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No. 95921-8

SUPREME COURT OF THE STATE OF WASHINGTON

LUCAS PRICE,

Petitioner,

v.

DANIEL PRICE,

Respondent.

ANSWER TO PETITION FOR REVIEW

OGDEN MURPHY WALLACE

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A. Restatement of Issues Presented for Review.

Daniel Price, respondent in the Court of Appeals and defendant in the trial court, asks this Court to deny review of Division One's unpublished decision affirming the trial court's dismissal of petitioner Lucas Price's claims and award of fees, and to award him his fees incurred responding to this petition, because the issues presented as grounds for review can be more fairly restated as:

- that the trial court had not abused its wide discretion in striking petitioner's demand for a jury when petitioner brought claims and sought relief admittedly arising in equity, including an accounting and an order commanding respondent to purchase petitioner's shares at a price set by the court, conflicts with this Court's decision in *Brown v. Safeway Stores, Inc.*, 94 Wn.2d 359, 368, 617 P.2d 704 (1980), which affirmed a trial court order striking a jury demand when plaintiff brought both legal and equitable claims and sought both legal and equitable relief?
- 2. Whether this Court should accept review to "revise" the *Brown* factors governing a trial court's exercise of its discretion to decide whether an action raising both legal and equitable claims, and seeking both legal and equitable relief, should be tried to a jury,

based on federal case law that the parties have never briefed, and that the courts below have never addressed?

3. Whether this Court should accept review because the Court of Appeals' unpublished decision that petitioner was not entitled to damages or the equitable relief he sought as a matter of law, based on his version of disputed facts rejected by the trial court sitting as finder of fact, conflicts with other decisions of this Court and the Court of Appeals that the petition neither identifies nor discusses?

B. Restatement of the Case.

Deploying an impressive array of mostly inapt and always pejorative adjectives to describe the conduct and decisions of respondent, the trial court, and the Court of Appeals in rejecting his claims of "corporate oppression" and breach of fiduciary duty, petitioner relies on a version of the "facts" that is wholly at odds with both the evidence presented during an 11-day trial and with the trial court's exhaustive findings rejecting his demand for an accounting and other equitable relief, including an order compelling respondent to purchase for \$26 million petitioner's interest in the parties' closely-held corporation, Gravity Payments, Inc. The Court of Appeals' unpublished opinion fairly sets out the facts. The facts most salient to the issues presented by the petition are briefly addressed here:

1. Petitioner expressly rejected contractual provisions that would have given him the relief he sought in equity in this lawsuit.

Petitioner Lucas Price expressly rejected a buy/sell agreement that would have provided a contractual right and mechanism for him to sell his shares to respondent Daniel Price when the parties reorganized Gravity in 2008 so Lucas could "step away" from the business in exchange for guaranteed dividends that because of Daniel's extraordinary management and growth of the company have tripled in the years since reorganization. (FF 9, CP 905;¹ RP 213, 574, 579, 592, 2 RP 90, 103-05, 149; Exs. 520, 521, 592) The parties also agreed that Daniel was entitled to "salary and bonuses subject only to the duty of good faith and fair dealing," to "payment of expenses authorized by Gravity or incurred in connection with work and based on documentation or other substantial evidence," and to stock awards based on growth and independent appraisals of the company. (FF 6-8, CP 904-05; RP 163, 203-04, 214; 2 RP 110, 113; Ex. 10, ¶ 5.1, Ex. 11, ¶ 6.4.3)

Lucas also agreed that Daniel would have a tie-breaking vote on a wide range of corporate governance issues, including Daniel's

¹ "FF" references the trial court's findings after trial. Additional citations from the evidence at trial are provided for Findings that petitioner challenged in the Court of Appeals.

bonus compensation, if the parties were unable to "achieve consensus." (FF 6-7, CP 904; RP 203-04, 214; 2 RP 110; Ex. 11, ¶ 6.1)

2. Petitioner admitted his claims and requested relief were equitable in nature before the trial court exercised its discretion to strike his jury demand.

