DIRECTOR OF THE DEPARTMENT OF LABOR & INDUSTRIES STATE OF WASHINGTON

In re:

COMMUNICATION ENERGY TECHNOLOGY SOLUTIONS, INC. dba CETS.

APPELLANT,

Citation and Notice of Assessment No. W-688-17,

OAH Docket No. 10-2017-LI-00604

2018-013-WPA

DIRECTOR'S ORDER

RCW 49.48.084(4); RCW 34.05

Joel Sacks, Director of the Washington State Department of Labor & Industries, having considered the Initial Order Denying Appellant's Petition to Vacate Order of Default (Order) served on April 11, 2018, having considered the petition for review filed by Communication Energy Technology Solutions, Inc. (Appellant) with the Director's Office, and having reviewed the record, issues this Director's Order.

The parties in this matter are the Department of Labor & Industries (Department) and the Appellant.

The Director makes the following Findings of Fact, Conclusions of Law, and Final Decision and Order.

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2018-013-WPA

DIRECTOR'S ORDER

RCW 49.48.084(4); RCW 34.05

I. FINDINGS OF FACT

- 1. On April 11, 2018, the Office of Administrative Hearings issued its Initial Order Denying Appellants' Petition to Vacate Order of Default.
- 2. Appellant timely appealed on May 8, 2018.
- 3. The Director adopts and incorporates by reference paragraphs 4.1 to 4.21 of the Order.

II. CONCLUSIONS OF LAW

- 1. Based on the Appellant's timely filed petition for review, there is authority to review and decide this matter under RCW 49.48.084 and RCW 34.05.
- 2. RCW 34.05.440(2) provides: "If a party fails to attend or participate in a hearing or other stage of an adjudicative proceeding . . . , the presiding officer may serve upon all parties a default or other dispositive order, which shall include a statement of the grounds for the order."
- 3. Forgetfulness is not good cause to miss a scheduled conference. See Graves v. Dep't of Emp't Sec., 144 Wn. App. 302, 311, 182 P.3d 1004 (2008). Because Appellant has alleged no circumstances that would constitute good cause to miss the conference, the Order is affirmed and the appeal is dismissed under RCW 34.05.440(2).

III. DECISION AND ORDER

Consistent with the above Findings of Fact and Conclusions of Law, the Citation and Notice of Assessment is AFFIRMED.

DATED at Tumwater this day of June, 2018.

JOEL SACKS

Director

SERVICE

This Order was served on you the day it was deposited in the United States mail. RCW 34.05.010(19).

APPEAL RIGHTS

Reconsideration. Any party may file a petition for reconsideration. RCW 34.05.470. Any petition for reconsideration must be filed within 10 days of service of this Order and must state the specific grounds on which relief is requested. No matter will be reconsidered unless it clearly appears from the petition for reconsideration that (a) there is material clerical error in the order or (b) there is specific material error of fact or law. A petition for reconsideration, together with any argument in support thereof, should be filed by emailing it to directorappeal@lni.wa.gov or by mailing or delivering it directly to Joel Sacks, Director of the Department of Labor and Industries, P. O. Box 44001 Olympia, Washington 98504-4001, with a copy to all other parties of record and their representatives. Filing means actual receipt of the document at the Director's Office. RCW 34.05.010(6).

NOTE: A petition for reconsideration is <u>not</u> required before seeking judicial review. If a petition for reconsideration is filed, however, the 30-day period will begin to run upon the resolution of that petition. A timely filed petition for reconsideration is deemed to be denied if, within twenty (20) days from the date the petition is filed, the Director does not (a) dispose of the petition **or** (b) serve the parties with a written notice specifying the date by which it will act on the petition. RCW 34.05.470(3).

<u>Judicial Review</u>. Any petition for judicial review must be filed with the appropriate court and served within 30 days after service of this Order. RCW 34.05.542. RCW 49.48.084(5) provides: "Orders that are not appealed within the time period specified in this section and Chapter 34.05 RCW are final and binding, and not subject to further appeal." Proceedings for judicial review may be instituted by filing a petition in superior court according to the procedures specified in chapter 34.05 RCW, Part V, Judicial Review and Civil Enforcement.

