

THE STATE OF SOUTH CAROLINA

In The Court of Appeals

APPEAL FROM CHARLESTON COUNTY

Court of Common Pleas

Bentley D. Price, Circuit Court Judge

Case No, 2012-CP-10-00580

Thomas H. Morgan.....Respondent,

v.

John L. Gilbert, Stuart L. Fred, Bella Vista Partnership, A Texas General Partnership, Bomasada Group, Inc., A Texas Corporation, Bomasada Investment Group II, LLC, A Texas Limited Liability Company, Lauralis Management, Inc., A Texas Corporation, and 150 Bee Street, LLC, A South Carolina Limited Liability Company, Defendants,

Of which John L. Gilbert, Stuart L. Fred, Bella Vista Partnership, A Texas General Partnership, Bomasada Group, Inc., A Texas Corporation, Bomasada Investment Group II, LLC, A Texas Limited Liability Company, and Lauralis Management, Inc., A Texas Corporation are the ..... Appellants.

REPLY BRIEF OF APPELLANTS

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September 11, 2024

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## IRREFUTABLE FACTS

Reviewing Respondent's brief, this Court will find that four facts remain irrefutable with no "question of fact" for the Panel to have decided:

1. When Respondent Thomas H. Morgan filed his Original Complaint, a derivative action, on January 26, 2012, he did not name 150 Bee Street, LLC (the "Company" or the "LLC") as a party on behalf of which he claimed to file suit. Morgan waited until May 18, 2018, more than 6 years after the filing of this 2012 Initial Complaint to attempt to name the Company as an "indispensable party" to this derivative action. (Morgan's draft First Amended Complaint 5/18/18) (R. pp. 179-215)

2. In emails dated April 26 and April 27, 2007, Morgan wrote Appellant Stuart Fred:

You have provided me with very little reporting requirements as required by the [LLC's operating] agreement. . . . I would also like to see all of your invoices for travel expenses. I don't understand why there is \$750,000 in travel expenses for this project. (April 26, 2007) (R. pp. 918-919)

. . . **Please address all your comments to my lawyer** from this point forward. . . . From now on you can deal through my lawyer! Mr. Joel Goldman. (emphasis added). (April 27, 2007) (R. pp. 923-924).

3. In emails dated July, 2008 from Morgan:

a) to Appellant John Gilbert:

"I'm tired of fucking around with your bullshit reports. Please give us the straight shit not bullshit anymore." (July 6, 2008) (R. p. 950)

b) to the LLC members:

I am turning all my correspondences on this project over to my lawyers and accountants. Stewart [sic. "Stuart"] you have stolen too much money from us. There is no way we have spent \$450,000 on travel expenses. I am tired of all your theft and bullshit. Don't ever contact me again. **I am going to sue your ass and get our money back.** (emphasis added). (July 6, 2008) R. p. 951)

c) to Neal Baker ("Baker"), Morgan's brother-in-law and a Managing Member of the LLC:

I've been telling you for 3 years that [Appellants] Stuart and John have no intention of doing good for us. . . .[T]hey have fucked up this entire project. . . . **My attorney's and accountants will handle it from here in the courtroom.** (emphasis added). (July 8, 2008) (R. p. 953)

4. In an email of August 23, 2008, Morgan wrote to Baker:

My problem is with Stuart and John. My Mom reviewed all of the e-mails that you sent her. . . and she is in complete agreement with me that both Stuart and John are not acting in our best interest. . . . **The only reason I don't plan to sue John and Stuart is that I don't want to involve you in the middle of all this.** (emphasis added). (R. pp. 959-960)

These irrefutable facts cannot be disregarded. All of these threats by Morgan were made more than 3 years before he filed his 2012 Initial Complaint. Appellants set out these four undeniable facts in their main brief, focused on them, and challenged Respondent to refute them. He could not. In fact, he did not even try.

Nowhere in his brief does Respondent cite any law refuting the universally accepted principle that a litigant's failure to name the corporation in the litigant's derivative action divests the court of subject matter jurisdiction. Nowhere in his brief does Respondent cite any law refuting the universally accepted principle that subject matter jurisdiction can never be waived, even by consent of all litigants to a suit. Similarly, Respondent cannot disregard the irrefutable legal principle in South Carolina that to avoid the application of the statute of limitations, the "...injured party must act with some promptness where the facts and circumstances of the injury would put a person of common knowledge **on notice that some right of his has been invaded** or that **some claim against another party might exist**." *Smith v. Smith*, 291 S.C. 420, 354 S.C.2d 36, 40 (1987). (emphasis added)

In Morgan's own words, on numerous occasions, he knew of his causes of action. But he chose not to file suit because his brother-in-law Baker would be in the middle of such legal action.

