Securities Law Update – August 2009

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Trust Not Required to Arbitrate Against Merrill Lynch

In this Arizona federal court decision, Merrill Lynch failed in seeking to compel a customer to arbitrate its claims. Merrill Lynch had arbitration agreements signed by a related trust entity, but not one signed by the specific trust that initiated arbitration proceedings. Because Merrill Lynch was unable to prove that the later trust sought to enforce or exploit any portion of the contract signed by the earlier trust, the contract could not be enforced against the later trust.

AIG Name Change

Included in the fallout from 2008's financial debacle was that, "[t]he name "AIG" lost its marketing cachet in 2008." No kidding. As a result, AIG decided to change the name of one of its units from AIG Financial Advisors, Inc. to SagePoint Financial, Inc. Lincoln Financial Advisors Corp. took offense. One of its affiliates is known as Sagemark Consulting. Given that the two "Sage" entities engage in the same business, Lincoln sought an injunction under the Lanham Act, precluding AIG from using its new name. AIG prevailed. To celebrate its victory, AIG held a very expensive party, at taxpayer expense. Just kidding.

Auction Rate Securities Class Action

In this Southern District of New York opinion, the court dismissed a class action against Northern Trust Securities. The putative class representative alleged 1934 Act violations arising from Northern Trust's sale of auction rate securities. Subsequent to Northern Trust having made a limited offer to purchase auction rate securities from its clients, the plaintiff accepted the offer and received its full investment cost as part of the tender. Because the putative plaintiff no longer had damages, the class action complaint was dismissed without leave to amend.

Selling Away Cases – Insurer's Duty to Defend

Where a financial advisor/stockbroker is sued for making unsuitable investment recommendations, the advisor's insurer is not necessarily required to defend. Although few stockbrokers employed by the major broker dealers have errors and omission coverage, many stockbrokers employed by smaller firms have such coverage. In this Sixth Circuit decision, the court ruled that the insurer did not have a duty to defend where the investment at issue was neither approved by the broker's employer, nor registered with the Securities and Exchange Commission. The decision was explicitly based upon the wording of the insurance policy at issue.

Punitive Damages Unavailable as a Matter of Law for a Pension Plan's ERISA §409 Claims

The Sixth Circuit addressed the availability of claims for punitive damages for breach of fiduciary duty under ERISA §409. The case involved a pension plan's losses of $2 million arising from investments in the Regions Morgan Keegan Select High Income Fund and the Regions Morgan Keegan Intermediate Fund. Regions Financial Corporation's recent Form 8-K states, "[o]n July 9, 2009, Morgan Keegan & Company, Inc. ("Morgan Keegan") (a wholly-owned subsidiary of Regions Financial Corporation), Morgan Asset Management, Inc. and three employees, each received a "Wells" notice from the Staff of the Atlanta Regional Office of the United States Securities and Exchange Commission (the "Commission") stating that the Staff intends to recommend that the Commission bring enforcement actions for possible violations of the federal securities laws. The potential actions relate to the Staff's investigation of certain mutual funds formerly managed by Morgan Asset Management, Inc. A Wells notice is not a formal allegation nor a finding of wrongdoing. The notice provides the recipients the opportunity to provide their perspective and to address issues raised prior to any formal action being taken by the Commission."

Jonah Shacknai, an individual; The Shacknai 2004 Irrevocable Trust; The Shacknai 1999 Trust, Plaintiffs, vs. John Charles Mathieson and Sherrie Sucher-Mathieson, husband and wife; Merrill Lynch Insurance Group, a Delaware corporation; Merrill Lynch Pierce Fenner and Smith Incorporated, a Delaware corporation; Merrill Lynch & Co., Inc., a Delaware corporation; Kenneth Marchiol and Jane Doe Marchiol, husband and wife; Alan Dale Fonner and Jane Doe Fonner, husband and wife; Gregory James Mech and Jane Doe Mech, husband and wife; Institutional Marketing Consultants, Inc., a Colorado corporation, Defendants.

No. CV 08-01025-PHX-FJM

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF ARIZONA

2009 U.S. Dist. LEXIS 18373

February 25, 2009, Decided

NOTICE: NOT FOR PUBLICATION

CORE TERMS: arbitration, compel arbitration, arbitration agreement, arbitration clauses, insurance law, insurance policies, insurance business, membership, arbitrate, compelled, exploited, knowingly, discovery

COUNSEL: For Jonah Shacknai, an individual, Shacknai Irrevocable Trust, Plaintiffs: Brendan Andrew Murphy, Edwin F Hendricks, Jr, Edwin F Hendricks, Sr, LEAD ATTORNEYS, Meyer Hendricks PLLC, Phoenix, AZ; Paul Allen Conant, LEAD ATTORNEY, Thomson Conant PLC, Phoenix, AZ.

For John Charles Mathieson, husband, Sherrie Sucher-Mathieson, wife, Merrill Lynch Insurance Group, a Delaware corporation, Merrill Lynch Pierce Fenner and Smith Incorporated, a Delaware corporation, Merrill Lynch & Co. Inc., a Delaware corporation, Alan Dale Fonner, husband, Jane Doe Fonner, wife, Gregory James Mech, husband, Jane Doe Mech, wife, Defendants: Christopher Stuart Coleman, Howard Ross Cabot, LEAD ATTORNEYS, Perkins Coie Brown & Bain PA, Phoenix, AZ.

For Kenneth Marchiol, husband, Jane Doe Marchiol, wife, Institutional Marketing Consultants, Inc., a Colorado corporation, Defendants: James Dennis Kilroy, LEAD ATTORNEY, Snell & Wilmer LLP, Denver, CO; Jason Scott Vanacour, LEAD ATTORNEY, Snell & Wilmer LLP, Phoenix, AZ.

JUDGES: Frederick J. Martone, United States District Judge.

OPINION BY: Frederick J. Martone

OPINION

ORDER

The court has before it Merrill Lynch, Pierce, Fenner & Smith Inc. ("MLPFS"), Merrill Lynch Insurance Group, Merrill Lynch and Co., Inc., John Mathieson and Sherrie Sucher-Mathieson, Alan Fonner, and Gregory Mech's (collectively, "defendants") motion to dismiss and compel arbitration and request for stay (doc. 48), plaintiffs John Shacknai and the Shacknai 2004 Irrevocable Trust's ("2004 Trust") response (doc. 56), and defendants' reply (doc. 60).

I

This dispute arises out of losses incurred through an insurance premium financing arrangement. In early 2004, the 2004 Trust purchased two Pacific Life Insurance Company life insurance policies upon the advice of Mathieson, a Merrill Lynch insurance and wealth planning specialist. The 2004 Trust used a loan to purchase the policies, and pledged a MLPFS account held by the Shacknai 1999 Trust ("1999 Trust") as collateral for the loan. The account had been opened by Shacknai on April 21, 2000 and transferred to the 1999 Trust in August 2001. To open the account, Shacknai entered into a client relationship agreement with MLPFS in which he agreed to arbitrate "all controversies." [1] *Motion to Compel, Ex.1.* The agreement also provided that arbitration "shall be conducted only before the New York Stock Exchange, Inc., an arbitration facility provided by any other exchange of which [MLPFS is] a member, or the National Association of Securities Dealers, Inc., and in accordance with its arbitration rules then in effect." [2] *Id.* Defendants move to dismiss Shacknai and the 2004 Trust's claims against them and compel arbitration. [3] Defendants also move to stay the remaining claims against non-moving defendants during arbitration.

1 On the same day, Shacknai also entered into an option agreement with MLPFS containing a materially similar arbitration agreement.

2 The arbitral bodies of the New York Stock Exchange, Inc. and National Association of Securities Dealers, Inc. have since been consolidated into the Financial Industry Regulatory Authority ("FINRA"). We will, therefore, refer to FINRA arbitration rules for the purposes of this order.

