

STATE OF SOUTH CAROLINA
IN THE COURT OF APPEALS

APPEAL FROM THE NINTH CIRCUIT COURT OF COMMON PLEAS
MIKELL ROSS SCARBOROUGH, PRESIDING JUDGE IN CHARLESTON COUNTY

APPELLATE CASE NUMBER: 2016-002366

Emory J. Infinger and Associates Construction Company, Inc.,.....Respondent

v.

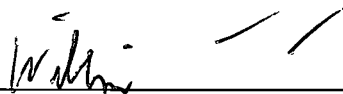
North Charleston Community Interfaith Shelter, Inc., Bobby Knight, in his official capacity as Chairman and President of Board for The Good Neighbor Center, Bank of America, N.A., S.C. State Housing and Development Authority, Atlantic Construction Services, Inc., L & W Supply Corporation dba CK Supply, Now Mechanical, Inc., Wilson and Associates Electrical Contractor, Inc., Defendants, Of whom North Charleston Community Interfaith Shelter, Inc. isAppellant

APPELLANT'S INITIAL BRIEF

Respectfully submitted,

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MAY 19 2017



SC Court of Appeals

WILLIAM K. SWOPE, ESQUIRE

SC Bar#: 15168

1525 Sam Rittenberg Boulevard, Suite 208

Charleston, South Carolina 29407

Ph.: (843) 852-4925

Fax: (843) 576-4654

Email: swopelawfirm@comcast.net

Attorney for Appellant

Charleston, South Carolina

May 17, 2017

JACKSON SETH WHIPPER, ESQUIRE
WHIPPER LAW FIRM, P.A.
S.C. Bar No.: 6061
4592 Durant Avenue
North Charleston, SC 29405
Ph.: (843)744-7777
Email: jsw@whipperlaw.com
Attorney for Appellant

Charleston, SC

May 17, 2017

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ISSUES ON APPEAL

1. Did the trial court err in hearing the mechanic's lien claim, which was time barred under *S.C. Code* §29-5-90?
2.
 - A. Did the trial court err in granting Respondent a judgment on a breach of contract claim when the Respondent was also in breach of the contract?
 - B. Did the trial court err in proceeding to trial after Appellant demanded arbitration pursuant to the parties' Contract?
3. Did the trial court err in granting sum certain damages, a portion of which, were not specified?

STATEMENT OF THE CASE/PROCEDURAL HISTORY

This case or controversy was commenced with the filing of a summons and complaint by the Plaintiff on May 6, 2012 and service by the Appellant was accepted on May 7, 2011. An extension of the time to answer or otherwise plead was granted, and thereafter, an answer was filed on June 28, 2012. The case was referred to the Master-in-Equity for Charleston County with finality and direct appeal to the South Carolina Court of Appeals on March 13, 2014.

An Order dismissing several defendants, including: Bobby Knight, in his official capacity as Chairman and President of Board for The Good Neighbor Center; Bank of America, N.A.; Atlantic Construction Services, Inc.; L & W Supply Corporation d/b/a CK Supply; Now Mechanical, Inc. and Wilson & Associates Electrical Contractors, Inc. was entered August 5, 2014.

This case was dismissed without prejudice on October 22, 2014 by Order of the Honorable Mikell R. Scarborough and filed with the Clerk on October 29, 2014 for failure to pay the reference fee. The case was restored by Order of the Hon. Mikell R. Scarborough filed November 25, 2014.

Defendant's Motion for Summary Judgment was denied by Order of the Hon. Mikell R. Scarborough dated and filed December 8, 2015.

Trial on the merits was held on December 8, 2015. On March 11, 2016 the Hon. Mikell R. Scarborough issued his Order granting judgment to the Plaintiff in the sum of One Hundred Ninety-Six Thousand Four Hundred Twelve and 00/100s (\$196,412.00) Dollars, attorney's fees of Thirty-Three Thousand Four Hundred Eighty-Five and 97/100s (\$33,485.97) Dollars and costs of One Thousand Four Hundred Fifty and 74/100s (\$1,450.74) Dollars, which Order was filed March 18, 2016.