Lucas sued Daniel in 2015 despite these negotiated provisions, claiming that Daniel's exercise of his rights under their agreements was "corporate oppression" and a breach of fiduciary duties. Lucas asked the trial court to order Daniel to purchase his Gravity shares at a court-ordered price of \$26 million. (CP 4-5, 919; RP 653, 918, 924) The trial court allowed Lucas' direct claims against Daniel to go to trial even though a minority shareholder such as Lucas normally would be required to bring such claims as a derivative action in the name of the corporation. (See Resp. Br. 34, 53-57)

Lucas expressly admitted during argument on summary judgment motions that the relief he sought was equitable in nature. (4/1/16 RP 28, 31) Fully familiar with the real issues in dispute, the trial court shortly before trial² exercised its discretion to strike the

² Petitioner continues to make much of when the jury demand was stricken. (Petition 2, 10) Respondent moved to strike the jury demand ten days after the hearing at which the trial court denied respondent's motion for summary judgment and allowed petitioner to pursue his "equity-based" direct claim at trial. (CP 346-58, 680, 857-61)

jury demand only after Lucas conceded that he brought a claim in equity seeking equitable relief, and after multiple discovery motions and motions to exclude evidence and review of additional evidence pretrial that made clear the primarily equitable nature of the dispute and of Lucas' claims. (CP 346-58, 371, 387, 680)

3. The company paid respondent's reasonable business expenses as provided by his employment agreement.

Daniel's employment agreement allowed use of company funds for "authorized business expenses of Gravity." (Ex. 10, ¶ 5.1) Lucas claims that Daniel "admitted" that "expenses were compensable only if they met IRS guidelines." (Petition 6, citing CP 1733-34) The citation, to a seconds-long video clip admitted at trial, in no way supports that claim. To the contrary, nothing in Daniel's employment agreement, or elsewhere, conditioned use of company funds on business expenses that would be deductible by an individual under IRS regulations. In the cited deposition testimony and at trial, Daniel testified to his efforts to ensure any personal expenses charged to Gravity were reimbursed. (2 RP 139, 302-04, 452-53, 661-62, 755) The trial court rejected the testimony of Lucas' expert that Daniel had misused corporate assets on the grounds his "documentation of expenses did not meet IRS standards" because

the expert "did not analyze whether Daniel[]'s expenses were business related or personal," and there was "no evidence that the company conditioned reimbursement on presentation of such IRS documentation." (FF 11-12, CP 905-06; RP 206; 2 RP 653, 659-60, 670-712, 777-78; Ex. 10, ¶ 5.1)

On appeal, Lucas claimed Daniel "admitted" "personal expenses" of "as much as \$60,000" had been charged to Gravity (App. Br. 51), and that because Lucas owned 32% of the company's shares, 32% of that sum (\$19,200) had been "stolen" from him since 2008. (App. Br. 24) But the evidence supports the trial court's findings, affirmed by the Court of Appeals (Opinion 17), that Lucas had not proven either that Daniel had improperly used Gravity's resources for personal expenses, or that Lucas had suffered any damages as a result of his practices.

4. Petitioner agreed that respondent was entitled to his stock awards based on independent appraisals of the company's value.

Based on Gravity's extraordinary growth, the parties agreed on Daniel's nondiscretionary stock awards in 2009, 2010 and 2011. (FF 26, CP 909) The Court of Appeals also affirmed (Opinion 14) the trial court's rejection of Lucas' factual allegation, repeated as a cornerstone of his appeal (App. Br. 15-19, 41-47), that Daniel had

improperly provided the independent appraiser with growth estimates to trigger the 2012 stock award. (FF 28, CP 910; RP 744, 792; Ex. 40) In fact, the parties unanimously approved Daniel's 2012 stock award based on the independent appraisal, as provided in the Shareholders Agreement. (FF 33-35, CP 911; RP 713-15; 2 RP 179-80, 209-10, 493-94; Exs. 53, 612)

On appeal, Lucas seized on the discovery by both parties during trial (RP 1014; 2 RP 4, 36), that the accounting firm that employed the appraiser who valued Gravity had, unknown to them, characterized the appraisal as a "calculation" rather than a "valuation" in its final report. (App. Br. 15-19, 41-47) The Court of Appeals affirmed as well (Opinion 14) the trial court's rejection of this factual predicate of Lucas' argument that the 2012 stock award was improper, or that Daniel had a fiduciary obligation to return it. (FF 36-37, CP 912; 2 RP 205-06, 24, 608-09, 611, 626)

5. Despite extraordinary company growth, respondent's compensation has remained at 2013 levels since petitioner began his campaign to force an "equity-based" buy-out.