3 Subsequent to defendants' motion, we granted plaintiffs' motion to add the 1999 Trust as a plaintiff (doc. 62).

II

First, plaintiffs argue that the 2004 Trust cannot be compelled to arbitrate because it did not sign an arbitration agreement with defendants. *See United Steelworkers of Am. v. Warrior & Gulf Navigation Co.,* 363 U.S. 574, 582, 80 S. Ct. 1347, 1353 (1960) ("[A]rbitration is a matter of contract and a party cannot be required to submit to arbitration any dispute which he has not agreed so to submit."). Although not a signatory, defendants argue that the 2004 Trust is estopped from avoiding arbitration because it "exploited and directly benefitted from the account agreements." *Motion to Compel* at 12; *see Comer v. Micor, Inc.,* 436 F.3d 1098, 1101 (9th Cir. 2006) ("[N]onsignatories have been held to arbitration clauses where the nonsignatory 'knowingly exploits the agreement containing the arbitration clause despite having never signed the agreement.'") (quotation omitted). We disagree. Defendants have not shown that the 2004 Trust knowingly exploited or seeks to enforce any agreement containing an arbitration clause. Moreover, Merrill Lynch had the option to require the 2004 Trust to sign a client relationship agreement prior to the sale of the insurance policies but failed to do so. This failure does not mean that the 2004 Trust is bound by the agreements signed Shacknai and the 1999 Trust.

Next, plaintiffs challenge defendants' right to bring arbitration in the selected forum. The arbitration agreement states that any arbitration must be conducted by FINRA and in accordance with its rules. Because the arbitration agreement incorporates the FINRA rules by reference, those rules must be considered to give full effect to the intent of the parties. *Cox v. Ocean View Hotel Corp.*, 533 F.3d 1114, 1122 (9th Cir. 2008) (citation omitted).

Plaintiffs seek discovery to demonstrate the applicability of the FINRA "insurance exception." The FINRA code of arbitration procedure exempts from arbitration "disputes involving the insurance business activities of a member that is also an insurance company." FINRA Code of Arbitration Procedure, § 12200. We disagree that discovery is required as to this issue. The "insurance exception" only applies where a dispute "is 'insurance-only' or even 'intrinsically insurance.'" *In re Prudential Ins. Co. of Am. Sales Practice Litig.*, 133 F.3d 225, 232 (3rd Cir.1998). Plaintiffs' claims are based on tort and contract principles and do not require any special knowledge of insurance law to be decided. *See IDS Life Ins. Co. v. Royal Alliance Assocs., Inc.*, 266 F.3d 645, 653 (7th Cir. 2001) (finding that the insurance business exception did not apply where "[n]o technical issue of insurance law or of the economics, regulation, or business customs of insurance was thrust upon the arbitrators").

The FINRA code also requires that a dispute be between "a customer and a member or associated person of a member" and prohibits arbitration compelled by "[a] member whose membership is terminated, cancelled, suspended, or revoked." FINRA Code of Arbitration Procedure, §§ 12200, 12202. Defendants have not addressed whether each party moving to compel arbitration is either a FINRA member or associated person, and we cannot determine if defendants have a right to compel arbitration without this information. *See Galey v. World Mktg. Alliance*, 510 F.3d 529, 533-34 (5th Cir. 2007) (denying motion to compel arbitration where the agreement specified that arbitration be conducted with the National Association of Securities Dealers, Inc. and defendants had allowed their membership to lapse). Defendants have not, therefore, shown that they have a right to compel arbitration of this dispute.

Accordingly, **IT IS ORDERED DENYING** defendants' motion to dismiss and compel arbitration and request for a stay (doc. 48).

DATED this 25th day of February, 2009.

/s/ Frederick J. Martone

Frederick J. Martone

United States District Judge

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LINCOLN FINANCIAL ADVISORS CORP., Plaintiff
vs. SAGEPOINT FINANCIAL INC., f/k/a AIG FINANCIAL ADVISERS, INC., Defendant

CAUSE NO. 1:09-CV-15RM

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF INDIANA, FORT WAYNE DIVISION

2009 U.S. Dist. LEXIS 28142

April 2, 2009, Decided
April 2, 2009, Filed

CORE TERMS: consumer, financial advisors, trademark, financial services, advisor, preliminary injunction, sage, injunction, weigh, website, hasn't, name change, irreparable harm, marketing, broker dealer, registered, competitor, goodwill, public interest, isn't, advertising, protectable, descriptive, suggestive, confused, Lanham Act, secondary meaning, similarity, reputation, logo

COUNSEL: For Lincoln Financial Advisors Corporation, Plaintiff: D Randall Brown, Jason T Clagg, LEAD ATTORNEYS, Barnes & Thornburg LLP - FW/IN, Fort Wayne, IN; Spencer P Goodson, LEAD ATTORNEY, Barnes & Thornburg LLP - Ind/IN, Indianapolis, IN; Thomas J Donovan, LEAD ATTORNEY, Barnes & Thornburg LLP - Chi/IL, Chicago, IL; Damon R Leichty, Barnes & Thornburg LLP - SB/IN, South Bend, IN.

For Sagepoint Financial Inc, formerly known as AIG Financial Advisors Inc, Defendant: Claudia W Stangle PHV, Mark J Liss PHV, Tamara A Miller PHV, LEAD ATTORNEYS, PRO HAC VICE, Leydig Voit and Mayer Ltd, Chicago, IL; Steven L Smilay, LEAD ATTORNEY, Botkin & Hall LLP, South Bend, IN; Boris Umansky, Leydig Voit and Mayer Ltd, Chicago, IL.

JUDGES: Robert L. Miller, Jr., Chief Judge, United States District Judge.

OPINION BY: Robert L. Miller, Jr.

OPINION

OPINION AND ORDER

This cause came before the court for hearing on Lincoln Financial Advisors' motion for preliminary injunction to prevent the defendant from using its newly adopted business name, SagePoint Financial, Inc. The complaint is filed under the Lanham Act, 15 U.S.C. §§ 1116 and 1125(a). This court has jurisdiction under 28 U.S.C. § 1331. For the reasons that follow, the court denies Lincoln's motion.

I

The name "AIG" lost its marketing cachet in 2008.

In September 2008, AIG Financial Advisors, Inc. decided to change its name and hired a name consultant, submitted its proposed name to a financial regulatory body, and asked outside trademark counsel for a legal opinion. In January 2009, the defendant changed its name from AIG Financial Advisors, Inc. to SagePoint Financial, Inc. and filed an intent-to-use application for "SagePoint" in the U.S. Patent and Trademark Office. SagePoint Financial is now an AIG subsidiary incorporated in Delaware with its principal place of business in Phoenix, Arizona.

Lincoln Financial is a broker-dealer and registered investment advisor. Sagemark Consulting is the marketing name -- "boutique brand," as a Lincoln witness described it -- for a division of Lincoln's financial advisors. Lincoln began using the Sagemark Consulting mark in connection with business Lincoln obtained through acquisition of CIGNA Financial Advisors in 1998. Lincoln uses Sagemark Consulting to brand and segment services provided by advisors who choose to use the mark that way. Sagemark Consulting produces financial plans, not financial products. Lincoln sold more than $ 55 million worth of financial products and services under its Sagemark Consulting mark in 2000, followed by $ 51 million in 2001, $ 50 million in 2002, $ 51 million in 2003, $ 58 million in 2004, $ 124 million in 2005, $ 126 million in 2006, $ 142 million in 2007, and more than $ 125 million in 2008.

Lincoln maintains some twenty-five Sagemark Consulting field offices throughout the United States. Five-hundred financial advisers now offer Lincoln products under the Sagemark Consulting name. That figure has grown from 300 since 2004. The Sagemark Consulting advisors don't gather at the altar of transparency: some use the Lincoln Financial name as well as Sagemark Consulting. Financial advisors associated with Sagemark Consulting use business cards and letterhead with the Sagemark Consulting mark, adding (as the law requires) its association with Lincoln. One who accesses the website on that business card is redirected to the Lincoln Financial home page, where the Sagemark Consulting logo flashes in the upper left corner and in the footer. Clicking on that logo continues the discussion of Lincoln Financial, without discussion of Sagemark Consulting. The same is true of Lincoln's financial planning Web page, products page, and online services page. Lincoln reports that it planned to make greater use of the Sagemark Consulting mark this year, but the preliminary injunction record contains few specifics about what steps had been taken or what the plans entailed.

Lincoln has spent $ 500,000 per year promoting Sagemark Consulting since 2004. Lincoln has used the mark since 1998, primarily through brochures for financial advisors (who may provide them to end consumers), limited advertising on the Internet, and signs posted in its field offices in twenty-five locations throughout the country. Lincoln also claims success in developing and maintaining substantial business in connection with the "Sagemark Consulting" mark, which Lincoln says is well-known in the industry. The brochures provided to financial consultants identify the actual products as Lincoln Financial products. Lincoln spreads its name primarily through referrals.

Lincoln says SagePoint Financial competes directly with Lincoln in terms of both clients and financial professionals, and that both companies provide the same sort of investment services, using similar marketing tools. SagePoint Financial sells its products through independent financial advisors who are located in forty-nine states. SagePoint Financial doesn't sell its products directly to end consumers, and most of its affiliated advisors do business under their own respective company names.