Appellant filed and served via U.S. Mail a Motion for a new trial and to reconsider under SCRCP Rule 59 on April 7, 2016. Said Motion was denied by the Hon. Mikell R. Scarborough on October 4, 2016 and such Order was filed with the Clerk's Office on October 12, 2016.

A Notice of Appeal dated November 18, 2016 and delivered by U.S. Mail to the Honorable South Carolina Court of Appeals and the Honorable Court of Common Pleas for Charleston County on November 21, 2016, as well as all counsel of record.

This matter comes now before this Honorable Court on Appellant's claim that the trial court lacked subject matter jurisdiction to hear the case or controversy .

STATEMENT OF FACTS

Defendant's grant for the construction of the shelter was approved in 2008 (Tr. 117:1214, Dec. 8, 2015). Plaintiff and Defendant had their first meeting to discuss the construction of the shelter in July of 2010 (Id. at 19:4-14). Plaintiff and Defendant entered into a contract to construct the shelter on Dec. 10, 2010 (Id. at 23:5-7). Construction did not begin immediately; it was delayed until the State approved its grant for the shelter (Id. at 25:7-15). The Defendant gave its notice to Plaintiff to

proceeded with construction in March of 2011 (Id. at 25:20-22). Design and construction of the shelter began in June of 2011 (Id. at 61:3-5). Plaintiff was aware that the project was to be financed by the Veteran's Administration ("VA") and the South Carolina State Housing authority ("State Housing") (Id. at 24:21-25:1). Plaintiff was aware that the funding was split with the VA providing sixty-five (65%) percent and State Housing providing thirty (35%) percent (Id.). Funding issues for the project were apparent as early as Aug. 30, 2011 (Pl. Ex. 20). Construction continued until Plaintiff issued a "stop work" letter to its subcontractors; informing them to cease construction on the project on Nov. 7, 2011 (Tr. 99:15-100:8, Dec. 8, 2015). Plaintiff is required to file its certification of mechanic's lien within 90 calendar days from the last date of construction. 90 calendar days from Nov. 7, 2011 is Feb. 5, 2011. Plaintiff did not file its certification of the mechanic's lien until Feb. 6, 2012 (Pl. Compl. ¶¶ 20-21 Feb. 6, 2012).

The contract between Plaintiff and Defendant requires that any claim, as defined by § A.4.1.1 of the contract, be initiated within 21 days after the occurrence of the event giving rise to the claim or within 21 days after the claim first recognizes the condition giving rise to the claim, whichever is later (Contract § A.4.1.1-A.4.1.2). The contract also requires that the builder submit to the owner a schedule of values allocated to the various portions of the work (Id. at § A.9.2.1). Unless objected by the owner, the schedule use as the basis for reviewing the builder's application for payment (Id.). Should the owner fail to make a payment, the contract allowed the builder, with seven day's written notice, to cease construction and extend the contract time (Id. at § A.9.7.1). The only written notice given by the Plaintiff was the Nov. 7, 2011 "stop work" order to its subcontractors (Tr. 99:15-100:8, Dec. 8, 2015). The delay in payment would entitle the builder to increase the contract sum to include any reasonable costs incurred due to a shutdown, delay, and start-up, plus interest (Id.). The funding

and issues regarding payment were known to the Plaintiff as early as Aug. 30, 2011 (Pl. Ex. 20). Despite the Plaintiff's knowledge of the ongoing funding issues, it made no notice nor demand on the Defendant until Dec. 26, 2011, well outside the 21-day deadline imposed by the contract (Pl. Ex. 22).

