27-CV-10-6348

Malcolm P. Terry, Messerli & Kramer, P.A., Minneapolis, Minnesota (for appellant)

William F. Mohrman, James R. Magnuson, Mohrman & Kaardal, P.A., Minneapolis, Minnesota (for respondent)

Considered and decided by Halbrooks, Presiding Judge; Johnson, Chief Judge; and Minge, Judge.

U N P U B L I S H E D O P I N I O N

HALBROOKS, Judge

In this contract dispute, appellant challenges the district court's orders denying its motion for summary judgment on an unjust-enrichment claim, dismissing the claim, and

imposing sanctions for pursuing the claim to judgment. By notice of related appeal, respondent argues that the court abused its discretion by declining to adopt respondent's proposed amendments to the order for sanctions. Because the district court acted properly by disposing of appellant's unjust-enrichment claim and by imposing sanctions, we affirm.

FACTS

Appellant R.C. Smith Company designs, builds, and installs custom woodwork. Respondent Commercial Environments, Inc. provides custom commercial furnishings. Respondent contracted with the University of Minnesota to remodel the office of the men's head basketball coach. Appellant and respondent subsequently entered into an agreement whereby appellant would provide and install custom woodwork for the project for $58,436. After appellant performed its contractual obligations, respondent invoiced the University in the amount of $74,847.04. The University paid respondent the full amount by a check that respondent cashed on June 18, 2009. Respondent did not pay appellant any part of the contracted-for $58,436.

In August 2009, respondent informed appellant by letter that respondent "[was] in the process of winding down its operations," that "active business was shut down on [July 31, 2009], and all remaining employees were let go." Respondent also informed appellant that although its assets were completely encumbered, it would "endeavor to chip away at a portion of the delinquent balance in an attempt to improve our working relationship, despite the fact that [it had] no legal obligation to do so."

In January 2010, appellant commenced suit against respondent, asserting claims for breach of contract, account stated, and unjust enrichment, and seeking damages of $58,436. In its answer, respondent admitted liability for breach of contract and account stated; respondent subsequently offered to stipulate to entry of judgment for the full amount owed plus interest on one or both claims. But respondent objected to appellant's equitable claim of unjust enrichment on the ground that it was barred by respondent's admission of liability on the other claims and asked the district court to dismiss the unjust-enrichment claim. Respondent also moved for rule 11 sanctions in the event appellant continued to pursue its unjust-enrichment claim. Appellant, maintaining that both its contractual and equitable claims could be pursued to recovery, moved for summary judgment on all three claims.

Following a hearing, the district court granted summary judgment to appellant on its breach-of-contract and account-stated claims, but denied summary judgment on the unjust-enrichment claim, reasoning that "[t]he existence of an express contract between the parties precludes recovery under the theories of . . . unjust enrichment." The district court further observed that "[p]ursuing a claim for unjust enrichment when the [respondent] had agreed to stipulate to liability on the contract and account stated claims both presents a claim that is not warranted and needlessly increased the cost of litigation," and granted respondent's motion for sanctions. By supplemental order, the district court dismissed the unjust-enrichment claim and awarded respondent $13,000 in attorney fees as sanctions. This appeal follows.

D E C I S I O N

I.

The district court shall grant summary judgment if, based on the entire record, there are no genuine issues of material fact and either party is entitled to judgment as a matter of law. Minn. R. Civ. P. 56.03. We review de novo the district court's ruling on summary judgment to determine whether there are any genuine issues of material fact and whether the district court erred in its application of the law. *Riverview Muir Doran, LLC v. JADT Dev. Grp., LLC*, 790 N.W.2d 167, 170 (Minn. 2010). The denial of a motion for summary judgment may be appealed following a final adjudication provided the denial was based on a question of law rather than a factual determination. *Schmitz v. Rinke, Noonan, Smoley, Deter, Colombo, Wiant, Von Korff & Hobbs, Ltd.*, 783 N.W.2d 733, 744 (Minn. App. 2010), *review denied* (Minn. Sept. 21, 2010). Here, because the district court's denial of summary judgment was based solely on the legal conclusion that respondent's admission of liability and stipulation for judgment on the contract claim precluded relief on appellant's claim for unjust enrichment, we may review the denial.