SagePoint Financial has no financial product of its own; it sells a variety of financial products, such as mutual funds, annuities, life insurance, stocks and bonds, direct investments, traditional insurance and options. SagePoint Financial manages $ 28 billion (a figure that was much higher in early 2008). Nearly all of its 2,500 advisors are independent contractors, very few of whom use the SagePoint Financial name. SagePoint Financial doesn't advertise to consumers. The end consumer often is unaware who SagePoint Financial is. The audience for its Website is a potential investment adviser. There is no place for a retail consumer to log into the Website. An investor cannot obtain account information directly through SagePoint Financial. SagePoint Financial advisors say they offer securities through SagePoint Financial, a broker-dealer.

On January 23, Lincoln filed its complaint and sent the defendant a cease and desist letter asking it to refrain from using the "SagePoint" mark and name because it would cause confusion with Lincoln's "Sagemark" name. SagePoint has since completed its name change, changing its website and activating a new website that features SagePoint Financial instead of AIGFA.

Additional facts are set forth as pertinent.

II

To prevail on its preliminary injunction motion, Lincoln Financial must show: (1) a reasonable likelihood of success on the merits, (2) that it is suffering irreparable harm that outweighs any harm the defendants will suffer if the injunction is granted, (3) there is no adequate remedy at law, and (4) an injunction would not harm the public interest. Christian Legal Society v. Walker, 453 F.3d 853, 859 (7th Cir. 2006); *see also* Winter v. Natural Resources Defense Council, Inc., 129 S. Ct. 365, 374 (2008). If Lincoln Financial makes such a showing, the court must "weig[h] the factors against one another in a sliding scale analysis . . . to determine whether the balance of harms weighs in favor of the moving party or whether the nonmoving party or public interest will be harmed sufficiently that the injunction should be denied." Christian Legal Society v. Walker, 453 F.3d at 859; Promatek Indus., Ltd. v. Equitrac Corp., 300 F.3d 808, 811 (7th Cir. 2002).

Lincoln says confusion between its mark and the defendant's name poses "inestimable risks of business loss," and so seeks to enjoin SagePoint from using "SagePoint Financial" or any other confusingly similar variations pending resolution on the merits. Lincoln argues that its likely to succeed on the merits of its claim because it can establish the existence of both a protectable mark and a likelihood of confusion between that mark and the SagePoint name. Lincoln says "Sagemark Consulting" is a suggestive, rather than descriptive, mark, and secondary evidence establishes that the Sagemark name is protectable, such as Lincoln's use of the name for more than ten years -- established that the Sagemark name is protectible.

Lincoln claims there is a likelihood of confusion between "Sagemark Consulting" and "SagePoint Financial" because of the names' similarity and the similarity of the services the two companies provide. Lincoln says the parties provide their services in the same area and manner: marketing to the general public and financial advisors nationwide, using a network of service professionals, branch/field offices, and Internet websites. Lincoln argues that consumers seeking financial services are likely to exercise a relatively low degree of care regarding the players in the industry and may be confused by AIGFA's name change. Lincoln notes two incidents of alleged actual confusion that have occurred since AIGFA changed its name and argues that AIGFA chose a similar name despite awareness of Lincoln's mark, supporting an inference of intent to trade upon Lincoln's goodwill.

Lincoln argues that SagePoint's continued infringement will cause irreparable harm to its goodwill and reputation. Lincoln says it faces harm to its business by unfair competition as well as risk to its good name both from its inability to control the quality of SagePoint's services and perceived connection between Lincoln and AIG. Lincoln claims the favor of the balance of hardships because SagePoint changed its name only recently and could continue providing services under its earlier name at the same volume. Finally, Lincoln says protecting against consumer confusion and unfair competition fosters the public interest.

SagePoint Financial argues that Lincoln is unlikely to succeed in showing a likelihood of confusion between "Sagemark Consulting" and "SagePoint Financial." SagePoint Financial points out that Lincoln's application to register "Sagemark Consulting" was refused on likelihood of confusion grounds. Lincoln chose to use the mark nonetheless, but SagePoint Financial says Lincoln's marketing materials prominently display the Lincoln Financial mark, not the Sagemark Consulting name. Thus, SagePoint Financial argues, the Sagemark Consulting mark is weak because it's virtually unknown and not heavily promoted in the industry. SagePoint Financial presented evidence of third-party usage of the term "Sage" in marks and names for financial services, including seven federal registrations for marks consisting of or containing "sage" and covering financial services. SagePoint Financial also contends that "Sagemark Consulting" doesn't appear in trade publications and isn't visible because Lincoln doesn't engage in television, radio, or consumer print advertising under the mark. SagePoint Financial says Lincoln hasn't shown how prevalently it has used the mark or that its consumers recognize the mark.

SagePoint Financial also claims that Sagemark Consulting and SagePoint Financial differ in sight, sound, and meaning, and that participants in the financial community commonly use the word "sage" for similar and even identical services. SagePoint Financial notes that Lincoln uses the "Sagemark Consulting" in a red logo format with "a member of Lincoln Financial Group" always following it, while SagePoint Financial uses a different layout in terms of font, capitalization, layout, coloring, and overall stylization. SagePoint Financial contends that SagePoint conveys "the convergence of wise counsel and strong relationship," while Sagemark conveys no such meaning. SagePoint Financial says that while its services are similar to Lincoln's, it promotes those services quite differently: Lincoln promotes its "Sagemark Consulting" division in close connection with the "Lincoln" name, while SagePoint Financial markets its products to other financial companies who, in turn, market to end consumers. Because SagePoint Financial's end consumers typically deal with advisors using different names, SagePoint Financial argues, there is a lessened likelihood of confusion.

SagePoint Financial says the parties' financial advisors are talented and experienced professionals, and its end consumers are wealthy families and executives, business owners, and affluent retirees. Likelihood of confusion can't be presumed, SagePoint Financial says, because consumers exercise heightened care in selecting banking and financial services. SagePoint Financial denies any intent to palm off Lincoln, which has recently experienced its own serious financial setbacks. SagePoint Financial paid a consultant more than $ 570,000 to help develop its new name -- a process that took three months. SagePoint Financial obtained an opinion from outside counsel, filed an application with FINRA, filed a trademark application, and registered its new name in all fifty states.

SagePoint Financial says the balance of harms weighs in its favor. An injunction will cost SagePoint Financial significant money, credibility, stability, reputation, and the confidence of its affiliated financial advisors and end consumers. SagePoint Financial estimates that it would lose no less than 250 financial advisors, who would terminate their affiliation in the event of a name change, producing losses of more than $ 25 million. SagePoint Financial believes the public interest dictates against interfering with its name because Lincoln hasn't shown that consumers are familiar with its mark or that those consumers need immediate protection from any alleged likelihood of confusion.

A

The threshold consideration in any preliminary injunction hearing is the movant's likelihood of success on the merits of the underlying claim. Platinum Home Mortgage Corp. v. Platinum Fin. Group, Inc., 149 F.3d 722, 726 (7th Cir. 1998). The movant need not show probable victory; a likelihood of success exists if the moving party shows that it has a "better than negligible" chance of succeeding on its claim. Meridian Mut. Ins. Co. v. Meridian Ins. Group, Inc., 128 F.3d 1111, 1114 (7th Cir. 1997); *see also* Ty, Inc. v. Jones Group, Inc., 237 F.3d 891, 895 (7th Cir. 2001); Barbecue Marx, Inc. v. 551 Ogden, Inc., 235 F.3d 1041, 1043 (7th Cir. 2000).

The Lanham Act protects registered and unregistered marks from interference by state legislation, prevents unfair competition, and protects against fraud by use of reproductions, copies, counterfeits, or colorable imitations of registered marks. Packman v. Chicago Tribune Co., 267 F.3d 628, 638 (7th Cir. 2001); 15 U.S.C. § 1125(a). To prevail on its claim that the defendant violated Section 43(a) of the Lanham Act, Lincoln will have to establish that (1) the name "Sagemark Consulting" is a protectable mark, and (2) use of the name "SagePoint Financial" is likely to cause confusion among customers. Promatek Indus., Ltd. v. Equitrac Corp., 300 F.3d at 812. A mark's validity "pertains to whether a 'word, term, name, symbol or device,' 15 U.S.C. § 1125(a)(1), is entitled to protection under trademark law by focusing on whether that mark specifically identifies and distinguishes one company's goods or services from those of its competitors. The infringement of a mark concerns whether the actions of a subsequent user of a substantially similar or identical mark causes a likelihood of confusion among consumers as to the source of those specific goods or services." Platinum Home Mortgage Corp. v. Platinum Fin. Group, Inc., 149 F.3d at 727.

