

No. 943885
Court of Appeals Cause No. 72114-3-I

SUPREME COURT OF THE STATE OF WASHINGTON

ALGO, INC., a Washington corporation and ALLEN R. GRANT,
individually and his marital community, and JANE DOE GRANT, her
marital community,

Defendants/Appellants and Cross-Respondents,

v.

WASHINGTON FEDERAL SAVINGS, a United States Corporation,
Plaintiff/Respondent and Cross-Appellant.

ANSWER TO PETITION FOR REVIEW

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I. INTRODUCTION

Allen Grant (“Grant”) concedes that he materially breached a mediated settlement agreement (“Settlement Agreement”) with Washington Federal by failing to provide security for an agreed one million dollar obligation. However, he posits that Washington Federal’s damages are “irrelevant”, and that the obvious intent behind the Settlement Agreement should be discarded in favor of a draconian reading that would deprive Washington Federal of not just the security promised, but also the full principal amount.

Grant is not entitled to a discount by virtue of the fact that payment under the Settlement Agreement was not due until 2017. Grant’s right to delay payment, and to a discount if he paid early, were each conditioned on his provision of security for the promissory note. Therefore, the entire \$1,000,000 became immediately due when Grant repudiated the Settlement Agreement on February 11, 2013, and the Court of Appeals correctly reversed the trial court as to the principal judgment amount.

Both the trial court and the Court of Appeals correctly ruled that prejudgment interest should be awarded on that sum. The standard for awarding such interest is far broader than Grant posits. The unambiguous repudiation of the Settlement Agreement rendered the amount due a “sum certain” upon repudiation.

This Court should decline review. If the Court accepts review, then it should also review (and reverse) the Court of Appeals' reversal of the trial court's award of attorney fees to Washington Federal. The Court of Appeals relied on an overly narrow interpretation of the attorney fee provision in the Settlement Agreement and ample authority favors breadth, bilaterality, and predictability in the availability of attorney fees when one party would have a right to recover them if they prevail. A poorly written agreement was breached by Grant in bad faith. He has already prospered adequately from its imperfections. This case should end.

II. STATEMENT OF THE CASE

A. Washington Federal Seeks a Deficiency Judgment Following a Non-Judicial Foreclosure.

In 2006, Washington Federal loaned \$3.6 million to ARG Development, LLC, a company owned and operated by Grant. Grant and Algo, Inc. each guaranteed the loan. After default, Washington Federal non-judicially foreclosed on the security, and a deficiency of \$2,414,633 remained. Washington Federal sued for that amount in 2011. (CP 134.)

B. The Parties Discuss a Settlement Secured by Real Property.

The parties began discussing settlement in May 2012. Ron McKenzie, a Vice President at Washington Federal, mentioned a possible

willingness to accept a new promissory note if secured by real property.
(CP 141.)

Grant proposed property consisting of approximately 200 acres in Merced, California ("Merced Property"). Grant represented that it was owned by Go Merced GP, a general partnership owned equally by Grant and Don Olmsted ("Olmsted"). (CP 143.)

C. The Parties Execute the Settlement Agreement.

On August 1, 2012, the parties executed the Settlement Agreement following mediation. (CP 160-161.) The Settlement Agreement is not utterly comprehensive, but its intent is beyond reasonable dispute: "While the parties contemplate that these terms will be incorporated into a more detailed settlement agreement and release, promissory note, deed of trust and related documents, it is understood and agreed that this document is itself a binding and enforceable agreement." (CP 161, emphasis added.)

Its full terms are set forth at CP 160. Due to Grant's representations of Olmsted's cooperation, the Settlement Agreement was not conditioned on Olmsted's assent or specific tax advantages. (Id.)

D. Grant Seeks Advantages for Which He Did Not Bargain.

Grant delayed performance of the Settlement Agreement for seven months. On October 2, 2012, he sought the assistance of a California attorney and a second accountant. (See CP 165-167.) He wrote that he

needed to partition the Merced Property, but wanted to ensure that the partition would not constitute a taxable event. (Id.) The following day, Grant's counsel stated that he had "significant concern" about the tax ramifications of a §1031 Exchange. (CP 166.) Despite these reservations, the attorney advised Grant to form a new limited liability company as soon as possible, as "this seems to be important to [Washington Federal]." (Id.)