DECLARATION OF MAILING

I, Lisa Rodriguez, hereby declare under penalty of perjury under the laws of the State of Washington, that the DIRECTOR'S ORDER was mailed on the 30 day of 2018, to the following via regular mail, postage prepaid:

Communication Energy Technology Solutions, Inc. dba CETS, Inc. 1441 N. Northlake Way, #211 Seattle, WA 98103

Thomas Jordan 1441 N. Northlake Way, #211 Seattle, WA 98103

Darwin P. Roberts Costello Law Firm, PLLC 200 First Ave. W., Suite 306 Seattle, WA 98119 Heather Leibowitz, AAG Office of the Attorney General 800 Fifth Avenue, Suite 2000 Seattle, WA 98104

Jaret Sutherland 35665 Beach Road Capistrano Beach, CA 92624

DATED this _______, 2018, at Tumwater, Washington.

Kun Rodriguez

Lisa Rodriguez

WASHINGTON STATE OFFICE OF ADMINISTRATIVE HEARINGS

In the matter of the assessment of wage payment violations against:

Communication Energy Technology Solutions, Inc. dba CETS, Inc.; and Matthew Hale¹ and Thomas Jordan, and Spouses and the marital communities thereof.

Appellants.

Docket No. 10-2017-LI-00604

Agency No. W-688-17

INITIAL ORDER DENYING APPELLANTS' PETITION TO VACATE ORDER OF DEFAULT

Agency: Dept. of Labor & Industries Program: Wage Payments

1. ISSUE

1.1 Whether to grant the Appellants' petition to vacate the default order.

2. ORDER SUMMARY

2.1. The Appellants' petition to vacate the default order is denied.

3. MOTION HEARING

3.1. Hearing Date: April 3, 2018

3.2. Administrative Law Judge: Terry A. Schuh

3.3. Appellants: Communication Energy Technology Solutions, Inc. dba CETS, Inc.; and Thomas Jordan and Spouse and the marital community thereof

3.3.1. Representative: Darwin Roberts, Attorney, Costello Law Firm

3.4. Agency: Department of Labor and Industries

3.4.1. Representative: Heather Leibowitz, Assistant Attorney General

¹ Matthew Hale is not subject to this appeal or to this order because any obligation he might have was discharged by the United States Bankruptcy Court Western District of Washington, Case Number 17-11688-TWD.

3.5. Documents Considered:

- Notice of Appearance and Request to Vacate Default Order; 4
 pages, March 9, 2018
- 3.5.2. Petition to Vacate Order of Default; 10 pages; March 19, 2018
- 3.5.3. The pleadings and other documents filed or served in this matter.

3.6. Other attendees:

- 3.6.1. Wage Claimant Jaret Sutherland appeared as an observer.
- 3.6.2. Aubrey Sutherland appeared as an observer as well.

4. DISCUSSION

- 4.1. On November 1, 2017, the Office of Administrative Hearings ("OAH") issued to the parties a Notice of Prehearing Conference, directing the parties to appear by telephone at a prehearing conference on November 13, 2017.
- 4.2. Heather Leibowitz, Assistant Attorney General, appeared and represented the Department of Labor and Industries ("the Department"). Thomas Jordan, President, appeared and represented Communication Energy Technology Solutions, Inc., dba CETS, Inc. ("CETS"). and himself (collectively, "the Appellants").
- 4.3. I confirmed with Mr. Jordan that the Appellants' mailing address for notices and other documents in this matter was 1441 N. Northlake Way, #211, Seattle, WA 98103. I also reminded the parties that they needed to advise Tacoma OAH at once if their mailing address or phone number changed. Mr. Jordan never advised OAH of any such change.
- 4.4. At the prehearing conference, I informed Mr. Jordan of his privilege to hire counsel to represent him if he wished to do so.
- 4.5. At the beginning of the prehearing conference, I told Ms. Leibowitz and Mr. Jordan that a key element of the prehearing conference was to schedule the hearing date as well as other prehearing events and deadlines. I also told them that the prehearing conference order that I would soon issue