One may acquire a protectable right in a trademark only through use of the mark in connection with its product. Johnny Blastoff, Inc. v. Los Angeles Rams Football, Co., 188 F.3d 427, 433 (7th Cir. 1999). One seeking to establish appropriation of a trademark must show "first, adoption, and second, the use in a way sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark." Id. at 433-434 (citation omitted). "The party who first appropriates the mark through use, and for whom the mark serves as a designation of source, acquires superior rights to it." Id. at 434. "For the purpose of establishing public identification of a mark with a product or service, the fact-finder may rely on the use of the mark in 'advertising brochures, catalogs, newspaper ads, and articles in newspapers and trade publications.'" Id. (citing T.A.B. Sys. v. Pactel Teletrac., 77 F.3d 1372, 1375 (Fed. Cir. 1996)).

Marks are classified into five categories of increasing distinctiveness: 1) generic; 2) descriptive; 3) suggestive; 4) arbitrary; and 5) fanciful. Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 767-765 (1992). A generic term is one that doesn't identify any particular service, and a descriptive term is one that describes the qualities or characteristics of a particular good or service. Custom Vehicles, Inc. v. Forest River, Inc., 476 F.3d 481, 483 (7th Cir. 2007). Generic and descriptive terms ordinarily don't function as trademarks, but a descriptive mark may warrant protection if that mark has acquired secondary meaning, i.e., it has become uniquely associated with the original seller. Id. Suggestive marks, on the other hand, suggest some characteristic of the goods or services to which it's applied and requires the consumer to exercise imagination and perception to determine the nature of the goods or services. *See* G. Heileman Brewing Co. v. Anheuser-Busch, Inc., 873 F.2d 985, 992 (7th Cir. 1989). Suggestive marks are protected without proof of secondary meaning. Peaceable Planet, Inc. v. Ty, Inc., 362 F.3d 986, 991 (7th Cir. 2004). Finally, an arbitrary or fanciful mark bears no relationship to the product or service with which it is associated. Serv. Merchandise Co. v. Serv. Jewelry Stores, Inc., 737 F. Supp. 983, 992 (S.D. Tex. 1990).

"Sagemark Consulting" isn't a registered trademark. Lincoln argues that the mark is protectable because it's suggestive and/or arbitrary and, even if only descriptive, has a secondary meaning due to its continuous and exclusive use. Lincoln claims that "Sagemark Consulting" is a protectable mark based on public and exclusive use of the name for ten years in marketing its services.

The name isn't descriptive because it doesn't describe the financial services Lincoln provides. Applying the "degree of imagination test," Lincoln's mark appears to be suggestive because it doesn't impart information directly, but instead stands for an idea that requires some operation of the imagination to connect it with the services at issue. Platinum Home Mortgage Corp. v. Platinum Fin. Group, Inc., 149 F.3d at 727 (*citing* Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947 (7th Cir. 1992)). For example, "Sagemark Consulting" identifies the source of Lincoln's services and doesn't merely describe the quality of those services like the term "platinum" in the name "Platinum Mortgage." Platinum Home Mortgage v. Platinum Fin. Group, 149 F.3d at 728.

Lincoln presented only modest evidence that "Sagemark Consulting" has developed secondary meaning as applied to Lincoln's financial services, consisting of the length of use and a February 2009 magazine reference. A court may consider several factors to determine whether secondary meaning has been established, including: 1) the amount and manner of advertising; 2) the sales volume; 3) the length and manner of use; 4) consumer testimony; and 5) consumer surveys. Int'l Kennel Club of Chicago, Inc. v. Mighty Star, Inc., 846 F.2d 1079, 1085 (7th Cir. 1988); *see also* Simon Prop. Group, L.P., v. mySimon, Inc., 2001 Wl 66408, *3 (S.D. Ind. Jan. 24, 2001). Lincoln argues that its mark acquired secondary meaning because Lincoln has used it so long and exclusively in the financial services industry, but Lincoln submitted no consumer testimony or surveys to support this assertion. Accordingly, Lincoln has made only a slight showing that consumers associate its "Sagemark Consulting" mark with its services. This inquiry isn't fatal to Lincoln's request because the mark arguably is suggestive. Regardless, SagePoint Financial doesn't contest that "Sagemark Consulting" is a protectable mark but, rather, argues that there is no likelihood of confusion between the name and "SagePoint Financial."

B

Seven factors guide evaluation of the likelihood of confusion: 1) the marks' similarity in appearance and suggestion; 2) the products' similarity; 3) the area and manner of concurrent use; 4) the degree of care consumers are likely to exercise; 5) the strength of complainant's mark; 6) actual confusion; and 7) the defendant's intent to "palm off his product as that of another." Smith Fiberglass Prods., Inc. v. Ameron, Inc., 7 F.3d 1327, 1329 (7th Cir. 1993). None of these factors is dispositive considered alone; instead, the weight given to each depends on the case. *See* Meridian Mut. Ins. Co. v. Meridian Ins. Group, Inc., 128 F.3d at 1115. "[T]he similarity of the marks, the defendant's intent, and evidence of actual confusion are of particular importance," but there is no requirement that all three of these factors weigh in the plaintiff's favor before an injunction may be issued. Promatek Indus. v. Equitrac Corp., 300 F.3d at 812; Ty, Inc. v. Jones Group, Inc., 237 F.3d at 902.

1

Trademarks are confusingly similar if they are similar in sound, appearance, meaning, or connotation. CFM Majestic, Inc. v. NHC, Inc., 93 F. Supp. 2d 942, 951 (N.D. Ind. 2000). In deciding whether two marks are similar, comparison is made "in light of what happens in the marketplace, and not merely by looking at the two marks side-by-side." Meridian Mut. Ins. v. Meridian Ins. Group, 128 F.3d at 1115; see also AM Gen. Corp. v. DaimlerChrysler Corp., 311 F.3d 796, 825 (7th Cir. 2002).

Both marks begin with the word "sage." "[I]f one word or feature of a composite trademark is the salient portion of the mark, it may be given greater weight than the surrounding elements," Ty, Inc. v. Jones Group, Inc., 237 F.3d at 898 (*citing* Henri's Food Prods. Co., Inc. v. Kraft, Inc., 717 F.2d 352, 356 (7th Cir. 1983)), so the court begins with whether the word "sage" is the salient portion of the "Sagemark Consulting" mark. Unlike (for example) the word "Beanie" in the mark "Beanie Baby," Lincoln hasn't shown that "sage" is a well-known and famous part of its mark. *See* Ty, Inc. v. Jones Group, Inc., 237 F.3d at 899; *see also* CFM Majestic, Inc. v. NHC, Inc., 93 F. Supp. 2d at 951 (concluding that the dominant term for both parties' marks was the word "Vermont" because it had achieved such familiarity among the consuming public that the product was sometimes simply referred to in the marketplace by its dominant first name). Accordingly, the court considers the two marks as a whole.

Lincoln points out that the first portion of each mark is identical, and "Sagemark" and "SagePoint" have the same number of syllables, but the marks have distinctive hang tags that make them seem dissimilar. The two marks sound different and have different meanings. Lincoln's own argument to the Trademark Office -- that there was no likely confusion between "Sagemark Consulting" and "Sage Corporate Bond Fund" because the common denominator, "sage," was unlikely to cause confusion to the reasonable purchaser of investment services -- bolsters this reasoning. *See* Top Tobacco, L.P. v. N. Atl. Operating Co., 2007 WL 118527, at *4 (N.D. Ill. Jan. 4, 2007) (finding that plaintiff's concessions before the Trademark Office that the mark "top" for tobacco was common belied plaintiff's arguments in support of a preliminary injunction that "top" was a strong mark).

The parties' logos differ in terms of fonts, capitalization, layout, coloring, and design elements. The "Sagemark Consulting" logo is red and regularly followed by the phrase "A member of Lincoln Financial Group." These surrounding characteristics may enable consumers to distinguish more easily between the two marks. *See* Barbecue Marx, Inc. v. 551 Ogden, Inc., 235 F.3d at 1044 (holding that although the marks "SMOKE DADDY" and "BONE DADDY" are similar in appearance and suggestion, their distinct visual presentations significantly undercut the strength of the plaintiff's argument that the marks are likely to be confused); *see also* Packman v. Chicago Tribune Co., 267 F.3d at 644 ("Different packaging, coloring, and labeling can be significant factors in determining whether there is a likelihood of confusion."). No other national broker dealer uses green and grey in its logo, like SagePoint Financial does. The overall commercial impression reveals that the similarities between the two marks are outweighed by the differences such that consumers aren't likely to confuse one for the other. This element favors SagePoint Financial.