After rejecting a §1031 Exchange, Grant determined that he and Olmsted could complete a lot line adjustment to divide the property, after which Grant could then offer a security interest in his portion. However, he later determined that idea to be too costly and thus "would not be in [Grant or Olmsted's] best interest." (CP 170.)

E. Grant Repudiates the Settlement Agreement.

On November 1, 2012, Union Bank sued Grant for a \$5,000,000 deficiency judgment. (CP 154, p. 62:6-11.) On February 11, 2013, Grant informed Washington Federal that he was "unable" to perform the Settlement Agreement. (CP 163.) Grant added that he "is unable to pursue an alternative arrangement with Washington Federal alone. Rather, the solution will have to involve Union Bank as well." (Id.)

On February 22, 2013, Washington Federal filed a motion to withdraw the settlement. (CP 138.) In response, Grant claimed he was "still prepared to make payment" and "willing to negotiate alternate

security”. (CP 173.) His later testimony demonstrates that this is not true. (CP 152, p. 54:6-22; CP 153, p. 61:12-19.)

F. The Trial Court Grants Summary Judgment to Washington Federal in the Principal Amount of \$850,000.

Washington Federal moved for summary judgment. The trial court orally granted judgment in favor of Washington Federal in the amount of \$1,000,000 and orally denied Washington Federal’s request for attorney’s fees. It requested supplemental briefing on the issue of prejudgment interest. (See CP 412; CP 422.)

Both sides moved for reconsideration; Washington Federal of the denial of its fees and Grant of the principal amount of the judgment. The trial court, in essence, granted both motions: its final order awarded fees and costs, but awarded the principal sum of only \$850,000. (CP 540.) It also awarded prejudgment interest from February 11, 2013; the date of repudiation. Thus, the trial court acknowledged that the amount due Washington Federal was a “sum certain” on that date. (Id.)

G. Grant Files for Bankruptcy Protection.

Grant filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code on July 14, 2014. (CP 709-711.)

Because Grant breached the Settlement Agreement, Washington Federal was treated as a general unsecured creditor in the bankruptcy and

was forced to accept a plan under which it would not receive payment until September 2017. (See *In re: Grant*, U.S.B.C., W.D. Wash., No. 14-43829-BDL (“BK Pleadings”), Dkt. No. 222, p. 19.) In addition, Washington Federal lost the right to interest during the pendency of the bankruptcy action. See 11 U.S.C. 502(b)(2).

H. The Court of Appeals Affirms the Award of Prejudgment Interest, Reverses the Principal Judgment Reduction, and Reverses the Award of Washington Federal’s Attorney Fees.

The Court of Appeals issued its opinion (“Opinion”) on February 21, 2017. It agreed with Washington Federal on two issues; affirming prejudgment interest and reversing the trial court by restoring the original one million dollar principal judgment amount. (Petition, App. A, p. 1.) However, on grounds not argued by Grant below or on appeal – and in direct contravention of written representations by his counsel – it reversed the trial court’s award of attorney fees and costs in its entirety. (Id.)

III. ARGUMENT AND AUTHORITY

A. Standard of Review.

RAP 13.4(b) provides four criteria by which this Court decides whether to accept review. The two argued here are that the Opinion “is in conflict with a decision of the Supreme Court” and “in conflict with a published decision of the Court of Appeals”. RAP 13.4(b)(1)-(2).

B. No Conflict Exists Between the Opinion and Any Other Law as to the Principal Judgment Amount.

Grant attempts to meet the applicable standard by positing that the Opinion contradicts “black-letter law”. (See Petition, p. 8.) But these references consistently gloss over Grant’s unambiguous – and uncontested – **material breach of the Settlement Agreement.**

A judgment for one million dollars is better than an unsecured promissory note, but worse than a secured one. The trial court could have gone down the rabbit hole of trying to quantify all the differences between the value of what Washington Federal bargained for and a judgment for one million dollars. One would have cut in Grant’s favor; a reduction to reflect the future due date of the payment. The rest would have benefited Washington Federal. And indeed, the trial court might have had to, if Grant had not unequivocally repudiated the Settlement Agreement on February 11, 2013, thereby materially breaching it.