Appellant argues that it is entitled to summary judgment on its claim of unjust enrichment for approximately $16,000, or the difference between the $74,847.04 that respondent received from the University of Minnesota and the $58,463 that respondent owed appellant. "In order to establish a claim for unjust enrichment, the claimant must show that another party knowingly received something of value to which he was not entitled, and that the circumstances are such that it would be unjust for that person to retain the benefit." *Schumacher v. Schumacher*, 627 N.W.2d 725, 729 (Minn. App.

2001). We have further explained that "[a]n action for unjust enrichment does not lie simply because one party benefits from the efforts of others; instead, it must be shown that a party was unjustly enriched in the sense that the term unjustly could mean illegally or unlawfully." *Id.* (quotation omitted). An action for unjust enrichment "may be founded on failure of consideration, fraud, or mistake, or situations where it would be morally wrong for one party to enrich himself at the expense of another." *Mon-Ray, Inc. v. Granite Re, Inc.*, 677 N.W.2d 434, 440 (Minn. App. 2004) (quotation omitted), *review denied* (Minn. June 29, 2004).

The terms of the parties' express agreement are undisputed: appellant was to provide and install custom office furnishings and respondent was to pay appellant $58,436. Generally, "equitable relief cannot be granted where the rights of the parties are governed by a valid contract." *U.S. Fire Ins. Co. v. Minn. Zoological Bd.*, 307 N.W.2d 490, 497 (Minn. 1981); *see also Breza v. Thaldorf*, 276 Minn. 180, 183, 149 N.W.2d 276, 279 (1967) ("It is fundamental that proof of an express contract precludes recovery in quantum meruit."). Equitable relief may also be denied when the party had a legal remedy available but opted not to avail himself of that remedy. *See Mon-Ray*, 677 N.W.2d at 440 (holding that if a contractor elects not to pursue a legal remedy available by statute, the contractor is not entitled to equitable relief under a theory of unjust enrichment "absent compelling circumstances").

The parties' mutual rights and responsibilities are governed by their express agreement, and appellant's recovery is consequently limited to available contractual remedies. Appellant has a valid remedy at law for breach of contract, which precludes

any relief under an equitable theory such as unjust enrichment. Appellant argues that the additional $16,000 that respondent charged (and received from) the University of Minnesota is recoverable under a theory of unjust enrichment because it would be morally wrong for respondent to benefit from appellant's products and labor. But we see nothing unjust or illegal about respondent's practice of billing the client for an amount greater than it contracted to pay appellant to perform the work. Therefore appellant may not recover the $16,000 from respondent under a theory of unjust enrichment. *See Breza*, 276 Minn. at 183, 149 N.W.2d at 279 (concluding that because the parties' relationship was governed by an express contract, the additional amounts that the appellant spent on labor and materials was not recoverable under a theory of unjust enrichment).

In spite of the general principle that equitable relief is not available when there is an adequate legal remedy, appellant argues that our opinion in *Anderson v. DeLisle*, 352 N.W.2d 794 (Minn. App. 1984), *review denied* (Minn. Nov. 8, 1984), establishes his right to relief under a theory of unjust enrichment. We disagree. In *Anderson*, property was sold under a contract for deed where the seller knew before the agreement was signed that the buyer had financial problems and would likely be unable to perform under the contract. 352 N.W.2d at 795. Despite this knowledge, before the contract was signed, the seller allowed the buyer to spend $25,000 of his own money, extensively improving the property. *Id.* The signed contract provided that in the event of cancellation, "all improvements made upon the premises, and all payments made hereunder, shall belong to [the seller] as liquidated damages for the breach of this contract by [the buyer]." *Id.* The buyer never took possession of the property and was unable to make payments because of

his financial difficulties, and the seller cancelled the contract pursuant to statute. *Id.* The buyer sought to recover the value of his improvements to the property despite the cancellation of the contract. *Id.* at 796. We concluded that the seller had acted immorally by exploiting the buyer's anticipated inability to perform under the contract and that the seller had thus been unjustly enriched through the buyer's improvements, and awarded damages to the buyer. *Id.*