The contract also requires that any claim must first be referred to a Neutral for a decision (Contract § A.4.2.1). If no Neutral is identified, the Owner must provide the initial decision (Id. at § A.4.1.2). The initial decision, subject first to mediation, shall be binding (Id. at § A.4.1.3). Requests for mediation may be made concurrently with the filing of a demand for arbitration or other binding dispute resolution, but mediation shall proceed in advance thereof or of legal or equitable proceedings, which shall be stayed pending mediation for 60 days from the date of filing (Id. at § A.4.3.2). Any claim not resolved by mediation shall be subject to arbitration (Id. at § A.4.4-4.4.1). The Plaintiff was permitted to pursue a mechanic's lien in compliance with applicable law while awaiting the resolution of any claim subject to arbitration or mediation (Id. at § A.4.2.5).

The contract required that the Design-Build payments be based on the amount of materials and equipment delivered and suitably stored at the site for incorporation in construction (Id. at § A.9.3.2). Any payment for material suitably stored off the site had to be agreed upon in writing (Id.).

DISCUSSION

I. SUBJECT MATTER JURISDICTION OF MECHANIC'S LIEN CLAIM

The Plaintiff ceased providing labor or materials to the project site on or before November 7, 2011 (See "Stop Work Order dated November 11, 2011 issued by Plaintiff's agent").

S.C. Code Ann. §29-5-90 (1997) provides in pertinent part:

Such a lien shall be dissolved unless the person desiring to avail himself thereof, within ninety days after he ceases to labor on or furnish labor or materials for such building or structure, serves upon the owner or...upon the person in possession

and files in the office of the register of deeds or the clerk of court of the county in which the building or structure is situated a statement of a just and true account of the amount due him, with all just credits given, together with a description of the property intended to be covered by the lien sufficiently accurate for identification, with the name of the owner of the property, if known, which certificate shall be subscribed and sworn to by the person claiming the lien or by someone in his behalf and shall be recorded in a book kept for the purpose by the register or clerk who shall be entitled to the same fees therefor as for recording mortgages of equal length....

Thus, ninety (90) days after November 7, 2011, the trial was court's subject matter jurisdiction to grant mechanic's lien was extinguished. That date was February 5, 2012, the day before the Plaintiff's Notice/Certificate of Mechanic's Lien was filed with the Register of Deeds in Charleston County, South Carolina. This defect is fatal and uncorrectable. Further, the clear meaning of the statute dictates that it operates to dissolve any lien claim without any act or affirmative action by the Owner.

Appellant contends that SCRPC Rule 6 is inapplicable to a Notice/Certificate of Mechanic's Lien, as it is a statutory creation served and then filed in the Register's Office. The record is devoid of proof of service of the Notice/Certificate, while the subsequent filing is after the ninety (90) day time limit.

Thus, the trial court's Final Order erred in its conclusions of law, specifically:

11. Under S.C. Code §29-5-10, a mechanic who contracts directly with the owner, or his agent has a lien in the amount of the debt owed to him under the contract, and the owner is liable to him for the total amount. A claim of lien must be filed no later than 90 days after the last day on which the claimant furnished labor or materials to the project.
15. On February 6, 2012, less than ninety days from the last day it had provided labor, services or material to the Project pursuant to a written contract with the Shelter, Infinger filed and served, in accordance with S.C. Code §29-5-10, a Mechanic's Lien ("Lien") in the amount of \$196,412 on the real property commonly known as 1905 Burton Lane a/k/a 2713 Spruill Avenue in North Charleston, South Carolina with TMS

No. 466-03-00-097. Infinger's Lien was recorded in the Charleston County Register Mesne Conveyance in Book O 232 at Page 031.