2

In considering whether products are closely related for the purpose of likelihood of confusion, "[a] closely related product is one which would reasonably be thought by the buying public to come from the same source, or thought to be affiliated with, connected with, or sponsored by, the trademark owner." Sullivan v. CBS Corp., 385 F.3d 772, 778 (7th Cir. 2004).

SagePoint doesn't consider Lincoln to be a competitor because they haven't recruited advisors from each other. The court disagrees: Lincoln and SagePoint Financial are direct competitors. Both are broker dealers (Sagemark Consulting isn't a broker-dealer, but Lincoln is), both have RAA services, both have national marketing footprints, and both distribute through a national sales force to the same target market. Both are listed among the nation's top independent broker dealers. Lincoln and SagePoint Financial sell very similar, if not identical, financial services, using the same marketing channels. The parties compete directly for the same customers and talent. This element favors Lincoln.

3

The court also considers whether "there is a relationship in use, promotion, distribution, or sales between the goods or services of the parties." Forum Corp. of N. Am. v. Forum, Ltd., 903 F.2d 434, 442 (7th Cir. 1990). Important factors include: the relative geographical distribution areas, whether there is direct competition between the products, whether the products are sold to consumers in the same type of store, whether the products are sold in similar sections of a particular store, and whether the product is sold through the same marketing channels. Ty, Inc. v. Jones Group, Inc., 237 F.3d at 900.

Lincoln and SagePoint Financial both provide and market broker-dealer and registered investment advisory related services on a national basis through a network of financial advisors. Both parties market to the general public and to experienced financial advisors using similar marketing tools, such as field offices, service professionals, and Internet websites. SagePoint Financial argues that the parties promote their services differently: Sagemark Consulting is marketed closely with the Lincoln name, while SagePoint Financial markets exclusively to other financial companies, who, in turn, market to end consumers. That distinction is unpersuasive. While SagePoint Financial may not have direct contact with its end consumers, both companies mass market to a wide set of sophisticated advisors. As such, the possibility exists that the parties target the same consumers. This factor weighs in favor of Lincoln.

The parties disagree as to whether their consumers are likely to exercise a high degree of care in evaluating their financial services. Lincoln says people seeking financial advisory services tend to do so because they lack the time and expertise to do so themselves, and so are likely to exercise a relatively low degree of care in selecting financial services. Lincoln believes these consumers are more likely to follow news with respect to recent failures in the market and may be more confused by the defendant's name change than other members of the public. SagePoint Financial argues that the relevant market consists of sophisticated buyers and experienced financial advisors who are likely to exercise a great deal of care in selecting financial services.

Lincoln believes investors exercise great care in choosing the financial advisor with whom they do business, but not the company the advisor represents. A professional advisor would not be confused by the time the advisor signs with a broker dealer, though there is some chance that a broker dealer might be confused at the outset of discussions. If a financial advisor leaves one broker dealer for another, it is expected within the industry that the investor will follow the advisor.

Accordingly, in this industry, the salesperson is as much the broker dealer's target market as the investor (indeed, perhaps more so), and the risk of confusion of the advisor is slight.

Lincoln's primary consumer target consists of affluent people with the wherewithal to purchase financial services, but less affluent people have invested with Lincoln as well. One would expect that individuals and businesses seeking to invest their money would have a higher sophistication level and would exercise greater care in selecting a service. *See* Rust Env't & Infrastructure, Inc. v. Teunissen, 131 F.3d 1210, 1217 (7th Cir. 1997) (noting that confusion is less likely where consumers are sophisticated and deliberative buyers). "The more widely accessible and inexpensive the products and services, the more likely that consumers will exercise a lesser degree of care and discrimination in their purchases." Best Vacuum, Inc. v. Ian Design, Inc., 2005 WL 1185817, *10 (N.D. Ill. Jan. 18, 2005) (*citing* CAE, Inc. v. Clean Air Eng'g, Inc., 267 F.3d 660, 683 (7th Cir. 2001)). Because the consumers in question are wealthier individuals and businesses seeking to invest their savings, they will exercise more care in picking an investment service. This factor tends to favor SagePoint Financial.

5

A trademark's strength refers to the mark's distinctiveness -- its propensity to identify the products or services sold as emanating from a particular source. *See* Eli Lilly & Co. v. Natural Answers, Inc., 233 F.3d 456, 454 (7th Cir. 2000); Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d at 959. Lincoln contends that its "Sagemark Consulting" mark is strong because it has been used nationwide for more than ten years to sell millions of dollars of financial services.

SagePoint Financial contends that the "Sagemark Consulting" mark is weak because third-party use of the term "sage" in marks and names for financial services is rampant. Because of its association with concepts of wisdom and learning, "sage" seems to be a popular word from which to assemble a name for use within the financial services market. The FINRA website lists seven FINRA members whose names start with the term "sage." Some (though not all) are broker dealers, and some (though not all) are licensed to do business in Indiana, where Lincoln is based. Seven registered U.S. Trademarks include names including "sage" for use in the financial services industry; a total of 270 trademarks including "sage" are federally registered. Six more have state-registered trademarks. The Business Name section of the CT Corsearch search report discloses twenty business that combine "sage" and "financial." An Internet search discloses twenty websites that combine "sage" and "financial." The SEC's website lists 33 U.S. companies as registered with the SEC and/or the states. Several of those names combine "sage" with other words and are approximately the same length as "SagePoint" with the same number of syllables.

Lincoln minimizes the significance of those other entities because they are not direct competitors -- none are listed among the nation's largest broker dealers like Lincoln and SagePoint Financial. The court doesn't share that view. To the extent any of these other "sage"-styled entities provide financial services in a limited region -- and several do -- they compete with Lincoln and its "Sagemark Consulting" brand in that limited region.

SagePoint Financial also argues that the "Sagemark Consulting" mark is weak because it isn't well known in the financial services industry, noting that Lincoln's website makes minor use of the mark in its own advertising. Research Magazine, a publication considered reliable in industry, said in a February 2009 article -- after this controversy arose -- that Lincoln Financial is best known for its fee-based financial model, Sagemark Consulting. Apart from that evidence of dubious weight, Lincoln hasn't presented direct evidence that financial advisors or end consumers recognize, or are familiar with, the "Sagemark Consulting" mark. Lincoln hasn't provided any survey evidence or shown how prevalently its mark is used in the relevant market. *See* Platinum Home Mortgage Corp. v. Platinum Fin. Group, Inc., 149 F.3d at 728-729. When this suit was filed, SagePoint Financial's CEO didn't know what Sagemark Consulting was and didn't consider Sagemark Consulting to be a competitor.

Lincoln hasn't shown that its mark is strong and entitled to broad protection. Knaack Mfg. Co. v. Rally Accessories, Inc., 955 F. Supp. 991, 1001-1002 (N.D. Ill. 1997) (holding that general statements by the plaintiff's executives that its mark had been used for 25 years and had spent millions of dollars in advertising was insufficient to show that the mark had gained brand recognition among consumers). This factor weighs against granting an injunction.

6

The record contains little evidence of actual consumer confusion, but Lincoln can't reasonably be expected to tender such evidence at this stage since SagePoint Financial changed its name only weeks ago. *See* Eli Lilly & Co. v. Natural Answers, Inc., 233 F.3d at 464. Lincoln claims that a business school putting on a financial planning career fair confused Sagemark Consulting for "Sagemark Financial," and at least one person asked whether Lincoln purchased the AIGFA business from AIG.

Shortly after SagePoint Financial announced its new name, the president of a third-party recruiting firm mentioned to a Lincoln that the new name was similar to Lincoln's mark, and asked if Lincoln were buying AIGFA. That person denies that his questions were related or borne of confusion. During the week of the preliminary injunction hearing, a wholesaler of a third-party money management firm that Sagemark Consulting uses asked a Sagemark Consulting representative whether Lincoln bought AIGFA. Lincoln could be harmed if investment advisors come to believe Lincoln is acquiring the former AIG business because such a perception would harm its efforts to recruit investment advisors who worked for AIGFA, and who now work for SagePoint Financial. Such "recruitment" of a competitor's financial advisors apparently is part of what is done in the parties' business.

