

SUPREME COURT OF THE STATE OF IDAHO

David Johnson and Tessa Cousins v. David Crossett

David Johnson and Tessa Cousins v. David Crossett · No. 44791 · Decided January 10, 2018

SUMMARY

The Idaho Supreme Court affirmed the district court’s judgment that David Johnson and Tessa Cousins never became members of Drug Testing Compliance Group, LLC because they did not sign the written operating agreement as required by their agreement. The court also upheld an award of attorney fees to David Crossett under Idaho Code section 12-120(3), concluding that the gravamen of the action was a commercial dispute concerning the parties’ oral agreement. The court declined to review the denial of a new-trial motion because the record did not contain an adverse ruling on that motion.

CASE DETAILS

COURT	Supreme Court of the State of Idaho
WRITING FOR THE COURT	Jones, Justice; Burdick, Chief Justice; Horton, Justice; Brody, Justice; Bevan, Justice
JURISDICTION	Idaho
DECIDED	January 10, 2018
DOCKET	44791
DISPOSITION	affirmed
PROCEDURAL POSTURE	Plaintiffs appealed after a bench trial in which the district court concluded that they never became members of Drug Testing Compliance Group, LLC, rejected their fiduciary-duty and profit-distribution claims, and awarded Crossett attorney fees under Idaho Code section 12-120(3).
STANDARD OF REVIEW	Following a bench trial, the Court reviews whether substantial and competent evidence supports the trial court's factual findings and whether those findings support its legal conclusions; factual findings are construed liberally in favor of the judgment and are not disturbed when supported by substantial and competent evidence, while conclusions of law are freely reviewed. A denial or grant of a new trial is reviewed for manifest abuse of discretion under a three-tier inquiry. Whether an action is based on a commercial transaction for purposes of Idaho Code section 12-120(3) is reviewed as a question of law.

PRECEDENTIAL VALUE	published Idaho Supreme Court opinion
PARTIES	David Johnson, Tessa Cousins v. David Crossett

TOPICS

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standard of review

PRACTICE AREAS

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QUESTIONS PRESENTED

1. Whether the district court erred in finding that Johnson and Cousins were never members of Drug Testing Compliance Group, LLC.
2. Whether the district court erred in interpreting or applying Idaho's Limited Liability Company Act, including its provisions permitting oral operating agreements and governing admission of members.
3. Whether the Court could review the alleged denial of the plaintiffs' motion for a new trial when the record contained no adverse ruling on that motion.
4. Whether the district court properly awarded Crossett attorney fees under Idaho Code section 12-120(3).
5. Whether Crossett was entitled to attorney fees and costs on appeal.

HOLDINGS

1. Johnson and Cousins were not members of DTC because, under the parties' oral operating agreement, they would become members only upon signing the written operating agreement, and they never signed it.
2. The district court did not err in recognizing the oral agreement as a valid operating agreement and in enforcing its condition that Johnson and Cousins sign the written agreement before becoming members.
3. The Court would not review the alleged denial of the motion for a new trial because the appellate record did not disclose an adverse ruling on the motion.
4. Crossett was properly awarded attorney fees below because the gravamen of the action was a dispute over the oral agreement, which was a commercial transaction integral to the claims and the basis for the requested recovery.
5. Crossett was entitled to attorney fees and costs on appeal under Idaho Code section 12-120(3) for the same reason that he was entitled to fees below: the action arose from a commercial transaction.

KEY QUOTATIONS

“Therefore, we hold that the district court did not err by holding that Appellants were not members of DTC according to the Oral Agreement.” (9)

“We affirm the district court’s judgment and award attorney fees and costs on appeal to Crossett.” (11-12)

FACTUAL BACKGROUND

Johnson and Crossett orally agreed to form and operate a drug- and alcohol-testing business, with Crossett managing the business and owning 46 percent, Johnson owning 44 percent, and Cousins later expected to receive a 10 percent interest. Crossett formed Drug Testing Compliance Group, LLC as a single-member LLC, and although a written operating agreement was prepared and approved, Johnson and Cousins never signed it. Johnson refused to sign because he wanted to conceal his association with the competing business and later refused to sign while the company faced litigation, cash-flow problems, and legal debt. The district court found that the parties' oral agreement conditioned Johnson's and Cousins's membership on signing the written agreement; the Supreme Court affirmed that finding and the resulting rejection of their fiduciary-duty and profit claims.

PROCEDURAL HISTORY

Johnson filed the original complaint on August 10, 2015, and Johnson and Cousins filed an amended complaint on April 8, 2016. Following a two-day bench trial, the district court entered findings of fact, conclusions of law, and a final judgment for Crossett, awarded him attorney fees below, and apparently did not rule on the plaintiffs' motion for a new trial. The Idaho Supreme Court affirmed the judgment and awarded Crossett attorney fees and costs on appeal.

DISPOSITION

affirmed

CASES CITED

- Oregon Mutual Insurance Co. v. Farm Bureau Mutual Insurance Co. of Idaho, 148 Idaho 47, 50, 218 P.3d 391, 394 (2009)
- Beckstead v. Price, 146 Idaho 57, 61, 190 P.3d 876, 880 (2008)
- Panike & Sons Farms, Inc. v. Smith, 147 Idaho 562, 565-66, 212 P.3d 992, 995-96 (2009)
- Weitz v. Green, 148 Idaho 851, 857, 230 P.3d 743, 749 (2010)
- Griffith v. Clear Lakes Trout Co., 146 Idaho 613, 619, 200 P.3d 1162, 1168 (2009)
- Watkins Co., LLC v. Storms, 152 Idaho 531, 535, 272 P.3d 503, 507 (2012)
- State v. Cantu, 129 Idaho 673, 674, 931 P.2d 1191, 1192 (1997)
- State v. Taylor, 157 Idaho 186, 194, 335 P.3d 31, 39 (2014)
- Garner v. Povey, 151 Idaho 462, 469, 259 P.3d 608, 615 (2011)
- Great Plains Equipment, Inc. v. Northwest Pipeline Corp., 136 Idaho 466, 470, 36 P.3d 218, 222 (2001)
- Poole v. Davis, 153 Idaho 604, 607-08, 288 P.3d 821, 824-25 (2012)
- Saint Alphonsus Diversified Care, Inc. v. MRI Associates, LLP, 148 Idaho 479, 491, 224 P.3d 1068, 1080 (2009)

- Ada County Highway District v. Total Success Investments, LLC, 145 Idaho 360, 368-69, 179 P.3d 323, 331-32 (2008)
- De Los Santos v. J.R. Simplot Co., Inc., 126 Idaho 963, 969, 895 P.2d 564, 570 (1995)
- Kugler v. Nelson, 160 Idaho 408, 413, 374 P.3d 571, 579 (2016)
- Prehn v. Hodge, 161 Idaho 321, 331-32, 385 P.3d 876, 886-87 (2016)
- Gumprecht v. Doyle, 128 Idaho 242, 912 P.2d 610 (1995)
- Kelly v. Silverwood Estates, 127 Idaho 624, 903 P.2d 1321 (1995)

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