And nowhere in his brief does the Respondent confront, refute, or even discuss in any way his emails of April 2007, July 2008, or August 2008, any one of which triggered the running of the three year statute of limitations.

The Panel chose to disregard each of these undeniable legal principles and Morgan's undeniable words that he was aware more than three years before he filed suit that he had a cause of action against Appellants.

## ARGUMENTS

### 1. MORGAN MISSTATES THE STANDARD FOR THIS COURT TO VACATE THE PANEL'S ARBITRATION AWARD.

In his brief, Morgan suggests a variety of standards to vacate the Panel's award:

a) that there was evidence that the Panel members committed "wrongful conduct." (p 12)

(NOTE: all page references herein are to Respondent's brief unless otherwise noted)

b) that there was evidence that the Panel was "consciously indifferent" to controlling law. (p. 13).

c.) that the Panel issued a "willfully erroneous decision" despite its knowledge of the applicable law. (p 18)

Appellants have invoked none of these purported standards. Other than the standard applicable to lack of subject matter jurisdiction, the actual standard is as simply stated in *C-Sculptures, LLC v. Brown*, 403 S.C. 53, 57, 742 S.E.2d 359, 361 (2013): "An arbitrator's 'manifest disregard of the law,' as a basis for vacating an arbitration award occurs when the arbitrator knew of the governing principle yet refused to apply it."

Or as quite recently stated in *Waldo v. Cousins*, 442 S.C. 662, 669-70, 901 S.E.2d 276, 279-80 (2024) :

“Courts may now vacate an arbitration award, but only when it is untethered from controlling principles known to, but shrugged off, by the arbitrator. This may occur when an arbitrator substitutes his personal policy views in place of a plainly binding principle. ... As we have held, “manifest disregard is an exacting standard, but it is not insurmountable.” (Citations omitted).

Morgan repeatedly urges this Court to confirm the Panel’s award because it was “... issued by a three-member panel comprised of ...a former Chief Justice of the Supreme Court of South Carolina, and two experienced attorneys with 80 years of trial experience....” (p. 1) The identity of the Panel’s members, which changed several times during the course of this now 12 year old action, is irrelevant. Other than the question of subject matter jurisdiction, the standard is articulated in *Waldo v. Cousins, Id.*, an arbitration case similar to the instant case. Application of the proper standard should not be affected in any way by Appellants’ filing their motions to dismiss on six different occasions to preserve their legal positions, as pointed out by Respondent numerous times in his brief: “The Defendants here simply want not only a second bite but a fifth or sixth bite at the apple.” (p. 19) This case went into arbitration in 2012. The Panel did not issue its Final Arbitration Award until April 10, 2023, 11 years later. As additional evidence bearing on these issues became available through discovery during those 11 years, Appellants felt obliged to bring it to the Panel’s attention. Nor did Appellants, by not doing so, want to risk any argument from Respondent that 1) Appellants had somehow waived their right to raise these issues and perfect this appeal; and 2) the arbitrators were unaware of the legal principles governing these issues or the controlling facts.

While Appellants agree that the Panel was not required to make specific findings of fact or conclusions of law, the absence of such requirements does not authorize the Panel to disregard black letter law and undeniable facts, even if they led to the dismissal of Morgan’s derivative action.

2. CONCERNING THE ISSUE OF SUBJECT MATTER JURISDICTION, MORGAN INCORRECTLY ASSERTS THAT APPELLANTS AND THIS COURT ARE BOUND BY 1) JUDGE HUGHSTON'S ORDER OF JULY 9, 2012 AND 2) THE PANEL'S SUBSEQUENT ORDERS DENYING DEFENDANT/APPELLANTS' MOTION TO DISMISS.

In Respondent's own words: ". . . The case was a derivative case brought by the Plaintiff, Mr. Morgan, on behalf of the company." (p. 7)

Morgan does not, and cannot, refute the fact that when he filed his 2012 Original Complaint, he did not name 150 Bee Street, LLC as a party.