At that moment, as a matter of law, “the nonbreaching party may elect...the remedial right to damages for total failure of full performance”. (Opinion, p. 5, citing *Colorado Structures, Inc. v. Ins. Co. of the West*, 161 Wn.2d 587, 589, 167 P.3d 1125 (2007)). It is that moment, and its legal significance, that Grant’s arguments disregard at the cost of their validity.

“Defendants agree to pay Washington Federal \$1 million in the form of a promissory note.” (CP at 160-161). Discounts only applied if the note was paid early, which it was not. The note was never paid.

Far from “irrelevant” (see Petition, fn. 3, p. 14.), the subsequent harm that Washington Federal suffered in Grant’s bankruptcy reinforces the appropriateness of the one million dollar principal judgment amount.

Washington Federal bargained for a one million dollar promissory note, secured by a deed of trust, due in the future. Grant provided **none of these**. Grant seeks to treat an unsecured note as equal to a secured note, but they are not equal. The qualitative difference between them cannot be expressed in unambiguous, numerical terms. Even in hindsight, it is impossible to quantify. But given the bankruptcy, delay, loss of interest, and unrecoverable attorney fees, the difference was unquestionably far greater than could be offset in any present-value calculation.

While, all things equal, the time-value of money can be presumed to require a reduction in the amount of a judgment for sums due in the future, not all is equal here. Because one million dollars in the future is not all that Washington Federal bargained for, and not all of which it was deprived when Grant materially breached the Settlement Agreement.

Contrast this with the proposition of law allegedly in conflict with the Opinion, that “where damages represent losses that are *expected* to

occur in the future, those damages are *traditionally* reduced to present value”. (Petition, p. 11, citing DOBBS, LAW OF REMEDIES: DAMAGES, EQUITY, RESTITUTION § 12.6(1), at 126 (2d ed. 1993), emphasis added.)

Dobbs also explains: “Contract remedies furnish a stylized representation of actual loss, not a perfect image of it.” *Id.* at 19.

The instant case exemplifies the latter concept far better than the former. Here, Washington Federal bargained for not just the mere promise of a payment of money in the future, but security on that promise. The trial court **could not recreate** the security promised. No law cited by Grant compels a court in this situation to nonetheless discount the judgment amount because the secured payment amount was due in the future. A \$1,000,000 judgment is not a perfect image of what Washington Federal was promised, but it is closer than a \$850,000 judgment.

Here, Washington Federal’s damages are not “*expected to occur in the future*”, such as when a seller of baby pigs breaches duties to the buyer, preventing their resale as adults for meat. (Cf. *Purina Mills, L.L.C. v. Less*, 295 F. Supp. 2d 1017 (2013).) Washington Federal was immediately damaged upon repudiation of the Settlement Agreement due to the lack of a deed of trust on property with security (and, ironically, also damaged by Grant’s refusal to sign the promissory note with an attorney

fee provision that would have vitiated the grounds for reversing an award of such fees to Washington Federal).

Breach of the Settlement Agreement is thus akin to cases involving liquidated damages, in that the parties have negotiated a liquidated sum that will be immediately due upon breach to which discounting is not essential. *Walter Implement, Inc. v. Donald Focht*, 107 Wn.2d 553, 560, 730 P.2d 1340 (1987) (noting that discounting to present value is not necessarily required to have a reasonable forecast of damages in a liquidated damages provision).

Furthermore, while damages are “customarily” reduced to present value, they are not always so reduced. Rather, they are only reduced when a party is awarded future economic damages that must be reduced to their present cash value. *Cornejo v. State*, 57 Wn. App. 314, 325-26, 788 P.2d 554 (1990) (citing WPI 34.02). Thus, as explained above, when the breach was not merely the failure to pay money, but the failure to provide security, an exception to the general rule applies. The Court of Appeals ruled consistent with the applicable law and the equities and there is no basis to review the Opinion.¹

¹ Grant posits that “this Court’s guidance is needed” because “the trial court reversed itself on cross motions for reconsideration, and the Court of Appeals was divided.” (Petition, p. 2.) Neither are grounds to accept review. Respectfully, Judge Leach’s dissent takes issue more with Grant’s tactics than the majority’s reasoning. While he posits that the majority “assumes facts not in the

C. No Conflict Exists Between the Opinion and Any Other Law as to the Award of Prejudgment Interest.

If the Court declines review on the amount of the judgment, then prejudgment interest on that amount is unquestionably appropriate.