- would have all relevant dates and deadlines listed on a table on the first page of the prehearing order.
- 4.6. At the prehearing conference, Ms. Leibowitz, Mr. Jordan, and I agreed to a deadline of February 23, 2018, for each party to file its Witness List, Exhibit List, and marked Exhibits. I explained what the function and significance of these documents is.
- 4.7. At the prehearing conference, Ms. Leibowitz, Mr. Jordan, and I agreed to schedule a status conference to occur on March 7, 2018, at 2:00 p.m., by telephone. At that time, I explained the purpose of the status conference.
- 4.8. At the prehearing conference, Ms. Leibowitz, Mr. Jordan, and I agreed to schedule the evidentiary hearing to occur on March 23, 2018, convening at 9:00 a.m.
- 4.9. Following the prehearing conference, I produced the Prehearing Conference Order and Notice of Hearing ("Prehearing Order"). On November 17, 2017, OAH mailed a copy to Mr. Jordan and a copy to CETS, both to the address that Mr. Jordan confirmed on November 13, 2017. On November 22, 2017, OAH mailed a second copy to each.²
- 4.10.On the first page of the Prehearing Order appears a table listing each relevant event, with its corresponding date and, if apt, time:

| Date and Time | Event | |
|---|--|--|
| January 16, 2018 | Deadline for completing Discovery. | |
| February 23, 2018 | Final day to file and serve Witness Lists, Exhibit Lists, and marked Exhibits. | |
| March 7, 2018, at 2:00 p.m. Reserve one hour. | Status Conference. By telephone. See below for instructions. | |
| March 23, 2018, from 9:00 a.m. to 5:00 p.m. | The hearing will convene at: Office of Administrative Hearings 600 University Street, Suite 1500 Seattle, WA 98101 | |

4.11. Immediately below this table appeared the following language:

² The second copy was mailed to account for an updated or corrected mailing address for the Wage Claimant, Jaret Sutherland.

DEFAULT: If you do not participate in any stage of the proceedings or if you fail to appear at your hearing, you may be held in default. This means you lose the right to a hearing and your appeal will be dismissed. RCW 34.05.440.

- 4.12.Immediately below that still on the first page are the instructions for appearing at the status conference.
- 4.13. Paragraphs 5.3 and 5.4 of the Prehearing Order explain the significance and the logistics regarding the production, filing, and serving of the Witness List, Exhibit List, and marked Exhibits.
- 4.14. Paragraph 5.6 of the Prehearing Order encouraged parties seeking representation to do so promptly:
 - RIGHT TO REPRESENTATION: You have a right to representation at your own expense. If you plan to seek representation, start looking now. If you delay, your representative may not be available for the hearing.
- 4.15.Mr. Jordan did not file a Witness List, Exhibit List, or marked Exhibits. This is unusual, but not unheard of. Occasionally, a party intends to call no witness other than himself/herself and intends to offer no documents. Failure to file may limit a party's participation in the hearing but it does not constitute a failure to participate.
- 4.16.Mr. Jordan did not appear at the status conference on March 7, 2018, at 2:00 p.m. I waited until 2:15 p.m. in case he was running late. Katy Dixon, Assistant Attorney General, appearing on behalf of Ms. Leibowitz and for the Department of Labor and Industries, moved for a default order dismissing the Appellants' appeal. I granted the motion orally after convening at 2:15 p.m.
- 4.17.I wrote the Order Dismissing Appeal Default on March 7, 2018. OAH served it by U.S. mail on March 14, 2018.
- 4.18.In the meantime, Mr. Jordan consulted with Mr. Roberts on March 9, 2018, and hired him as his attorney.
- 4.19. When Mr. Roberts reached out to Ms. Leibowitz, he learned about the pending default order. On behalf of the Appellants, Mr. Roberts filed a Notice of Appearance and Request to Vacate Order of Default on March 9,