In some ways, Morgan's admission that the current action is strictly a derivative action is a concession by Morgan that he never had any individual claims. In both his 2012 Initial Complaint and his Amended Complaint, Morgan alleged that he had individual claims separate and apart from the derivative claims. The Panel disagreed, holding in its initial order that all of Morgan's claims were strictly derivative. Initial Award at p. 21. (R. p. 95) No one disputes that the Panel would have had jurisdiction over Morgan's individual claims, none of which were valid. The issue is whether there was, and is, jurisdiction over Morgan's derivative claims since the Company was not named as a party to this action prior to 2017 as required by black letter law, well after the running of the statute of limitations to make derivative claims.

Appellants have cited cases from across the United States that universally hold that when a plaintiff files a derivative action but fails to name as a party the company on behalf of which it is brought, the court from the moment of filing lacks subject matter jurisdiction and all further actions in the suit are a nullity. Courts have uniformly rejected arguments that the late addition of an indispensable party relates back to the filing of the original complaint.

Neither Respondent nor the Panel has cited a single case contrary to these propositions. The Panel disregarded the issue of Morgan's failure to name the Company. Respondent, on the other hand, claims:

- 1) “The consent order initiating the arbitration established exclusive and binding subject matter jurisdiction in the panel for all matters raised in the pleadings in this matter.” (p. 14)
- 2) “The court has the authority and the obligation to decide whether or not it has subject matter jurisdiction. . . Under the terms of the consent order, it was up to the tribunal to decide whether it had subject matter jurisdiction.” (p. 18)

Nowhere in Respondent’s brief does Respondent use the word “waive,” but that is precisely what Respondent is claiming without using that word. Appellants cite in their brief numerous South Carolina cases for the proposition that subject matter jurisdiction may not be waived, **even by consent of the parties**, and this fundamental issue may be raised at any time, including when raised for the first time on appeal to the South Carolina Supreme Court. “. . . [S]ubject matter jurisdiction cannot be waived or conferred by agreement of the parties to an action. . . .” *Bluffton Town Council Election v. Fulgham*, 385 S.C. 632, 639, 686 S.E.2d 683, 687 (2009). The standard of manifest disregard of the law does not apply to this argument because subject matter jurisdiction can be challenged at any time.

Neither Respondent nor the Panel has offered a single case to the contrary.

In support of his mistaken position, Respondent cites *Hertz Corp. v. Friend*, 559 U.S. 77, 94, 130 S. Ct. 1181, 1193 (2010), writing that “[t]he court has the authority and the obligation to decide whether or not it has subject matter jurisdiction.” (p. 18) What the *Hertz* court actually decided was that a corporation’s principal place of business, for diversity jurisdiction purposes, is its “nerve center.” *Id.* at U.S. 96. The Supreme Court only discussed subject matter jurisdiction in passing, but in doing so, cited two cases:

1) *Arbaugh v. Y & H Corp., dba The Moonlight Café*, 546 U.S. 500, 126 S.Ct. 1235 (2006), which dealt with a motion to dismiss for lack of subject matter jurisdiction. In this regard, the Supreme Court wrote: “The objection that a federal court lacks subject-matter jurisdiction, see Fed. Rule Civ. Proc. 12(b)(1), may be raised by a party, or by a court on its own initiative, at any stage in the litigation, even after trial and the entry of judgment. Rule 12(h)(3) instructs: “Whenever it appears by suggestion of the parties or otherwise that the court lacks jurisdiction of the subject matter, the court shall dismiss the action.”” *Id.* at U.S. 507.

2) *Ruhrgas AG v. Marathon Oil Co., et. al.*, 526 U.S. 574, 119 S. Ct. 1563 (1999). In deciding that an inquiry into personal jurisdiction could precede an inquiry into subject matter jurisdiction, the Supreme Court wrote: “The Court of Appeals accorded priority to the requirement of subject-matter jurisdiction because it is nonwaivable and delimits federal-court power, while restrictions on a court’s jurisdiction over the person are waivable and protect individual rights. . . .The character of the two jurisdictional bedrocks unquestionably differs. Subject-matter delineations must be policed by the courts on their own initiative even at the highest level.” *Id.* U.S. at 583.