However, even treating the issue as wholly independent for purposes of this briefing, review of the prejudgment interest issue should be denied.

Prejudgment interest is available “(1) when an amount claimed is ‘liquidated’ or (2) when the amount of an ‘unliquidated’ claim is for an amount due upon a specific contract for the payment of money and the amount due is determinable by computation with reference to a fixed standard contained in the contract, without reliance on opinion or discretion.” *Prier v. Refrigeration Eng'g Co.*, 74 Wn.2d 25, 32, 442 P.2d 621 (1968). A claim is liquidated “where the evidence furnishes data which, if believed, makes it possible to compute the amount with exactness, without reliance on opinion or discretion.” *Id.*

The Court of Appeals aptly analogized this case to one of total breach rendering the entire one million dollars immediately due with prejudgment interest accruing from the date of breach. *Colorado*

record” (see Dissent, p. 1), the salient facts were all conceded by Grant below. Grant did not challenge that he materially breached the Settlement Agreement on February 11, 2013. Thus, the debt that was previously “not due” only on condition that it be secured *became due by operation of law*. Thus, the bank’s “actual damages” did not need to be cultivated below and are established by the Settlement Agreement. There is no windfall; merely an election of remedies. The dissent does not render review appropriate – let alone necessary.

Structures, 161 Wn.2d at 588. Courts routinely award prejudgment interest in cases involving such material breach of a contract specifying a liquidated sum. *Mall Tool Co. v. Far W. Equip. Co.*, 45 Wn.2d 158, 172, 273 P.2d 652 (1954) (surveying Washington cases involving contracts for the payment of money where courts have awarded prejudgment interest). The rationale behind the availability of prejudgment interest only in cases with liquidated sums is that a defendant cannot stop the running of interest by paying the plaintiff if that defendant does not know the amount due. *See* 1 DOBBS, DOBBS LAW OF REMEDIES § 3.6(1), at 351-52 (2d ed.1993).

Here, Grant owed Washington Federal one million dollars pursuant to the Settlement Agreement in the event of breach. Accordingly, prejudgment interest from the date of repudiation is warranted and the Opinion should remain undisturbed.

D. If the Court Accepts Review, It Should Review (and Reverse) the Reversal of the Trial Court's Attorney Fee Award.

As explained thoroughly herein, this Court should simply decline review so that this matter may finally be brought to a conclusive resolution. However, if the Court accepts review, it should also review the

Opinion's reversal of the trial court's award of attorney fees and costs to Washington Federal.²

This Court has been expanding the availability of attorney fees and costs at least since RCW 4.84.330 was enacted. The fundamental principle behind RCW 4.84.330 is to allocate fees whenever there is an intention for at least one party to recover those fees should that party prevail, based on a contract that either applies or *is alleged by one party to the action to apply*.

It is obvious on this record that these parties intended for the non-prevailing party to pay the attorney fees and costs of the winner. Attorney fees clauses are found in all of the underlying loan documents. (CP 320-323.) There is an attorney fee provision in the Settlement Agreement – albeit one which by its hastily-drafted terms purports to limit application to an action “on the note”, rather than any action arising under the Settlement Agreement. (CP 160.) And in a letter from Grant's counsel, he explicitly asserted Grant's intention and understanding that fees related to the litigation would go to the prevailing party. (CP 386.)

²Grant posits that “Washington Federal did not move for reconsideration of this decision and has not petitioned for its review by this Court.” (Petition, p. 8.) This does not impact Washington Federal's right to argue for review of the attorney fee aspect of the Opinion through this pleading. RAP 13.4(d).