- 2018. Later, apparently after receipt of the Order Dismissing Appeal Default, Mr. Roberts filed a Petition to Vacate Order of Default on March 20, 2018.
- 4.20.Mr. Roberts wrote in the petition filed on March 9, 2018, that Mr. Jordan was unaware of the status conference, that he did not recall receiving notice, and that he would have appeared or would have retained counsel to appear had he known about the status conference.³
- 4.21.Mr. Roberts wrote in the petition filed on March 20, 2018, that Mr. Jordan "respectfully submits that he must have failed to understand what the scheduling order was and that it contained dates vital to the prosecution of his appeal. As a result, he concedes that he essentially stopped thinking about it. He attributes this serious error to his lack of legal experience, during a time when he was subject to the overwhelming pressures of trying to save his business".
- 4.22. The Appellants argued that default judgments are disfavored under the law and that the Appellants satisfied the four factors tribunals commonly consider when addressing a petition to vacate a default.
- 4.23.A party subject to a default and dismissal order may petition the issuing tribunal for an order vacating the default and dismissal order. Revised Code of Washington ("RCW") 34.05.440(3). However, Chapter 34.05 RCW, which is the Administrative Procedures Act, is silent as to the basis for granting or denying such a motion. The Model Rules of Procedure located in Chapter 10-08 Washington Administrative Code, are equally silent. Therefore, I refer to Civil Rule ("CR") 60(b)(1) and CR 55(c)(1), and especially to White v. Holm, 73 Wn.2d 348, 438 P.2d 581 (1968), for quidance.
- 4.24.CR 55(c)(1) provides broadly that the tribunal may vacate a default order for good cause shown. CR 60(b)(1) more specifically offers several bases for vacating an order in general: mistakes, inadvertence, surprise, excusable neglect, and irregularity. The *White* court, even more specifically, identified four factors to consider: does the defaulted party have at least a prima facie showing of a defense to the allegation(s); was

³ Mr. Jordan did not file a declaration with either of the Appellants' petitions regarding the basis for his failure to appear. That does not constitute a defect. Rather, I observe this only to make clear that I am limited here to the summary offered by counsel.

- the defaulted party's failure to appear caused by mistake, inadvertence, surprise, or excusable neglect; did the defaulted party act with due diligence after it was notified of the default; will substantial hardship result to the opposing party if the default is vacated. *White* at 352.
- 4.25. The Appellants' opposing party is the Department. The Department did not allege that it would suffer any hardship, much less substantial hardship, if I was to grant the petition to vacate. Accordingly, the Appellants have satisfied the fourth factor.
- 4.26.The Appellants filed a petition to vacate on the same day that they learned about the oral default order and within six days after the written order of default was served. Filing within seven days of service is timely. RCW 34.05.440(3). Therefore, the Appellants acted with due diligence after they were notified of the default. Thus, the Appellants have satisfied the third factor.
- 4.27. However, the first two elements are the most important factors. *White* at 352. Moreover, if the defaulted party shows a "strong or conclusive defense", then the other three factors offer little weight to the decision. *White* at 352.
- 4.28.To that effect, Mr. Roberts wrote that the Appellants will argue that the wages the Appellants owe the Wage Claimant are "substantially less" than the amount claimed by the Wage Claimant and sought by the Department for five interrelated reasons. One, the underlying Employment Agreement was not fully negotiated until nearly two months after the date when the Department alleges employment began. Two, until that time, the Wage Claimant provided only part time services. Three, those part time services were more akin to work as a consultant, as opposed to work as an employee. Four, these limited services were not consistent with reimbursement as "one of the top level leaders" with the company. Five, the Wage Claimant wanted his pay tendered to a Limited Liability Company on his behalf rather than directly to him.
- 4.29.Mr. Roberts characterized this as a "prima facie showing of meritorious legal arguments". I do not understand what the Wage Claimant's alleged choice of payees has to do with whether wages are owed, unless the implication is that wages were paid on his behalf that have not been properly credited by the Department to the Appellants. Nevertheless, the

arguments that Mr. Roberts asserted would be raised at the evidentiary hearing certainly address part of what is at issue, which is the amount of wages owed, if any. However, I am persuaded that Mr. Roberts' characterization of this to be a prima facie showing of defense is essentially correct. Nevertheless, "prima facie" is *not* "strong or conclusive": Accordingly, I hold that the Appellants have satisfied the first factor, but not to the degree to avoid relying upon the second factor as the deciding factor in this instance.