17. Accordingly, Infinger has established a lien in the amount of \$196,412.

The trial record is likewise devoid of any evidence to support the proposition that any labor or material were delivered to the job site after November 7, 2011. Thus, no lien was available to the Plaintiff in this action once its lien dissolved on February 5, 2011. **Ferguson Fire & Fabrication, Inc. v. Preferred Fire Prot., L.L.C.**, 409 S.C. 331, 342 (2014); **Franke Associates v. Russell**, 295 S.C. 327 (1988); **Shelley Constr. Co. v. Sea Garden Homes, Inc.**, 287 S.C. 24 (1985); **Wood v. Hardy**, 235 S.C. 131, 133 (1959).

Further, any attorney fee award to the Plaintiff under the mechanic's lien statute is improper. Moreover, this Defendant is entitled to an award of reasonable attorneys' fees as the prevailing party in the mechanic's lien claim. The Appellant would ask this Honorable Court to remand the issue of Plaintiff's attorneys' fees to the trial court for proper determination.

II. PRIOR BREACH BY PLAINTIFF/FAILURE TO COMPLY WITH CONTRACTUAL TERMS

Where the existence of contract is admitted but parties have differed about proper construction, practical construction by the parties is relevant concerning their intention when contract was made, but the rule cannot be invoked show existence of partly written and partly oral contract. **Hudepohl Brewing Co. v. Bannister**, 50 F. Supp. 422 (D. C. S. C. 1943). When determining whether a contract exists, the intention of the parties should be determined from the testimony of all witnesses, and subsequent acts are relevant to show whether the contract was intended. **Wright v. Trask**, 495 S.E. 2d 222, 329 S.C. 170 (S.C. App. 1997). Under S.C. law, assent to proffered terms and conditions need not be express, but may be inferred from parties' conduct. **Laidlaw**

Environmental Services (TOC), Inc. v. Honeywell, Inc., 966 F. Supp. 1401, Affirmed 114 F. 3d 1232 (D.S.C. 1996). Finally, if [an] agreement is manifested by words, resulting contract is said to be “express”, if it is manifested by conduct, it is said to be “implied”. **Wade v. Brooks**, 413 S.E. 2d 33, 306 S.C. 553, Cert. Den. (S.C. App. 1992).

The contract controlling the relationship between these parties was freely and voluntarily entered into on December 10, 2010. It defined the Design-Builder in Article A.1 and the Owner in Article A.2. The agreement set forth a method of dispute resolution in Article A.4 and a payment process in Article A.9.

From the outset this project faced challenges. Financing was being provide by two (2) separate government sources: the Veterans Administration (“VA”) and the South Carolina State Housing Authority (“State Housing”). All parties were aware that at the time of contracting the construction funding was to be split with the VA providing sixty-five (65%) percent and State Housing providing thirty-five (35%) percent. While the contract provided that the Owner was to pay the Design Builder, it was apparent from the outset that funding was actually passing through the Owner as a conduit to the Design Builder as work was to progress.

Issues arose concerning items not initially included in the design work through oversight or inadvertence. Additional issues arose when a different VA funding program issuing funds to the Owner for a different purpose triggered an audit of the Owner. This imperiled continued VA financing of this project.

However, the Design Builder continued to work through short payments and delayed payments until November 7, 2011 when it issued a “stop work” order to its subs. The timing here is key.

The contract provides in pertinent part:

Article A.4 Dispute Resolution

§A.4.1 CLAIMS AND DISPUTES

§A.4.1.1 Definition. A claim is a demand or an assertion by one of the parties seeking, as a matter of right,...payment of money....

§A.4.1.2 Time Limits on Claims. Claims by either party must be initiated within 21 days after occurrence of the event giving rise to such claim or within 21 days after the claimant first recognizes the condition giving rise to the Claim, whichever is later.

The first notice/demand issued by the Plaintiff, even after knowing for months that payment issues were growing, occurred on December 26, 2011. Thus, no claim prior to December 5, 2011 is viable. That is arguably the earliest “whichever is later” condition to occur. Failure to comply with the time deadlines imposed for this administrative remedy is fatal to the Plaintiff’s breach of contract claim. The only viable claim available to the Plaintiff is for work or services provided after December 5, 2011.