The trial court recognized this fact and awarded Washington Federal its fees and costs. The Opinion's reversal of that award conflicts with both specific Washington authority interpreting attorney fee provisions and the governing principle behind it.

Attorney fees must be based on a contract, statute, or recognized ground in equity. *Dayton v. Farmers Ins. Group*, 124 Wn.2d 277, 280, 876 P.2d 896 (1994). RCW 4.84.330 provides that a contract containing an attorney fees provision entitles the prevailing party in an enforcement action to recover reasonable attorney fees and costs. *Lane v. Wahl*, 101 Wn. App. 878, 884, 6 P.3d 621 (2000).

All of the agreements between the parties contain attorney fee provisions. Washington authority makes two consistent and unambiguous holdings in interpreting such provisions. The first is that under RCW 4.84.330, "unilateral" attorney fee provisions are construed to be bilateral and entitle the prevailing party to an award of fees and costs in any dispute in which such a clause is *alleged to apply* – regardless of whether such bilaterality was ever actually intended by either of the parties, or if the contract ultimately governs the dispute. *First-Citizens Bank & Trust Co. v. Cornerstone Homes & Dev., LLC*, 178 Wn. App. 207, 218-19, 314 P.3d 420 (2013). At its essence, the statute rewrites Washington contracts in furtherance of its purposes.

Grant's counsel was undoubtedly aware of this line of cases when he claimed an entitlement to fees as a prevailing party in a letter prior to summary judgment. (CP 386.)

Grant's counsel's citation of *First-Citizens* was neither coincidental nor arbitrary. It had facts directly analogous to how Grant anticipated the instant case unfolding. *First-Citizens*, 178 Wn. App. at 218. "The broad language 'in any action on a contract' found in RCW 4.84.330 encompasses any action in which it is alleged that a person is liable on a contract." *Yuan v. Chow*, 96 Wn. App. 909, 916, 982 P.2d 647 (1999). The purpose behind this principle has been explained as designed to "prevent oppressive use of one-sided attorney's fees provisions". *Herzog Aluminum, Inc. v. General Am. Window Corp.*, 39 Wn. App. 188, 196, 692 P.2d 867 (1984).

Thus, the legislature is directing courts not to allow one party a "free ride"; a chance to recover attorney fees if they should prevail, but to successfully defend a motion for fees if they should lose. Normally, of course, it is the party named in the "unilateral" attorney fee provision who attempts to take improper advantage of such a situation.

Grant was fully aware of the line of cases that would render the unilateral fee provisions to be bilateral; he even cited them in writing prior to summary judgment. (CP 386.) And yet, after he did not prevail below

on liability, he challenged Washington Federal's right to attorney fees for the first time. To allow Grant to recover his fees if he prevailed (as he clearly would have under *First-Citizens*), but deny fees to Washington Federal here, would be to blatantly violate the principle underlying RCW 4.84.330 and the cases interpreting it.

The question then becomes whether the settlement of these respective claims at mediation intrinsically vitiates the right of attorney fees to the prevailing party in the lawsuit simply because the Settlement Agreement arguably does not contain a fee provision to enforce its terms. Neither authority nor logic suggests that it should. The same rationale that caused the trial court to award attorney fees below should compel this Court to reinstate the trial court's award if it accepts review.

Indeed, Grant's refusal to perform the Settlement Agreement resulted in additional litigation; both to enforce the Settlement Agreement itself and on the underlying Loan Documents. All of these actions took place "in an action in which it is alleged that a person is liable on a contract". RCW 4.84.330. This is sufficient to entitle Washington Federal to an award of fees and costs as the prevailing party.

The Opinion dismisses this argument by flatly asserting that "neither party could have used the draft promissory note as a basis to recover attorney fees". (Opinion, p. 14.) But Washington Federal did not

argue that the draft promissory note was the only contract on which to buttress an attorney fee award. Rather, as explained above, it also relied on the underlying loan documents and on the Settlement Agreement (which were mutually executed).