- 4.30. The second factor requires that Appellants to demonstrate that Mr. Jordan's failure to appear at the status conference on March 7, 2018, was caused by mistake, inadvertence, surprise, or excusable neglect.
- 4.31.The White court found that the party appealing default had reasonably, albeit incorrectly, thought that his insurer was providing counsel for the matter. White at 354. The court characterized the defaulting party's failure to timely respond to the complaint which was the basis for default as "not due to inexcusable neglect". White at 355. The court instead characterized the error as a "bona fide mistake, inadvertence, and surprise". White at 355. The court compared its analysis with five cases it characterized as "somewhat analogous". White at 356-7. Three of those five were defaults caused by attorney error, rather than party error. Id. One of the other two was an instance where defaulting party had mistakenly thought he had hired counsel. Id. The remaining case involved a party that got the date of service wrong. Id.
- 4.32. Another court affirmed a trial court's decision to vacate a default judgment when the defaulting party failed to timely respond to a complaint because relevant employees mistakenly failed to follow internal protocol and so the original summons and complaint did not reach an apt administrator. Showalter v. Wild Oats, 124 Wn. App. 506, 514, 101 P.3d 867 (Div. 2, 2004). As a result, counsel was not retained and a timely answer was not filed. *Id.* The court characterized this circumstance as "a mistake, the result of a misunderstanding, and excusable neglect, not a willful intent to ignore the lawsuit." *Id.*
- 4.33.On the other hand, another court found that an individual who did not properly respond to legal documents she received, leading to a default judgment, acted with "inexcusable neglect, if not willful noncompliance". *Johnson v. Cash Store*, 116 Wn.App. 833, 849, 68 P.3d 1099 (Div. 3,

- 2003). The documents were a summons and complaint directed to a company that apparently had multiple locations. A manager of a local branch accepted service and failed to recognize and understand the significance of the summons and complaint served on her. *Id.* at 847-8. Therefore, she failed to pass those documents on to the parent company's administration or legal counsel. *Id.* at 848. The manager's error was attributed to the company. *Id.* at 847-9. The court held that the circumstances "constituted at least inexcusable neglect, if not willful noncompliance." *Id.* at 849. The court held that the defaulting party therefore "did not satisfy its burden of demonstrating that its failure to appear and answer was occasioned by mistake, inadvertence, surprise, or excusable neglect". *Id.*
- 4.34. Here, Mr. Roberts asserted that Mr. Jordan did not understand the significance of the Prehearing Order or his obligation to attend the status conference. However, Mr. Jordan was present at the prehearing conference when the status conference was scheduled, and he specifically agreed to the date and time. At that time, I explained generally the purpose of the status conference. The Prehearing Order listed the status conference, with date and time, on the first page. The Prehearing Order provided the instructions for calling. The Prehearing Order informed Mr. Jordan that failure to participate in any proceeding placed him and his business at risk for a default ordering dismissing the appeals. The Prehearing Order was mailed to the address Mr. Jordan confirmed at the prehearing conference. At the prehearing conference, I told the parties that OAH would mail a Prehearing Order to them that would include all the dates and deadlines that they agreed to and additional information that the parties should read and apply. I realize that Mr. Jordan may be a novice to legal proceedings such as this, and that he was distracted by the state of his business. Accordingly, I am persuaded that Mr. Jordan did not remember what the status conference was about. Nevertheless, he knew or should have known, based on the first page of the Prehearing Order that the status conference was calendared and that his failure to appear put him and his business at risk for default. Mr. Jordan's circumstances are distinguishable from those in White or those in Showalter because Mr. Jordan's error was his own, not caused by his reliance on another person. Rather, Mr. Jordan's error is analogous to the branch manager's error in Cash Store. In fact, Mr. Jordan's error is less sympathetic than the branch manager's error because he attended a prehearing conference where I

explained the prehearing process to the parties. Further, he was encouraged at the prehearing conference and by the provision in the prehearing conference order to secure representation early rather than late, if that was his intention. Therefore, in view of *Cash Store*, Mr. Jordan's failure to attend the status conference constituted inexcusable neglect, at the very least. Thus, the Appellants have not demonstrated that Mr. Jordan's failure to appear constituted mistake, inadvertence, surprise, or excusable neglect. Accordingly, the Appellants have not satisfied the second factor of the *White* test.