SagePoint Financial disputes the significance of this evidence, arguing that evidence of actual confusion must show actual confusion among relevant consumers. *See* Packman v. Chicago Tribune Co., 267 F.3d at 645. SagePoint Financial says that a personnel recruiter at a career fair isn't a relevant consumer, and there was no indication that the confusion was between "Sagemark Consulting" and "SagePoint Financial." SagePoint Financial points out that Lincoln hasn't submitted survey evidence showing that consumers are likely to be confused in the marketplace. Even though the absence of survey evidence isn't fatal to a plaintiff's request for a preliminary injunction, Int'l Kennel Club of Chicago, Inc. v. Mighty Star, Inc., 846 F.2d at 1086, Lincoln's evidence doesn't appear to be probative to the issue of actual confusion. As such, this element doesn't weigh in favor of issuing an injunction and is neutral.

7

"[I]n the trademark infringement context, 'intent' refers to the intent to confuse customers, not merely the intent to use a mark that is already in use somewhere else." Meridian Mut. Ins. Co. v. Meridian Ins. Group, Inc., 128 F.3d at 1120. Essentially, "'passing off' means fraud; it means trying to get sales from a competitor by making consumers think that they are dealing with that competitor, when actually they are buying from the passer off." AM Gen. Corp. v. DaimlerChrysler Corp., 311 F.3d at 829 (*citing* Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc., 781 F.2d 604, 610 (7th Cir. 1986)). While evidence of intent weighs heavily in favor of a finding of likelihood of confusion, the absence of evidence of intent doesn't prevent a finding that confusion is likely. *See* Promatek Indus., Ltd. v. Equitrac, Corp., 300 F.3d at 812.

Lincoln says intent should be inferred here because the defendant, as a direct competitor, was well aware of the "Sagemark Consulting" mark and could have chosen any number of dissimilar marks to avoid confusion but didn't. Lincoln thus argues that the defendant violated its duty to select a name far enough removed from its mark to avoid confusion. Lincoln hasn't provided direct evidence that SagePoint Financial actually knew of Sagemark Consulting or that it intended to do anything other than to change its name.

SagePoint Financial notes that Lincoln's own stock dropped in value by about 70 percent from September 1 to February 1, and argues that, had it intended to leech the goodwill of an existing mark, it wouldn't have targeted Lincoln (though SageMark Financial doesn't identify any financial services firm that was much more successful during that stretch). More persuasively, SagePoint Financial presented evidence that it took care and caution in selecting a new name by hiring a name consultant and engaging in a three-month process to select a non-objectionable name.

The news reports on September 15, 2008 that the parent company, AIG, was seeking a $ 40 billion loan from the Fed constituted negative publicity for AIGFA, and the bad news kept coming. Some financial advisors feared for their lives. A name change was suggested, and proposals were solicited. Monigle Associates Inc. of Denver, Colorado was selected. The name change process lasted three months from start to finish. Monigle started with a list of 500 names. SagePoint wasn't the first name Monigle suggested; AIG or counsel rejected other names. When SagePoint emerged as one of the names under consideration, AIGFA had a search conducted of the largest and most widely read industry periodicals and found no advertisements for Sagemark Consulting. [1] Monigle said SagePoint was a clean, safe name, and after additional research by at least two other consultants (including attorneys), AIGFA didn't think SagePoint would cause confusion with any third-party name. A trademark application for "SagePoint" (though not "SagePoint Financial") was submitted. Still, SagePoint Financial received communication on January 7 from Lincoln not to use the name, and SagePoint Financial hadn't completed its implementation of the name by that date. Indeed, SagePoint Financial's building still had AIGFA signage at the time of the preliminary injunction hearing.

1 AIGFA advertised in a variety of print trade publications, online publications, and trade publication websites for financial advisors. AIGFA also engaged in direct mail advertising targeting licensed financial advisors. SagePoint Financial expects to continue those practices.

AIGFA obtained Financial Industry Regulatory Authority, or FINRA, approval for the name change on December 24, filed the name change in Delaware on December 31, and caused similar filings to be made with the Securities Exchange Commission and in the remaining forty-nine states, Washington D.C., Puerto Rico, and the U.S. Virgin Islands. The total cost of the name change far exceeds $ 500,000. Financial advisors associated with SagePoint Financial are required to include the name of their broker-dealer in every communication with the public, so they have obtained new stationery and business cards.

This selection process tends to show that SagePoint Financial acted reasonably and without bad faith in adopting its mark. *See* Michael Caruso and Co., Inc. v. Estefan Enters., Inc., 994 F. Supp. 1454, 1462 (S.D. Fla. 1998) (holding that there was no evidence of bad faith where the defendants showed that they consulted legal counsel, researched potential names for prior users, and chose a name that they believed didn't infringe upon anyone's mark, including the plaintiff's). This factor weighs in favor of the defendant.

Based on the foregoing analysis, Lincoln's likelihood of success in establishing a likelihood of confusion, while better than negligible, is not very strong.

C

Lincoln must show that it has no adequate remedy at law and will suffer irreparable harm without the injunction. "An injury is irreparable for purposes of granting preliminary injunctive relief only if it cannot be remedied through a monetary award after trial." E. St. Louis Laborers' Local 100 v. Bellon Wrecking & Salvage Co., 414 F.3d 700, 703 (7th Cir. 2005). "To demonstrate irreparable injury, [Lincoln] must show that [it] will suffer harm that cannot be prevented or fully rectified by the final judgment after trial." Anderson v. U.S.F. Logistics (IMC), Inc., 274 F.3d 470, 478 (7th Cir. 2001). "A plaintiff may suffer irreparable harm if the nature of the loss makes monetary damages difficult to calculate." E. St. Louis Laborers' Local 100 v. Bellon Wrecking & Salvage Co., 414 F.3d at 705.

"Dilution of a trademark is 'remarkably difficult to convert into damages.'" Kraft Foods Holdings, Inc. v. Helm, 205 F. Supp. 2d 942, 950 (N.D. Ill. 2002) (*citing* Hyatt Corp. v. Hyatt Legal Servs., 736 F.2d 1153, 1158 (7th Cir. 1984)). This is because courts find it "impossible to ascertain the precise economic consequences of intangible harms, such as damage to reputation and loss of goodwill, caused by such violations." Abbott Labs. v. Mead Johnson & Co., 971 F.2d 6, 16 (7th Cir. 1992); *see also* Promatek Indus., Ltd. v. Equitrac Corp., 300 F.3d at 813 ("It is well settled that injuries arising from Lanham Act violations are presumed to be irreparable, even if the plaintiff fails to demonstrate a business loss.").

Lincoln says the harm it will suffer should SagePoint Financial continue is irreparable injury to its goodwill and reputation. Lincoln says it faces harm to its business due to unfair competition as well as risks to its good name by virtue of its inability to control the quality of SagePoint Financial's services and from any perceived connection between Lincoln and the negative press attributed to AIG. Assessing damages from loss of goodwill is difficult at best. Lincoln has shown that it will suffer at least some irreparable harm, though that harm is discounted in the next step in the analysis by Lincoln's modest chance of success on the merits of its Lanham Act claim.

D

Deciding whether the balance of harms weighs more heavily in favor of Lincoln or SagePoint Financial involves a sliding scale approach in which "the more likely it is the plaintiff will succeed on the merits, the less the balance of irreparable harms need weigh towards its side; the less likely it is the plaintiff will succeed, the more the balance need weigh toward its side." Ram Prods., Inc. v. Chauncey, 967 F. Supp. 1071, 1085 (N.D. Ind. 1997); *see also* Ty, Inc. v. Jones Group, Inc., 237 F.3d at 895.

Lincoln hasn't presented evidence to show that it's actually losing business to SagePoint Financial. Lincoln maintains that the balance of hardships weighs in its favor because the potential injury to its goodwill and reputation outweighs any harm SagePoint Financial might suffer in changing its name again. Lincoln believes that granting a preliminary injunction at this early stage wouldn't affect SagePoint Financial's business volume and any harm suffered would be self-inflicted by the choice of a name similar to Lincoln's mark.

SagePoint Financial claims that an injunction would have a "devastating impact" on it. SagePoint Financial estimates that another name change would damage its credibility and reputation and already has spent over $ 570,000 in the name selection and roll-out process. AIGFA lost more than 300 advisers (who had generated more than $ 38 million in revenue the previous year) from September 15 to January 15. SagePoint Financial's CEO believes that were SagePoint Financial required to change its name again, the company would lose at least that many, costing SagePoint Financial more than $ 30 million.