Finally, concerning this jurisdictional issue, Respondent asserts the court and panel had subject matter jurisdiction because South Carolina’s Uniform Limited Liability Company Act does not mention the inclusion of the company as necessary to provide subject matter jurisdiction to the court.

However, courts have held that when a statute does not expressly cover everything to enforce its terms, statutory silence is not dispositive. *See, e.g., Gersten v. Sun Pain Management, P.L.L.C.*, 242 Ariz. 301, 395 P.3d 310 (2017). If this were not the case in a derivative action in which naming the company as a party is required for subject matter jurisdiction, the company would not be bound by the outcome of the suit. As pointed out in Appellants' main brief, this would defeat the principle of *res judicata* and even though the litigating member lost his case, the company would remain free to bring its own suit thereafter.

### 3. CONCERNING THE THREE YEAR STATUTE OF LIMITATIONS, MORGAN HAS MISSTATED THE LAW AND FACTS GOVERNING ITS APPLICABILITY IN THIS CASE.

Respondent asserts that the statute of limitations does not apply in this case because the Appellants blocked his access to records which would have allowed Respondent to develop a full-blown theory of recovery. In Respondent's words: "In this context of secrecy and deception, no reasonable person, including Mr. Morgan, could have known that the Company or he had a claim based on these acts [of the Appellants] until they were revealed through forensic investigation in Bomasada's Houston offices beginning in 2010 and into 2011." (p. 20)

Morgan had undeniably hired accountant Rich Merg in 2008 to investigate the Company's books when Morgan threatened to file suit. Under Morgan's theory, the statute of limitations would never run because the full blown case would never be fully developed until trial. This proposition is simply not the law even under cases Morgan has cited in his brief.

As stated in Appellants' main brief and unrefuted by the Respondent, all of the causes of action which Morgan has pursued are controlled by South Carolina's three year statute of limitations codified in S.C. Code Ann. 15-3-530 (1976, as amended). This statutory scheme does not contain a tolling provision, *e.g.*, tolling until the claimant "...obtains actual knowledge of

either the potential claim or the facts giving rise thereto.” *Burgess v. American Cancer Soc.*, 300 S.C. 182, 386 S.E. 2d 798, 799-800 (Ct. App. 1989).

Regardless, Respondent asserts that very position.

Contrary to that position, because Morgan believed he had been injured by Appellants in some way no later than July, 2008, by which time he had retained a lawyer and an accountant to investigate the claims, the three year statute of limitations began to run. What more does it take than Morgan’s own words in an email to Appellant Stuart Fred on July 6, 2008: “[Y]ou have stolen too much money from us. . . . I am going to sue your ass and get our money back”? (R. p. 951)

Respondent’s fall-back defenses include equitable estoppel and equitable tolling, both clearly inapplicable in this case as pointed out in Appellants’ main brief.

Citing *Dean v. Ruscon Corp.*, 321 S.C. 360, 366, 468 S.E.2d 645, 647 (1996), Respondent’s final fall-back defense is that “. . .when a cause of action accrued for purposes of the statute of limitations is a question of fact” decided by the Panel and therefore irreversible on appeal. (p. 21) The Respondent chose poorly when he cited *Dean v. Ruscon* in support of his position, because this case solidly supports Appellants’ arguments.

In *Dean*, the circuit court had directed a verdict in favor of Ruscon, concluding that Dean discovered “potential damage” to her building in 1984 associated with Ruscon’s nearby pile driving activities. Therefore, as a matter of law, the circuit court ruled that Dean was barred by the six year statute of limitations for damage to real property. On appeal, the Court of Appeals reversed, concluding that a “question of fact existed” as to whether Dean was reasonably diligent in determining whether the damage to her building was attributable to Ruscon, thereby triggering the running of the statute of limitations. The Court of Appeals reversed the circuit court’s directed

verdict. Using language remarkably applicable to the instant case, the Supreme Court reversed the Court of Appeals:

The discovery rule is applicable to actions [for trespass upon or damage to real property] brought under § 15-3-530(3). . . . According to the discovery rule, the statute of limitations begins to run when a cause of action reasonably ought to have been discovered. The statute runs from the date the injured party either knows or should have known by the exercise of reasonable diligence that a cause of action arises from the wrongful conduct. . . . We have interpreted the “exercise of reasonable diligence” to mean that the injured party must act with some promptness when the facts and circumstances of an injury place a reasonable person of common knowledge and experience on *notice* that a claim against another party might exist. . . . Moreover, the fact that the injured party may not comprehend the full extent of the damage is immaterial.