Anderson stands for the proposition that even in the absence of mistake or fraud, an equitable action for unjust enrichment may lie following cancellation of a contract when it would be morally wrong for one party to enrich itself at the expense of another. *See id.* As such, it is legally and factually distinguishable from the case before us and does not advance appellant's argument. The *Anderson* record is silent as to whether there were any legal remedies available to the buyer at the time he sought equitable relief, but in light of the statutory cancellation, it appears that the buyer's legal remedies had been foreclosed. Here, appellant had, and used, a legal remedy, and respondent acknowledged that it considered itself bound by the parties' contract by admitting to liability for its breach.

Second, the seller in *Anderson* knowingly and unconscionably took advantage of the buyer's prospective inability to perform in order to deprive the buyer both of the benefit of the improvements and (by cancelling the contract) of a means to recover that benefit by means of a suit at law on the contract. By contrast, there is absolutely no evidence in the record before us that respondent intended, or attempted, to conceal information about the health of its business in order to unjustly deprive appellant of

payment for its work, to otherwise take advantage of appellant, or to prevent appellant from seeking a legal remedy. And if such evidence did exist, appellant would be entitled, like the buyer in *Anderson*, to bring a suit in equity for unjust enrichment. And like the buyer in *Anderson*, appellant is bound by the general principle that equitable relief is not available when there is an adequate legal remedy and is therefore barred from simultaneously pursuing to judgment actions for unjust enrichment and breach of contract.

We conclude that the district court acted properly by dismissing appellant's unjust-enrichment claim.

II.

Appellant challenges the district court's imposition of sanctions for pursuing the unjust-enrichment claim after respondent agreed to stipulate to liability on the breach-of-contract and account-stated claims. We review a district court's decision on a rule 11 sanction for abuse of discretion. *Gibson v. Coldwell Banker Burnet*, 659 N.W.2d 782, 787 (Minn. App. 2003). Rule 11.02(c) requires that a party submitting a pleading or motion must do so with the belief that "the claims, defenses, and other legal contentions therein are warranted by existing law or by a nonfrivolous argument for the extension, modification, or reversal of existing law or the establishment of new law." If the claims are not warranted by existing law or a nonfrivolous argument for extension, the district court may grant the opposing party sanctions. Minn. R. Civ. P. 11.03. But "[a] [r]ule 11 sanction should not be imposed when counsel has an objectively reasonable basis for pursuing a factual or legal claim or when a competent attorney could form a reasonable

belief a pleading is well-grounded in fact and law." *Bergmann v. Lee Data Corp.*, 467 N.W.2d 636, 641 (Minn. App. 1991) (quotation omitted), *review denied* (Minn. May 23, 1991).

The district court ordered sanctions against appellant in the form of attorney fees on the ground that "[p]ursuing a claim for unjust enrichment when the [respondent] had agreed to stipulate to liability on the contract and account stated claims both presents a claim that is not warranted and needlessly increased the cost of litigation." Respondent had agreed to stipulate to judgment on the contract claim in the amount requested in the complaint and presented appellant with caselaw setting out the general principle that a claim of unjust enrichment is precluded when the parties' relationship is governed by contract. The cases relied on by appellant in support of its argument do not support the proposition that equitable relief is available in this situation. Given these facts and the clear state of the law in Minnesota, we conclude that the district court did not abuse its discretion by sanctioning appellant for pursuing a claim of unjust enrichment to summary judgment.

III.

By cross-appeal, respondent challenges the district court's implicit denial of respondent's request that the sanctions be paid by counsel for appellant (and not appellant itself), directly to respondent's counsel. The district court's order stated only that "[respondent] is awarded $13,000.00 in costs, disbursements and reasonable attorney[] fees as sanctions pursuant to Rule 11."

Respondent cites no legal authority to support its contention that the district court's failure to amend the order consistent with respondent's wishes constitutes an abuse of discretion. We conclude that the district court acted properly in issuing the order for sanctions as written.

Affirmed.