Lincoln doesn't ask that SagePoint Financial be shut down or forced out of business -- only that it stop using the "SagePoint Financial" name. Without the injunction, SagePoint Financial might continue to attract consumers that otherwise would purchase services from Lincoln, thereby acquiring goodwill that belongs to Lincoln. On the other hand, the potential harm to SagePoint Financial -- both from the substantial costs of a re-launch campaign and the unmeasurable harm that a failed attempt at a name change would bring to a business already shadowed by its AIG past -- favors denying injunctive relief at least to the same extent. *See e.g.*, AM Gen. Corp. v. DaimlerChrysler Corp., 311 F.3d at 832-834.

At some point the court must address an aspect of the case that it cannot weigh, though only a recluse would know nothing of it. As bad as AIG's news coverage was before the preliminary injunction hearing, it has been exponentially worse since. News broke of AIG paying large sums to present employees as retention bonuses, including some who created the credit default swaps from which the government tried to rescue AIG in the first place. Whatever irreparable harm arose from association with AIG at the time of the hearing probably is much greater now [2] -- though the court has no evidence on which to base such an evaluation. Since both sides claim irreparable harm from association (incorrect in Lincoln's case, correct but perhaps escapable for the defendant), the court assumes, for today's purposes, that the increased heat threatens both sides equally. The court mentions the topic only to acknowledge that while it has been quite busy with criminal cases since the hearing, its head hasn't been buried in the sand.

2 Indeed, on the March 28 "Wait Wait . . . Don't Tell Me" show on National Public Radio, the host mused that among the names that would be more popular than AIG for the parent company were "The Botulism Company," "International Body Odor," and "O.J. Simpson."

The balance of harms seeks to evaluate which side would suffer most from error in the preliminary injunction ruling -- the harm Lincoln would suffer before it ultimately wins its case without a preliminary injunction against the harm SagePoint Financial would suffer if it is forced to change its name again but ultimately is found not to have infringed Lincoln's mark. AM Gen. Corp. v. DaimlerChrysler Corp., 311 F.3d at 831. The harm caused by an erroneous ruling would fall far more harshly on SagePoint Financial, whose goodwill would be damaged immediately and could not be repaired by ultimate victory in the suit. The corresponding harm to Lincoln is considerably less certain, and its chance of ultimate success appears, at this point, to be modest at best. The balance of harms favors denial of the preliminary injunction.

E

"The final factor to be considered in conjunction with a preliminary injunction is the public interest, which is the effect that granting or denying the injunction will have on nonparties." Meridian Mut. Ins. Co. v. Meridian Ins. Group, Inc., 128 F.3d at 1121. Although injunctions preventing violations of the Lanham Act are in the public interest, *see* Promatek Indus., Ltd. v. Equitrac Corp., 300 F.3d at 813-814; Meridian Mut. Ins. Co. v. Meridian Ins. Group, Inc., 128 F.3d at 1121, Lincoln hasn't shown that the public is familiar with its mark or that consumers need protection from any alleged likelihood of confusion. Injunctive relief in Lanham Act cases generally serves the public interest by eliminating consumer confusion in the marketplace, but Lincoln hasn't shown a likelihood of confusion. On the other hand, the record doesn't demonstrate that a limited injunction would adversely affect the public interest in this case, rather than simply maintain the status quo. Accordingly, this factor is not of great import in this dispute.

III

For the foregoing reasons, the court concludes that given Lincoln's modest likelihood of success on the merits of claim, the speculative nature of the irreparable harm Lincoln would suffer were a justifiable preliminary injunction denied, and the extensive irreparable harm SagePoint Financial would suffer were a preliminary injunction erroneously entered, the court DENIES Lincoln's motion for preliminary injunction (Doc. No. 6).

SO ORDERED.

ENTERED: April 2, 2009

/s/ Robert L. Miller, Jr.

Chief Judge
United States District Court

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AIMIS ART CORP., Plaintiff, - against –
NORTHERN TRUST SECS., INC. et al., Defendants.

08 Civ. 8057 (VM)

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

2009 U.S. Dist. LEXIS 68712

August 6, 2009, Decided
August 6, 2009, Filed

CORE TERMS: auction, par value, benefit-of-the-bargain, Exchange Act, recoverable, broker-dealer, class action, class members, factual allegations, suffered damages, leave to replead, fraudulent, purported, rescinded, out-of-pocket, speculative, restitution, repurchase, rescission, rescinding, dividend, bargain, purport, clearing, bids, securities market, securities fraud, corporate debt, preferred stocks, reasonable inference

COUNSEL: For Aimis Art Corporation, and all others Similarly Situated, Lead Plaintiff: Jeffrey Philip Campisi, Linda P. Nussbaum, Melinda D. Rodon, Robert N. Kaplan, LEAD ATTORNEYS, Kaplan Fox & Kilsheimer LLP (NYC), New York, NY; Matthew L. Dameron, Norman E. Siegel, LEAD ATTORNEYS, PRO HAC VICE, Stueve Siegel Hanson, L.L.P., Kansas City, MO.

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JUDGES: VICTOR MARRERO, United States District Judge.

OPINION BY: VICTOR MARRERO

OPINION

DECISION AND ORDER

VICTOR MARRERO, United States District Judge.

Plaintiff Aimis Art Corporation ("Aimis") brought this putative class action regarding the purchase of auction rate securities. [1] Aimis alleges violations of ß 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. ß 78j(b) ("ß 10(b)"); Securities and Exchange Commission ("SEC") Rule 10b-5 promulgated thereunder, 17 C.F.R. ß 240.10b-5 ("Rule 10b-5"); and ß 20(a) of the Exchange Act, 15 U.S.C. ß 78t(a) ("ß 20(a)"). The amended complaint, dated January 5, 2009 ("Amended Complaint"), names as defendants Northern Trust Securities, Inc., Northern Trust Corporation, and Northern Trust Company (collectively, "Defendants").

1 The term "auction rate securities" as used in this Decision and Order is defined below in the Court's discussion of the factual allegations.

Defendants have moved to dismiss the Amended Complaint pursuant to Federal Rule of Civil Procedure 12(b)(6) ("Rule 12(b) (6)") . For the reasons stated below, the motion to dismiss is GRANTED in its entirety.

I. *BACKGROUND* [2]

2 The facts below are taken from the Amended Complaint, which the Court accepts as true for the purpose of ruling on a motion to dismiss. *See Spool v. World Child Int' l Adoption Agency*, 520 F.3d 178, 180 (2d Cir. 2008) (*citing GICC Capital Corp. v. Technology Fin. Group, Inc*., 67 F.3d 463, 465 (2d Cir. 1995)). Except where specifically quoted, no further reference to this document will be made.

A. *PARTIES*

Defendant Northern Trust Corporation is a financial holding company that provides, among other things, investment management solutions for its clients. Defendant Northern Trust Securities, Inc. is registered with the SEC as a broker-dealer, pursuant to ß 15(b) of the Exchange Act. Defendant Northern Trust Company is a banking corporation, and the primary subsidiary of Northern Trust Corporation.

Lead plaintiff Aimis purchased auction rate securities through Defendants in August 2007.

B. *FACTUAL ALLEGATIONS*

1. *Auction Rate Securities*

The Amended Complaint describes auction rate securities as "either municipal or corporate debt securities or preferred stocks that are long term or perpetual-variable-rate securities and which pay interest at rates set at periodic 'auctions.'" (Amended Complaint P 15.) The Amended Complaint alleges that auctions for such securities began to fail in the second half of 2007 and that 87% of those auctions failed on February 13, 2008, when "it was disclosed that auction rate securities were very risky investments and were not equivalent to cash." (*Id*. P 31.) The Amended Complaint's description of the auction process presumably reflects the auction process before those auctions began to fail regularly.

According to the Amended Complaint, auction rate securities are sold at par value, and the return on such investments is determined by the interest rate or dividend yield set at auction. Auctions are generally held every seven, twenty-eight, or thirty-five days, and interest or the yield is paid at the end of the auction period. Such auctions are generally "Dutch" auctions, in which buyers specify the number of shares they want and the lowest interest rate or yield that they would be willing to accept. The lowest rate or yield at which all of the securities can be sold is set as the "clearing rate," and the securities are then sold at par value. Purchasers receive interest or a yield on the securities at the clearing rate, as established by the auction. If there are more bids at the clearing rate than available shares, shares are divided pro-rata among those bidders.