The contract cannot logically allow the Plaintiff’s submission under Article 9 of a payment schedule to constitute “a claim” as set forth in Article 4. To do so, would expose the Design Builder to loss of a claim every month of the first week or so of work performed (Months with 30 days through day 8; months with 31 days through day 9 and months with 29 days through day 7). Thus, something more must be required of the Design Builder in the way of filing a claim under Article 4 in compliance with terms of the express contract between the parties. Exactly what constitutes the filing of a claim is a matter of conjecture, but the only document sent by the Plaintiff and directed to the Owner in the record is the December 26, 2011 letter.

These issues were joined in the pleadings. Appellant again refers to the Complaint paragraphs 27, 28 and 29 and it's Answer paragraphs 17, 33, 35, 37, 40, 43, 44 and most especially 55.

Assuming *arguendo* that the Respondent posits the November 7, 2011 "stop work" order satisfies Article 4.1.2 "claim", the Appellant would again urge that said document is not directed to the Owner, but rather to the subs. Even an overly broad interpretation of that document would only entitle the Plaintiff to work performed and materials provided after October 21, 2011.

At best, the Plaintiff breached the contract in bringing its dispute for breach of contract before exhausting its contractual remedies. The clarity of this position is buttressed by the inclusion of §A.4.2.5 which envisions a mechanic's lien claim in addition to a breach of contract claim under this Agreement:

§A.4.2.5 If a Claim relates to or is the subject of a mechanic's lien, the party asserting such Claim may proceed in accordance with applicable law to comply with the lien notice or filing deadlines prior to initial resolution of the Claim.

This allows a mechanic's lien claim to proceed while the breach of contract dispute remains subject to the dispute resolution regime set forth in the parties' Agreement. Mechanic's lien claims are also subject to arbitration. **General Equip. & Supply Co. v. Keller Rigging and Constr. S.C., Inc.**, 344 S.C. 553 (S.C. App. 2001).

§A.4.2 RESOLUTION OF CLAIMS AND DISPUTES sets forth two (2) alternate procedures for resolving claims: (1) Decision by a Neutral (§A.4.2.1) or (2) Decision by Owner (§A.4.2.2). The record is devoid of any "Neutral". Thus, §A.4.2.2 must control and provides in pertinent part:

...[T]he Owner shall provide an initial decision. An initial decision by the Owner **shall** be required as a condition precedent to mediation of all Claims between the Owner and Design-Builder arising prior to the date final payment is due, unless 30

days have passed after the Claim has been referred to the Owner with no decision having been rendered by the Owner.

Here, no claim was properly filed by the Plaintiff with the Owner until December 26, 2011 or, at best for the Plaintiff, on November 7, 2011. No pre-filing mediation was held in compliance with §A.4.3, nor was there any pre-filing Arbitration in compliance with §A.4.4.

Pursuant to the Administrative Order requiring mediation in all non-exempt filed cases in the Court of Common Pleas, this matter was mediated post-filing. It is Appellant's contention that this did not "cure" the breach of the Plaintiff moving forward to litigation in derogation of the contract provisions requiring mediation and subsequent arbitration if mediation was unsuccessful.

The Plaintiff herein skipped all its contractually-mandated remedies and proceeded to trial in breach of the very contract it seeks to enforce in this action. Further, in skipping the contractual remedies, the Plaintiff deprived the trial court of subject matter jurisdiction.