....

In this case . . . the potential damage to Dean’s building was not latent, but was apparent in 1984. Indeed, there is no question that Dean initially discovered the damage in 1984 and associated it with Ruscon’s pile driving activities.

....

Here, the evidence establishes that Dean acted promptly by retaining consultants in November 1984 to inspect the damage.

....

Because Dean had *notice* in November 1984 that she may have a cause of action against Ruscon, there was no need to toll the statute of limitations beyond that date. Dean’s subsequent failure to act with reasonable diligence in pursuing such claim is no reason to toll the statute of limitations beyond that date. Dean’s subsequent failure to act with reasonable diligence in pursuing such claim is no reason to toll the statute of limitations until such time as further damage evolved.

....

Here, however, **there was no question of fact for the jury to decide** because the only reasonable conclusion supported by the evidence is that Dean’s lawsuit accrued in November 1984, and by filing her lawsuit in April 1991, she was barred by the six year statute of limitations.

(emphasis added)

So, what’s not to understand about Morgan’s July 2008 email: “Stewart you have stolen too much money from us. . . . I am going to sue your ass and get our money back” ?

Morgan made the clear choice to wait until after his brother-in-law had died to file the instant action. It is simply undeniable that when he threatened legal action on three separate occasions in 2007 and 2008, Morgan knew he had legal claims against the Appellants. Having

filed a derivative action in Miami against his brother-in-law Baker in 2009, discussed in Appellants' main brief at page 26, Morgan clearly knew that he would have to sue Baker as one of the Company's Managing Members if Baker were still alive when Morgan filed suit.

Yet Morgan affirmatively chose not to file his action timely, with significant ramifications for the Appellants. The passage of time resulted in the loss of records. The emails between Baker and Morgan in which Morgan threatened suit clearly demonstrate that Baker disagreed with his brother-in-law. With Baker dead, Baker could not testify as to whether, as one of the Company's Managing Members, he had approved the expenditures Morgan questioned. Moreover, as Morgan acknowledged, Baker would have been a defendant in the instant action. As Morgan's controller indicated to Morgan in April 2010: "I think you need to tell Neal [Baker] how hurt and betrayed you felt over his siding with Stuart [Fred] and treating you so poorly." (R. p. 963)

The emails cited at the beginning of this brief, manifestly disregarded by the Panel, undeniably show that Morgan affirmatively chose not to file the instant action timely. The *Dean* case cited by Respondent in his brief is directly on point. Morgan must live with the consequences of his decision.

## CONCLUSION

According to Respondent, the Panel's ". . . written findings are not cursory but describe their decisions and reasoning in some detail." (p. 19) That statement is nonsense if it is meant to apply to the issues of subject matter jurisdiction and the statute of limitations. The Panel had chances to address these issues, and it is highly likely each arbitrator understood the Defendants were preparing/protecting the record for a potential appeal, if necessary, in which these very issues would be addressed by a higher authority.

A review of the Panel's decisions as to Appellants' Motions to Dismiss for lack of subject matter jurisdiction and Morgan's filing his 2012 Original Complaint beyond the three year

limitation period shows that the Panel issued each decision in manifest disregard of Morgan's undeniable threats of lawsuits more than three years before he finally filed suit. The absence of a requirement that the Panel make specific findings of fact or cite case law contradicting hornbook law that the Company must have been named as a party to the derivative claim does not mean the Panel could disregard Morgan's own words or the law. Former circuit judge Bentley Price, hearing the Appellants' Motion to Vacate the Award, did the same.

While the standards of review are different on the two issues raised by Appellants, it is clear that on either or both grounds, Judge Price's Order should be reversed. The Panel's Award should be vacated. And this case should be dismissed.

Respectfully submitted this 11th day of September, 2024.

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CERTIFICATE OF COUSNEL

The undersigned certified that this Reply Brief complies with Rule 211(b), SCACR.

Respectfully submitted,

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PROOF OF SERVICE

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I do hereby certify that on the 11<sup>th</sup> day of September 2024, I served a copy of the within **Reply Brief** on all counsel of record addressed as follows:

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