

News & Types: Commercial, Competition & Trade Update

Giving Up What You Are Entitled To

6/23/2016

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Practices: Commercial, Competition & Trade, Corporate, Finance & Acquisitions, Intellectual Property & Technology, Litigation

There were two recent cases from the 7th Circuit Court of Appeals, one on May 16 and one on May 17. The parties, judges, and areas of law were different. But the underlying question in both cases was the same. When does someone give up a right to something to which they would be otherwise entitled? In that regard, they present interesting contrasts. In one case, the court concluded the claimant did not give up its right (at least at the pleading stage). But in the other, the claimant lost.

Waiver of Right to Trademark

Hyson USA, Inc. is a food-distribution company owned by Leonid Tansky. One of its managers was Karolis Kaminskas. In early 2012, Hyson USA had financial problems and could no longer afford its liability insurance. As a result, it ceased business. In September, 2012, Kaminskas formed his own company, Hyson 2U, Ltd. and hired Tansky. Hyson USA transferred its branded inventory and equipment to Hyson 2U. Hyson 2U even leased the warehouse from which Hyson USA had operated. Hyson 2U then started doing the same business as Hyson USA.

In February, 2014, Tansky was fired. Tansky then re-started Hyson USA doing the same business as Hyson 2U. Tansky then sued Kaminskas and Hyson 2U for trademark infringement. (*Hyson USA, Inc. and Tansky, et. al. v. Hyson 2U, Ltd. and Kaminskas, et. al.*, 7th Circuit Court of Appeals, No. 14-3261, May 16, 2016)

The trial judge dismissed the complaint. After all, Tansky obviously knew that Kaminskas and Hyson 2U were using the Hyson trademark. Tansky sold branded inventory and equipment to Hyson 2U. He even worked for Hyson 2U. How can he now complain about infringement? Tansky acquiesced in Kaminskas' and Hyson 2U's use of the trademark, concluded the trial judge.

Not so fast, said Judge Sykes of the 7th Circuit. Judge Sykes sent the case back to the trial court for further proceedings. In the opinion, Judge Sykes explained why acquiescence may not be enough to dismiss the claim at such an early stage. In doing so, the judge explained the difficulty in establishing that a trademark owner relinquished trademark rights through acquiescence.

Kaminskas and Hyson 2U basically argued that Tansky pled himself out of court. Acknowledging his role in allowing Hyson 2U to use the trademark that he now claimed rights in, Tansky in effect admitted to acquiescing in that use. But Judge Sykes signaled the result in calling acquiescence a "fact-sensitive equitable defense." The use of the term "fact-sensitive" suggests dismissal is not appropriate and further proceedings are necessary.

Judge Sykes began by describing the purpose of trademarks – to identify the source of a good or service to a consumer. But trademark protection is granted only as long as the mark "reliably identifies the source of a good or service." If a trademark owner acquiesces to another's use of the mark, the source-identifying power is weakened and the owner may be estopped from claiming infringement.

Acquiescence can be compared to the doctrine of laches. But there are key distinctions. Laches is a "negligent, unintentional failure to protect trademark rights." In contrast, acquiescence is an *intentional* abandonment. So, unlike laches, where passivity may be enough, acquiescence requires some affirmative conduct by the trademark owner.

But isn't that what Tansky did by transferring branded inventory and equipment and allowing Hyson 2U to do business, even assisting it as an employee? Not quite, said Judge Sykes. What is missing is any *affirmative* word or deed by Tansky that he would not assert a right or claim regarding the Tyson trademark. Judge Sykes concluded the opinion by noting that an equitable defense like acquiescence is generally not appropriate as a basis to dismiss at the pleading stage. Rather, it requires a fact-based inquiry.

So, at least at the pleading stage, Tansky's and Hyson USA's rights to the trademark survived dismissal. For this, Tansky can thank the high bar the court set in establishing acquiescence as a defense to a trademark infringement claim.

Waiver of Right to Insurance Proceeds

The claimant in a case involving payment of insurance proceeds did not fare as well. (*Samaron Corp., doing business as Troyer Products v. United of Omaha Life Insurance Company*, 7th Circuit Court of Appeals, No. 15-3446, May 17, 2016)

In 2003, Troyer Products (formerly Samaron Corp.) purchased a life insurance policy on the life of Ron Clark, its President at the time. The beneficiary was Dave Buck, the Chief Operating Officer. Clark thought the \$1 million death benefit would enable Buck to buy Clark's stock. So Clark's family would end up with the money and Buck would end up controlling the company. Needless to say, this is not how it worked out.