The Shareholders Agreement provides that "[i]f the Board achieves consensus, their consensus decision shall be the decision of the Board. If they are unable to reach consensus, then [Daniel] shall decide and control the management decision of the Board." (Ex. 11,

¶ 6.1.1) The agreement does not require either party to attempt to "achieve consensus." Lucas himself testified that the parties could not reach consensus on corporate governance after 2012. (RP 276)

"Preferring to maintain reasonable relations with Lucas," Daniel exercised his authority under the Shareholders Agreement to set his bonus compensation without Board consensus beginning in 2013. (FF 48, CP 915; 2 RP 282; RP 214) Daniel accepted the same \$800,000 bonus in 2013 as he had received in 2012 (when Lucas had agreed to the bonus), for total 2013 compensation of \$1.1 million.³ (FF 48, CP 915; 2 RP 282-84; Ex. 799) When Lucas once again refused to agree to a 2014 bonus, Daniel once again accepted an \$800,000 bonus, even though Gravity "had grown even more in 2013 and 2014 than in 2012 and the formulas discussed in connection with the 2012 bonus decision" would have suggested a higher bonus. (FF 20, CP 907, FF 48, CP 915; RP 217-18; 2 RP 166-67, 284; Exs. 31, 588-591, 728, 806) As a consequence, since 2013 Daniel has been paid a \$300,000 salary, and a bonus of \$800,000.

³ Even when a report both parties commissioned indicated a "target range" for Daniel's 2013 compensation would be \$1.4 million, Lucas as part of his strategy to force a buy-out proposed that Daniel's bonus be reduced to \$200,000 (a quarter of his agreed bonus the prior year), which would have reduced Daniel's total 2013 compensation to \$500,000. (FF 47, CP 914-15; 2 RP 280-82, 269, 696; Ex. 101, Ex. 655)

for total annual compensation of \$1.1 million. The Court of Appeals affirmed (Opinion 20) the finding "that Daniel's compensation decisions in 2013 and 2014 were a reasonable business judgment made in good faith." (FF 49, CP 915; 2 RP 288-91, 308, Ex. 799)

C. Why This Court Should Deny Review.

1. Division One's unpublished opinion affirming the trial court's discretion to deny a jury trial when an action is not purely legal does not conflict with *Brown*.

This Court confirmed the factors governing a trial court's "wide discretion" to decide whether a case should be tried to a jury or the court in *Brown v. Safeway Stores, Inc.*, 94 Wn.2d 359, 368, 617 P.2d 704 (1980):

(1) who seeks the equitable relief; (2) is the person seeking the equitable relief also demanding trial of the issues to the jury; (3) are the main issues primarily legal or equitable in their nature; (4) do the equitable issues present complexities in the trial which will affect the orderly determination of such issues by a jury; (5) are the equitable and legal issues easily separable; (6) in the exercise of such discretion, great weight should be given to the constitutional right of trial by jury and if the nature of the action is doubtful, a jury trial should be allowed; (7) the trial court should go beyond the pleadings to ascertain the real issues in dispute before making the determination as to whether or not a jury trial should be granted on all or part of such issues.