4.35.As already discussed, the first two factors are the most important, deserving the most weight. Further, regarding the first factor, when a party establishes only a prima facie defense, as opposed to a substantial and conclusive defense, it is the second factor that governs the decision to grant or deny a petition to vacate. Here, the second factor governs and the Appellants have failed to satisfy the second factor. Therefore, the Appellants' petition to vacate should be denied.

5. INITIAL ORDER

IT IS HEREBY ORDERED THAT:

5.1. The Appellants' Motion to Vacate the Default Order Dismissing the Appeal (entitled Order Dismissing Appeal – Default) issued on March 14, 2018, is DENIED.

Issued from Tacoma, Washington, on the date of mailing.

Terry A. Schul

Administrative Law Judge

Office of Administrative Hearings

CERTIFICATE OF SERVICE IS ATTACHED

APPEAL RIGHTS

PETITION FOR REVIEW

Any party that disputes this Initial Order may file a Petition for Administrative Review with the Director of the Department of Labor and Industries.⁴ You may email your Petition for Administrative Review to the Director at directorappeal@Ini.wa.gov. You may also mail or deliver your Petition for Administrative Review to the Director at the Department's physical address listed below.

Mailing Address:
Director
Department of Labor and
Industries
PO Box 44001
Olympia, WA 98504-4001

Physical Address: 7273 Linderson Way SW Tumwater, WA 98501

If you e-mail your Petition for Administrative Review, please do not mail or deliver a paper copy to the Director.

Whether you e-mail, mail or deliver the Petition for Administrative Review, the Director *must actually receive* the Petition for Administrative Review during office hours at the Director's office within 30 days of the date this Initial Order was mailed to the parties. You must also provide a copy of your Petition for Administrative Review to the other parties at the same time.

If the Director does not receive a Petition for Administrative Review within 30 days from the date of the Initial Order, the Initial Order shall become final with no further right to appeal.⁵

If you timely file a Petition for Administrative Review, the Director will conduct an administrative review under chapter 34.05 RCW.

⁴ RCW 49.48.084 and RCW 34.05.464.

⁵ RCW 49.48.084 and Chapter 34.05 RCW.

CERTIFICATE OF SERVICE FOR OAH DOCKET NO. 10- 2017-LI-00604

I certify that true copies of this document were served from Tacoma, Washington via Consolidated Mail Services upon the following as indicated:

| Communication Energy Technology Solutions, Inc. dba CETS, Inc. 1441 N. Northlake Way, #211 Seattle, WA 98103 Appellant | ☑ First Class Mail ☑ Certified Mail, Return Receipt 91 7199 9991 7037 9107 4846 ☐ Hand Delivery via Messenger ☐ Campus Mail ☐ Facsimile ☐ E-mail |
|--|--|
| Thomas Jordan, as an Individual 1441 N. Northlake Way, #211 Seattle, WA 98103 Appellant | ☑ First Class Mail ☑ Certified Mail, Return Receipt 91 7199 9991 7037 9107 4839 ☐ Hand Delivery via Messenger ☐ Campus Mail ☐ Facsimile ☐ E-mail |
| Darwin P. Roberts Costello Law Firm, PLLC 200 First Ave W., Suite 306 Seattle, WA, 98119 Appellant Representative | ☑ First Class Mail ☑ Certified Mail, Return Receipt 91 7199 9991 7037 9107 4822 ☐ Hand Delivery via Messenger ☐ Campus Mail ☐ Facsimile ☐ E-mail |
| Heather Leibowitz, AAG Office of the Attorney General MS: TB-14 800 Fifth Avenue, Suite 2000 Seattle, WA 98104 Agency Representative | ☐ First Class Mail ☐ Certified Mail, Return Receipt ☐ Hand Delivery via Messenger ☒ Campus Mail ☐ Facsimile ☐ E-mail |
| Jaret Sutherland 35665 Beach Road Capistrano Beach, CA 92624 Intervenor/Wage Claimant | ☑ First Class Mail ☑ Certified Mail, Return Receipt 91 7199 9991 7037 9107 4815 ☐ Hand Delivery via Messenger ☐ Campus Mail ☐ Facsimile ☐ E-mail |

Date: Wednesday, April 11, 2018

OFFICE OF ADMINISTRATIVE HEARINGS

Ricci Frisk

Legal Administrative Manager