For reasons which were not clear, the insurance company, United of Omaha, amended the policy so that the death benefit would go to Troyer Products, the company, not to Buck individually. Apparently the purpose of the policy remained the same. But Troyer Products never entered into any agreement to turn the death benefit over to Buck.

In 2005, Clark retired and sold a controlling interest to the new President, Dan Holtz, while Buck remained as COO.

Clark died in 2011. When he died the policy still named Troyer Products as the beneficiary. Troyer Products had no written obligation to transfer the proceeds to Buck. Although Buck told Holtz that Troyer Products was the beneficiary, Holtz decided to confirm this with United of Omaha. United of Omaha told him that the money would be paid to Buck, which it, erroneously, was. Buck then tried to use the money to buy Holtz's stock. Holtz did not react well to this. He used his controlling interest to remove Buck from the board. Buck quit soon after. Troyer Products then brought suit to recover the insurance payments made to Buck to which Troyer Products claimed it was entitled.

United of Omaha acknowledged that it erroneously paid the insurance proceeds to Buck. But it sought summary judgment in its favor. United of Omaha claimed Troyer Products knew that Troyer Products was the beneficiary when it allowed Buck to claim the proceeds. In support, it cited the fact that the amended insurance policy (naming Troyer Products as the beneficiary) was in the corporation's files, so Holtz and Troyer Products knew, or should have known, that Troyer Products was entitled to the payments.

But United of Omaha also cited affirmative actions by Holtz and Troyer Products to evidence their waiver of the proceeds. At a meeting of Troyer Product's board soon after Clark died, the board chose to allow Buck to receive the insurance proceeds. But the recording of the meeting was lost. So the trial judge denied United of Omaha's motion for summary judgment and set the case for trial.

After summary judgment was denied, Troyer Products admitted it had found the recording of the board meeting. The trial judge listened to the recording. It did not support Holtz or Troyer Products. According to the recording, Buck repeatedly told Holtz that Troyer Products was the beneficiary. But the board unanimously agreed to let Buck have the proceeds anyway. However, new board members appointed by Holtz, realizing what had happened, falsified the minutes of the meeting to remove the reference to Buck's acknowledgment that Troyer Products was the beneficiary and the board's approval of payment of the proceeds to Buck. So the trial judge reversed course and granted summary judgment to United of Omaha.

Recall in the *Hyson USA* case, there was insufficient evidence to show acquiescence by the trademark owner to use of the trademark by the alleged infringer. Was there sufficient evidence to show that Troyer Products had given up its right to the proceeds?

Yes, said Judge Easterbrook. Holtz claimed that he had been misled by United of Omaha's statement that Buck was the beneficiary, an error that United of Omaha acknowledged. But the recording showed Holtz to be untruthful.

Buck told Holtz "to his face" that Troyer Products was the policy's beneficiary. Quoting from the recording, Buck told Holtz,

"Um, beneficiary in on page 8. Un, let me oh, right here. [Reading] 'This policy is issued with the owner and primary beneficiary as Troyer Products, employer.' "

In addition, there were two copies of the policy in Troyer Product's files. Clark and Buck negotiated the policy in 2003 and knew the contents. "What the President [Clark] and COO [Buck] knew, Troyer knew. There is no such thing as corporate amnesia", said Judge Easterbrook.

In a strange aside, Judge Easterbrook tells Troyer Products how it could have defeated summary judgement. Troyer Product's board meeting was apparently informal and may have failed to comply with Indiana law (the applicable law) regarding board meeting procedures. The trial judge said Indiana allows boards to act "by consensus", but Judge Easterbrook was clearly skeptical of this assertion. So, speculated Judge Easterbrook, perhaps Troyer Products could have argued that its board meeting was not effective because it did not comply with Indiana corporate law. Oops! Too late! "Any potential challenge to this aspect of the district court's disposition has been forfeited," needed Judge Easterbrook.

Perhaps Troyer Products could have argued that it authorized payment to Buck for tax reasons, to keep the funds off the books. But Troyer Products did not raise this either.

So here are two unrelated cases with a related question and different results. In *Hyson USA*, Tansky's conduct was not sufficient to permit Hyson 2U, the alleged trademark infringer, to establish the affirmative defense that Tansky and his company, Hyson USA, acquiesced in Hyson 2U's use of the Hyson trademark. In contrast, in *Troyer Products*, the court concluded that Troyer Products had forfeited its claim to insurance proceeds as the beneficiary, because it knowingly allowed and authorized payment of the proceeds to someone else.

Since the cases are unrelated there is probably no overarching lesson to be learned except, perhaps, that whether someone has given up a right to which they are entitled is a very fact-based determination and not susceptible to judgment on the pleadings, unless you have, as Buck fortuitously did in *Troyer Products*, an incriminating recording.