The Court of Appeals' unpublished opinion in this case does not conflict with *Brown* in concluding that the trial court did not abuse

its discretion when it clearly considered, and properly applied, the *Brown* factors in denying a jury trial, because "the centerpiece of the lawsuit was Lucas's minority oppression claim and request for a court-ordered buyout." (Opinion 5)

Contrary to petitioner's claim (Petition 14), neither the trial court nor the Court of Appeals relied on a "rudimentary comparison" of the "monetary value of the legal remedies and equitable remedy" in striking the jury demand. The trial court carefully followed *Brown* in evaluating petitioner's jury demand, as did the Court of Appeals in examining the trial court's exercise of its discretion, which contrary to petitioner's hyperbolic claim the courts below did not consider "unreviewable." (Petition 14, n.9)4

Instead, the courts below correctly recognized that petitioner demanded a jury even though the claims he made and the relief he

⁴ Knocking down a straw man position that has never been taken in this case, petitioner cites a law review article for the proposition that "Brown starkly diverges from" a view that a trial court has "broad, unreviewable discretion" in striking a jury demand. The cited article merely identifies Washington's analysis as "open-ended" and quotes Brown for the proposition that the trial court has "wide discretion in cases involving both legal and equitable issues, to allow a jury on some, none, or all issues presented." Hamilton, Federalism and the State Civil Jury Rights, 65 Stan. L. Rev. 851, 880, 900 (2013) (concluding that in Washington, "[w]hen there are mixed issues of law and equity, the trial court has wide discretion to determine whether the action is primarily legal or equitable.") (cited Petition 14, n.9).

sought were primarily equitable,⁵ all his claims and requested relief were based on the same set of facts and so interrelated they could not be easily separated, and the equitable issues present complexities that would affect the orderly determination of legal issues by a jury. The Court of Appeals' unpublished decision that the trial court, fully familiar with the contours of the case, did not abuse its discretion in striking the jury demand does not conflict with *Brown*, which in no way "directs the trial court to seat a jury" if "it is possible to empanel a jury, even on 'part' of the action." (Petition 14)

Nor do the intermediate appellate court cases petitioner cites (Petition 15-16) compel trial by a jury. Each of those cases consider claims arising solely in contract or in tort, seeking only money

⁵ Petitioner misconstrues the Court of Appeals' reference to Allard v. Pacific National Bank, 99 Wn.2d 394, 400, 663 P.2d 104 (1983) in discussing his expense recovery claim (Fact § B.3, supra at 5-6) to argue that his claim for breach of fiduciary duty was legal in nature. (Petition 12, citing Opinion 5) This Court in Allard distinguished between recovery due an individual trust beneficiary and sums due to the trust, holding that the latter sounds in equity. Applied here, as argued *infra* at 12-13, petitioner's "direct" claim sought recovery of expense reimbursement owned by the company, not Lucas. The Court of Appeals clearly and correctly recognized the equitable nature of petitioner's minority oppression claim and his demand for an accounting and court-ordered buy-out. (Opinion 5-6) Further, this Court affirmed the trial court's denial of a jury trial to plaintiff trust beneficiaries, recognizing that "[i]n determining whether a case is primarily equitable or legal in nature, the trial court is accorded wide discretion, the exercise of which will not be disturbed except for clear abuse," in Allard, 99 Wn.2d at 400, citing Brown, 94 Wn.2d at 368; Pollock v. Ralston, 5 Wn.2d 36, 44, 104 P.2d 934 (1940).

damages. Auburn Mech., Inc. v. Lydig Const., Inc., 89 Wn. App. 893, 951 P.2d 311, rev. denied, 136 Wn.2d 1009 (1998) (claim for extra work on construction contract); Kelly v. Foster, 62 Wn. App. 150, 813 P.2d 598, rev. denied, 118 Wn.2d 1001 (1991) (legal malpractice); Dep't of Nat. Resources v. Littlejohn Logging, Inc., 60 Wn. App. 671, 806 P.2d 779 (1991) (negligence claim); S.P.C.S., Inc. v. Lockheed Shipbuilding & Const. Co., 29 Wn. App. 930, 631 P.2d 999, rev. denied, 96 Wn.2d 1019 (1981) (construction contract).