III. PLAINTIFF FAILED TO COMPLY WITH MANDATORY CONTRACTUAL MEDIATION AND ARBITRATION

The Plaintiff failed to exercise its contractual remedies of mediation and arbitration as required by the contract. Under S.C. law, a written agreement to submit any existing controversy to arbitration or a provision in a written contract to submit to arbitration any controversy thereafter arising between the parties is valid, enforceable and irrevocable, save such ground as exist at law or in equity for the revocation of any contract. S.C. Code §15-48-10(a). South Carolina policy favors arbitration of disputes in both its statutory and decisional law. **Trident Technical College v. Lucas & Stubbs, Ltd.**, 286 S.C. 98, 103-104 (S.C. 1985). Any action or proceeding involving an issue subject to arbitration shall be stayed if an order for arbitration or an application therefor

has been made or, if the issue is severable, the stay may be with respect thereto only. When the application is made in such in such action or proceeding, the order for arbitration shall include such stay. S.C. Code § 15-48-20(d) (1978). An appeal may be taken from an order denying an application to compel arbitration made under § 15-48-20 (1978). S.C. Code § 15-48-200(a)(1) (2005). An Appeal from the denial of a motion to compel arbitration is subject to de novo review. **Chassereau v. Global Sun Pools, Inc.**, 373 S.C. 168, 171 (2007). An order denying a motion to compel arbitration made under Section 15-48-20 is immediately appealable. S.C. Code Ann. §15-48-200(a)(1) (2005); **Towles v. United HealthCare Corp.**, 338 S.C. 29, 35 (Ct. App. 1999).

In Defendant's answer before the Master in Equity, it made a Demand for Arbitration. The Hon. Mikell R. Scarborough denied Defendant's Demand. However, the contract clearly required arbitration.

The contract provides in pertinent part:

Article A.4 Dispute Resolution

§A.4.3 MEDIATION

§A.4.3.1 Any Claim arising out of or related to the Design-Build Contract... shall, after the initial decision of the Claim or 30 days after the submission of the Claim for initial decision, be subject to mediation as a condition precedent to arbitration as a condition precedent to arbitration or the institution of legal or equitable or other binding dispute resolution proceedings by either party.

§A.4.4 ARBITRATION

§A.4.4.1 Claims, except those waived...for which initial decisions have not become final and binding, and which have not been resolved by mediation, but which are subject to arbitration... shall be decided by arbitration which, unless the parties agree otherwise, shall be in accordance with the Construction Industry Arbitration Rules of the American Arbitration Association currently in effect at the time of the arbitration....

Defendant has not waived its right to enforce the arbitration clause. There is no set rule as to what constitutes a waiver; the question depends on the facts of each case. **Liberty Builders, Inc. v. Horton**, 336 S.C. 658, 665 (Ct. App. 1999). Generally, the factors courts must consider to determine if a party waived its right to compel arbitration are: (1) whether a substantial length of time transpired between the commencement of the action and the commencement of the motion to compel arbitration; (2) whether the party requesting arbitration engaged in extensive discovery before moving to compel arbitration; and (3) whether the non-moving party was prejudiced by the delay in seeking arbitration. **Wilson v. Willis**, 416 S.C. 395, 421 (S.C. Ct. App. 2016) (citing **Rhodes v. Benson Chrysler-Plymouth, Inc.**, 374 S.C. 122, 126 (S.C. Ct. App. 2007)). To establish prejudice, the non-moving party must show something more than ‘mere inconvenience.’ **Wilson**, 416 S.C. at 421 (quoting **Evans v. Accent Manufactured Homes, Inc.**, 352 S.C. 544, 550 (Ct. App. 2003)). In addition to the above factors, the court must also consider the extent to which the parties have availed themselves of the court’s assistance. **Carlson v. S.C. State Plastering, LLC**, 404 S.C. 250, 257 (Ct. App. 2013). In *Toler’s Cove*, the court found that a thirteen-month period in which discovery was “very limited in nature and the parties had not availed themselves of the court’s assistance,” and the respondent “had not held any depositions,” did not constitute a waiver. **Toler's Cove Homeowners Ass'n, Inc. v. Trident Constr. Co., Inc.**, 355 S.C. 605, 612 (2003). In *Rich*, the court found that a thirteen-month period in which “limited discovery was conducted” and the party requesting arbitration took only one deposition also did not constitute a waiver. **Rich v. Walsh**, 357 S.C. 64, 67 (Ct. App. 2003).