Both sides proceeded from the assumption that the prevailing party would recover its fees. Grant should be estopped to deny that right now. *Arkison v. Ethan Allen, Inc.*, 160 Wn.2d 535, 538, 160 P.3d 13 (2007) (“The doctrine of ‘[j]udicial estoppel is an equitable doctrine that precludes a party from asserting one position in a court proceeding and later seeking an advantage by taking a clearly inconsistent position.’”); *Anfinson v. FedEx Ground Package Sys., Inc.*, 174 Wn.2d 851, 861-62, 281 P.3d 289 (2012) (Courts consider the following factors in determining whether judicial estoppel applies: “(1) whether the party's later position is clearly inconsistent with its earlier position, (2) whether acceptance of the later inconsistent position would create the perception that either the first or second court was misled, and (3) whether the assertion of the inconsistent position would create an unfair advantage for the asserting party or an unfair detriment to the opposing party”).

Even more fundamental than the principle of bilaterality in the law construing contractual attorney fee provisions is the principle of **predictability**. Attorney fee provisions allow sophisticated parties like

those in this case to assess the pros and cons of their actions with reliable knowledge of their consequences. When a court departs from these principles, and forces parties to guess about whether fees can be recovered until the end of litigation (or in this case, until the end of appeal), it imposes uncertainty to the detriment of the system as a whole without any corollary benefit.

Of course, courts can always tell the losing party in a contract dispute to “write a better deal”. But RCW 4.84.330 demonstrates a legislative intent to treat attorney fee provisions differently – in furtherance of the principles of fairness and predictability. It was never the intent of *these parties* to limit attorney fees to an action on the *note*; despite the words used in the Settlement Agreement. Their actions before and after the Settlement Agreement was hastily drafted at the end of a full day mediation speak far louder than the clumsy words in that provision.

There is another basis to award attorney fees. The prevention of performance doctrine also applies to render improper a denial of Washington Federal’s attorney fees, based on the language in the promissory note that Grant improperly refused to sign.

“A party to a contract cannot avail himself of nonperformance where the nonperformance is caused by his acts.” *Pac. County v. Sherwood Pac., Inc.*, 17 Wn. App. 790, 799, 567 P.2d 642 (1977) (citing

Wolk v. Bonthius, 13 Wn.2d 217, 219, 124 P.2d 553 (1942)). “The purpose of the rule is to prevent a party from benefitting by its wrongful acts.” *Wolk*, 13 Wn.2d at 219.

The Settlement Agreement provides that in “any action to enforce the note, the prevailing party shall be entitled to recover its reasonable costs, including attorneys [*sic*] fees”. (CP 160.) The note, in turn, contains a broad attorney fee provision. (CP 358.)

The note further provides for “attorney fees and costs incurred collecting sums due . . . after default or maturity”. (Id., emphasis added.) Washington Federal amended its complaint to add a claim to recover one million dollars; or to enforce both the underlying promissory note and the note that Grant refused to sign. Grant never objected to the terms of either note. He should not now benefit from his failure to sign the latter by claiming that he is not liable for attorney fees when such an award is clearly permitted.

“Where a statute authorizes fees to the prevailing party, they are available on appeal as well as in the trial court.” *Eagle Point Condo. Owners Ass’n v. Coy*, 102 Wn. App. 697, 715, 9 P.3d 898 (2000); *see also Richter v. Trimberger*, 50 Wn. App. 780, 786, 750 P.2d 1279 (1988) (applying same principle to action seeking fees under RCW 4.84.330).

If this Court accepts review, it should reverse the Court of Appeals' reversal of the trial court, and reaffirm both the trial court and the principles behind RCW 4.84.330 and the cases interpreting it.

IV. CONCLUSION

The trial court awarded Washington Federal its attorney fees and prejudgment interest. It also accepted a fallacious argument to reduce the principal judgment amount. The Court of Appeals refused to contort the Settlement Agreement to reduce the principal judgment amount, but then contorted it (and RCW 4.84.330) to subvert the expectations of the parties by depriving the prevailing party of its attorney fee award.

The Court should decline to review this case and leave the parties where it finds them. If it accepts review of any aspect of the case, it should accept review of the attorney fee issue, and reinstate the trial court's award of fees and costs to Washington Federal.

RESPECTFULLY SUBMITTED this 15th day of May, 2017.

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