Indeed, petitioner's claim that "the requested remedy determines whether the action requires a jury" (Petition 15 n.10, emphasis in original) defeats his argument for acceptance of review. Here, petitioner sought mandatory injunctive relief - his primary demand was not for damages, but for a court-ordered, \$26-million buyout. See Henry George & Sons, Inc. v. Cooper-George, Inc., 95 Wn.2d 944, 948-53, 632 P.2d 512 (1981) (discussed Resp. Br. 53, 56). Further, petitioner's direct action claim for "damages" supposedly caused by respondent's breach of fiduciary duties depended upon a theory that if recovery was instead awarded to the corporation, "then a court of equity will look beyond the corporation and award the recovery to the individual stockholders entitled thereto." Interlake Porsche & Audi, Inc. v. Bucholz, 45 Wn. App. 502, 520, 728 P.2d 597

(1986) (emphasis added), citing *Joyce v. Congdon*, 114 Wash. 239, 243, 195 P. 29 (1921), *rev. denied*, 107 Wn.2d 1022 (1987).

Inconsistently, petitioner also claims that the legal nature of his claims compelled a jury trial regardless of the remedy requested. Far from "affirming" petitioner brought a "direct, personal claim" legal in nature that "should be decided by a jury" (Petition 16, emphasis in original), the trial court allowed petitioner to seek relief directly against respondent even though his "direct" claim was not supported by Washington law. (CP 325-26) Petitioner convinced the trial court that he should be able to sue petitioner directly because the company was closely held, but in arguing against summary judgment on these "direct" claims he expressly acknowledged that the theory allowing such a direct action is "equity-based." (4/1/16 RP 28, 31: "with respect to equitable relief, in a minority shareholder oppression case the cases have made clear, equitable relief is an important component. It gives the court all sorts of authority to address the problem.")

Finally, even if it was "possible" for "part" of the action to be tried to a jury (Petition 16), that does not mean petitioner had a right to jury trial. Instead, as the Court of Appeals correctly recognized (Opinion 7), the trial court had "wide discretion" to strike his jury

demand after consideration of the *Brown* factors. Division One's unpublished decision affirming the trial court's reasoned exercise of its discretion to deny a jury trial does not conflict with *Brown*, and presents no grounds for further review under RAP 13.4(b)(1).

2. This is not the case in which to consider whether to "revise" the *Brown* test based on federal law, as the petition for review for the first time proposes.

The petition for review for the first time proposes that the Court rule in this case that a litigant "is entitled to have all factual issues raised by the legal aspects of a case tried to a jury." (Petition 18, citing Dairy Queen, Inc. v. Wood, 369 U.S. 469 (1962); Beacon Theatres, Inc. v. Westover, 359 U.S. 500 (1959)). Arguing that he was entitled to a jury trial on the factual bases for his claims even though he sought equitable relief, petitioner assures the Court that "adopting the federal approach" would not make "wholesale revision of the Brown test... necessary." (Petition 18, n.14) To the contrary, petitioner proposes a drastic revision of Washington law, unbriefed in this case and uncontemplated in this Court's jurisprudence.

Petitioner has never before argued that his demand for a jury trial should not be considered under the *Brown* factors that guide our courts' analysis under the Washington constitution, and that this Court should instead adopt federal law governing the right to jury trial under the Seventh Amendment of the U.S. Constitution. For this reason alone, the Court should decline his invitation to "adopt" a new rule governing the right to jury trial that has not been briefed or considered in the courts below. *Buchsieb/Danard, Inc. v. Skagit Cty.*, 99 Wn.2d 577, 581, 663 P.2d 487 (1983) ("issues not raised at the trial court or the Court of Appeals cannot be raised for the first time before the Supreme Court."); *Wilson v. Steinbach*, 98 Wn.2d 434, 440, 656 P.2d 1030 (1981); *Peoples Nat'l Bank v. Peterson*, 82 Wn.2d 822, 829-30, 514 P.2d 159 (1973).

Even had the parties briefed, or either of the courts below addressed it, petitioner's proposal that the Washington courts abandon *Brown* is ill-advised. In analyzing the right to jury trial under the Washington constitution this Court in *Brown* cited neither *Dairy Queen* nor *Beacon*, which had been decided 20 years earlier when *Brown* was decided. Since *Brown* was decided, the Washington courts have never cited *Dairy Queen*; *Beacon* has been cited in the appellate courts only twice, and never for the proposition that federal law governs or even informs the Washington courts' analysis of the right to jury trial. *See Kim v. Lee*, 145 Wn.2d 79, 88, 31 P.3d 665 (2001) (discussing doctrine of equitable subrogation); *Auburn Mechanical*, 89 Wn. App. at 897, n.5 ("look[ing] only to our

own constitution" in holding jury trial should have been granted on a "purely legal" contractual claim for money damages).