Defendant has not waived its right to arbitration under the contract. Defendant made a demand for arbitration in its initial answer filed with the Mastery in Equity. Plaintiff’s demand

was before the court well before the matter had been litigated. Therefore, no substantial length of time had passed since the case was first heard to when the Master denied Defendant's demand. The parties in this case went through a very limited and minor discovery. Only one deposition was taken. All other evidence in this matter was documentary. Both parties already obtained copies of the documents through their business dealings with one another. Therefore, the Defendant had not fully availed themselves to the court's assistance given the very limited nature of discovery. Most of the discovery took place in the mutual exchange of documents. Furthermore, the Plaintiff will not be prejudiced by compelling arbitration. All relevant discovery has already been completed. This case will likely need to be remanded to the trial court. It would be more equitable to both parties to have the matter resolved in arbitration.

IV. LACK OF SPECIFICITY OF DAMAGES/FAILURE TO MITIGATE

The contract between the parties provides in §A.9.3.2:

Unless otherwise provided in the Design-Build Documents, payments shall be made on account of materials and equipment delivered and suitably stored at the site for subsequent incorporation in the Work. If approved in advance by the Owner, payments may similarly be made for materials and equipment suitably stored off the site at a location agreed upon in writing. Payment for materials and equipment stored on or off the site shall be conditioned upon compliance by the Design-Builder with procedures satisfactory to the Owner to establish the Owner's title to such materials and equipment or otherwise protect the Owner's interest and shall include the costs of applicable insurance, storage and transportation to the site for such materials and equipment stored off the site.

In reviewing the trial record, it is devoid of a breakdown between materials "incorporated into the structure" and materials "stored". It is neither itemized by piece goods, nor by economic value. Further, the contract language requires "payment for materials...shall be conditioned upon compliance...with procedures satisfactory to the Owner...." No procedure was even posited by

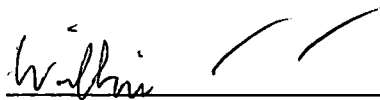
Plaintiff's agent(s), much less a demonstration that Plaintiff had complied with the Owner's specified procedure. This brings the entire calculation of damages into question. You cannot simply assert that one subtotal is unspecified and that somehow the total does not become infected with the variable.

The trial court determined that Defendant's "expert" was "invading the province of the Court". Appellant contends this decision was misguided. Thus, should this Honorable Court determine the failure to comply with the dispute resolution regime is not fatal to the Plaintiff's breach of contract claim, the Appellant would ask the Court to remand this damages issue to the trial court for a proper damage determination with specificity, if possible.

CONCLUSION

Based on the foregoing, this Honorable Court is compelled: (1) to overturn the trial court's verdict in favor of the Plaintiff on its mechanic's lien claim, (2) remand the case or controversy to the trial court for a proper determination of Plaintiff's attorneys' fees and award same; (3) to dismiss the Plaintiff's breach of contract and *S.C. Code* §27-1-15 claims or, in the alternative, (4) remand these causes of action for mandatory arbitration.

Respectfully submitted,



WILLIAM K. SWOPE, ESQUIRE

SC Bar#: 15168

1525 Sam Rittenberg Boulevard, Suite 208

Charleston, South Carolina 29407

Ph.: (843) 852-4925

Fax: (843) 576-4654

Email: swopelawfirm@comcast.net

Attorney for Appellant

Charleston, South Carolina
May 17, 2017

JACKSON SETH WHIPPER, ESQUIRE
WHIPPER LAW FIRM, P.A.
S.C. Bar No.: 6061
4592 Durant Avenue
North Charleston, SC 29405
Ph.: (843)744-7777
Email: jsw@whipperlaw.com
Attorney for Appellant

Charleston, SC

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