The *Brown* analysis has served the Washington courts well, guiding the trial courts' discretion and the appellate courts' review, with no confusion or call that the standard be changed, for almost 40 years. *See, e.g., Waltz v. Tanager Estates Homeowner's Ass'n*, 183 Wn. App. 85, 90, ¶¶ 40-47, 332 P.3d 1133 (2014); *Stieneke v. Russi*, 145 Wn. App. 544, 569, ¶¶ 46-50, 190 P.3d 60 (2008), *rev. denied*, 165 Wn.2d 1026 (2009); *Kim v. Dean*, 133 Wn. App. 338, 341, ¶¶ 7-19, 135 P.3d 978 (2006). Petitioner presents no reason to revisit, much less "revise," the *Brown* factors now.

This Court recognized in *Davis v. Cox*, 183 Wn.2d 269, 289, ¶30, 351 P.3d 862 (2015) that the right to jury trial is not "limitless," and analyzed statutes invading the jury's right to determine purely legal tort damages exclusively under the Washington constitution in *Sofie v. Fibreboard Corp.*, 112 Wn.2d 636, 644, 771 P.2d 711 (1989) (both cited Petition 17). Petitioner particularly misplaces his reliance on *Sitton v. State Farm Mut. Auto. Ins. Co.*, 116 Wn. App. 245, 259, 63 P.3d 198 (2003) (Petition 17, n.12), which *rejected* an insurer's claim that bifurcating a class action trial would violate its right to jury trial. This Court should decline petitioner's belated invitation to

consider a new "test" for analyzing the right to jury trial, never briefed by the parties or decided in the courts below, which presents no grounds for review under RAP 13.4(b)(3) or (4).

3. Division One's unpublished opinion affirming the trial court's rejection of petitioner's claims after trial does not conflict with any decisions of this Court or the Court of Appeals.

Petitioner claims that "established precedent" is inconsistent with the Court of Appeals' unpublished decision affirming the trial court's findings that petitioner had proven neither respondent's breach of fiduciary duties nor damages, but cites not a single case in support of that proposition. Petitioner's argument for review is not remotely supported by either Safeco Ins. Co. of Am. v. Butler, 118 Wn.2d 383, 823 P.2d 499 (1992) (discussing the enhanced duties of an insurer to its insured) or Kane v. Klos, 50 Wn.2d 778, 783, 314 P.2d 672 (1957) (where a defendant the trial court found as a matter of fact to be "a person of amoral character and . . . without a sense of moral responsibility" issued stock to himself based on a "secret profit" of corporate assets, financed by and without notice to the other "aged shareholder") (both cited Petition 20). See Kelly v. Foster, 62 Wn. App. at 157 (Klos "has no value as a precedent except to state the rule that one can forfeit all right to compensation by engaging in egregious fraudulent conduct.").

Petitioner has neither identified nor discussed any case in conflict with the Court of Appeals' unpublished decision affirming the trial court's findings that he had failed to prove any damages as a result of petitioner's exercise of his rights under the parties' agreements, and presents no grounds for review under RAP 13.4(b)(1) and (2).

4. This Court should award respondent his fees for answering the petition.

As in the trial court and in the Court of Appeals (Op. 25, relying on Ex. 11, ¶ 7.14), respondent is entitled to his fees incurred in this Court answering the petition for review. RAP 18.1(j).

D. Conclusion.

This Court should deny review of the Court of Appeals' unpublished opinion and award respondent his fees for answering the petition.

Dated this 5th day of July, 2018.

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DECLARATION OF SERVICE

The undersigned declares under penalty of perjury, under the laws of the State of Washington, that the following is true and correct:

That on July 5, 2018, I arranged for service of the foregoing Answer to Petition for Review, to the Court and to the parties to this action as follows:

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July 05, 2018 - 3:25 PM

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