If there are not enough bids to cover all of the securities being offered at an auction, the auction fails and no securities can be sold at that auction. Current shareholders would then receive the "maximum rate" as the return on their investment. The maximum rate is set at a relatively low level for many corporate debt securities and preferred stocks.

Issuers of auction rate securities retain one or more broker-dealers to underwrite the offerings and conduct the auction. Investors submit orders through a broker-dealer by a deadline set by the broker-dealer. The broker-dealer can also place bids for its own account before submitting the orders to an auction agent.

2. *Aimis's Purchase of Auction Rate Securities*

In August 2007, Defendants advised the president of Aimis to invest in auction rate securities. Defendants allegedly represented that auction rate securities were, in effect, "as good as cash and could be received in a matter of days." (*Id*. P 29.) Aimis then invested $ 1.15 million in two funds containing auction rate securities. [3]

> 3 The Amended Complaint alleges that Defendants had "a significant financial incentive to sell auction rate securities" issued by Nuveen Investments, Inc. ("Nuveen"), because Defendants received substantial commissions for doing so and because Defendants and Nuveen have "an extremely close relationship." (Amended Complaint P 23.) Allegations regarding Defendants' motive for selling auction rate securities issued by Nuveen have no bearing on whether Aimis has adequately alleged that Defendants made fraudulent or misleading statements in connection with the sale of auction rate securities; nor do such allegations affect whether Aimis has alleged recoverable damages. The Court will not consider these allegations in its analysis.

3. *Failure of Auction Rate Securities Auctions*

The Amended Complaint alleges that auctions of auction rate securities began to fail in July 2007. On February 13, 2008, 87% of the auctions of auction rate securities taking place on that date failed and "the market for auction rate securities collapsed, leaving holders of auction rate securities . . . with no means of liquidating the investments." (*Id*. P 6.) Up until that point, Aimis was ostensibly earning returns on its auction rate securities as set by the auctions held between August 2007 and February 13, 2008. After the February 13, 2008 collapse of the auction rate securities market, Aimis was told by Defendants that the money invested in the two auction rate securities funds was not available.

4. *Repurchase of Auction Rate Securities*

Aimis filed the initial complaint in this action on September 17, 2008. On September 29, 2008, Defendants announced a program through which they would repurchase "certain illiquid auction rate securities." (*Id*. P 37, *quoting* Defendants' press release, dated September 29, 2008.) In December 2008, Aimis received the par value of its August 2007 investment in auction rate securities.

C. *PROCEDURAL HISTORY*

Aimis originally filed this purported class action on September 17, 2008. By Order dated December 19, 2008, the Court appointed Aimis as lead plaintiff. Aimis filed the Amended Complaint on January 5, 2009, claiming that Defendants violated ß 10(b) and Rule 10b-5 by failing "to disclose the risks inherent in the auction rate securities market, including the risk that auctions could fail." (*Id*. P 27.) Aimis alleges that Defendants told investors, in effect, that auction rate securities "were the same as cash and were highly-liquid, safe investments for short-term investing." (*Id*. P 24.) The Amended Complaint further alleges that Northern Trust Corporation violated ß 20(a) because it was a control person of Northern Trust Securities, Inc. and Northern Trust Company. The Amended Complaint states that Aimis "brings this action as a class action ... on behalf of a Class, consisting of all persons and entities who purchased auction rate securities from or through [Defendants] between September 16, 2004 and February 13, 2008, inclusive, and continued to hold such accounts and auction rate securities as of February 13, 2008." (*Id*. P 43.)

Defendants now move to dismiss the Amended Complaint pursuant to Rule 12(b)(6).

II. *LEGAL STANDARD*

A. *MOTION TO DISMISS*

"To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to 'state a claim to relief that is plausible on its face.'" *Ashcroft v. Iqbal*, 556 U.S. ---, 129 S. Ct. 1937, 1949 (2009) (*quoting Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007)) . This standard is met "when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Id*. A court should not dismiss a complaint for failure to state a claim if the factual allegations sufficiently "raise a right to relief above the speculative level." *Twombly*, 550 U.S. at 555. The court must accept all well-pleaded factual allegations in the complaint as true, and draw all reasonable inferences in the plaintiff's favor. *See Chambers v. Time Warner, Inc*., 282 F.3d 147, 152 (2d Cir. 2002).

B. *CLAIM UNDER ß 10(b) AND RULE 10b-5*

To adequately state a cause of action for securities fraud under ß 10(b) and Rule 10b-5, a plaintiff must assert facts showing that "the defendant made a false statement or omitted a material fact, with scienter, and that plaintiff's reliance on defendant's action caused plaintiff injury." *Kalnit v. Eichler*, 264 F.3d 131, 138 (2d Cir. 2001) (*quoting San Leandro Emergency Med. Group Profit Sharing Plan v. Philip Morris Cos*., 75 F.3d 801, 808 (2d Cir. 1996)). Securities fraud actions are also subject to the heightened pleading requirements of the Private Securities Litigation Reform Act of 1995, Pub. L. No. 104-67, 109 Stat. 737, as well as those of Federal Rule of Civil Procedure 9(b) . *See id. ; Novak v. Kasaks*, 216 F.3d 300, 306 (2d Cir. 2000).

A plaintiff in a securities fraud action must also allege recoverable damages. As another court in this District recently noted in a case involving auction rate securities, ß 28(a) of the Exchange Act limits recovery under ß 10(b), and by extension, under Rule 10b-5, to "actual damages," but does not specify how such damages are to be calculated. *See In re UBS Auction Rate Sees. Liticr*.. No. 08 CV 2967, 2009 WL 860812, at *3 (S.D.N.Y. Mar. 30, 2009). The *UBS* Court observed that courts in ß 10(b) actions "have fashioned relief using various measures, including out-of-pocket and benefit-of-the-bargain damages and rescission." *Id*. at *4. The court further noted that "appropriate grounds for damages in ß 10(b) actions are not limitless, and courts have required plaintiffs to choose between rescinding a transaction and being paid restitution on the one hand and holding the defrauder to the bargain and recovering out-of-pocket losses resulting from the fraudulent transaction on the other hand." *Id*.

In the *UBS* case, the plaintiffs had already taken advantage of an offer by the defendant to repurchase the auction rate securities in question at par value, thereby receiving "a full refund of the purchase price." *Id*. at *5. The court found that plaintiffs were precluded from any further recovery for their claims regarding the purchase of auction rate securities because they had already elected a rescission remedy and were not allowed to "seek additional interest or dividends as benefits of [auction rate securities] purchases they have already elected to disavow." *Id*. at *6.

C. *SECTION 2 0(A) LIABILITY*

Liability for a violation of ß 20(a) is "necessarily predicated on a primary violation of securities law." *Rombach v. Chang*, 355 F.3d 164, 177-78 (2d Cir. 2004); *SEC v. First Jersey Sec., Inc.*, 101 F.3d 1450, 1472 (2d Cir. 1996) (hereinafter "*First Jersey*"). Section 20(a) imposes liability upon "[e]very person who, directly or indirectly, controls any person liable under any provision of this chapter or of any rule or regulation thereunder . . . unless the controlling person acted in good faith and did not directly or indirectly induce the act or acts constituting the violation or cause of action." 15 U.S.C. ß 78t. To establish a prima facie case, a plaintiff must show "a primary violation by the controlled person and control of the primary violator by the targeted defendant," and that "the controlling person was in some meaningful sense a culpable participant in the fraud perpetrated." *First Jersey*, 101 F.3d at 1472.

III. *DISCUSSION*

On this motion to dismiss, Defendants argue that: (1) Aimis fails to allege recoverable damages; (2) Aimis fails to plead loss causation; (3) Aimis fails to plead that the purported misrepresentations were false when made; (4) Aimis fails to plead facts supporting a strong inference of scienter; and (5) Aimis fails to plead a ß 20(a) claim. The Court finds that Aimis has not alleged recoverable damages, and the Amended Complaint must be dismissed. The Court will therefore not address Defendants' other arguments.

A. *AIMIS'S DAMAGES ARE NOT RECOVERABLE UNDER ß 10(B) AND RULE 10B-5*

The Amended Complaint alleges damages from "the reduced interest earned on the auction rate securities, which would have been higher had the securities not been sold under false pretenses." (Amended Complaint P 39.) Aimis in particular also allegedly suffered damages from the "lack of use of [its] auction rate funds," as well as its inability to "purchase art at auction during the period of time February-December 2008 that its auction rate securities were illiquid." (*Id*. P 40.)

The Amended Complaint does not apply a specific label to the alleged damages, but the claim that Aimis and members of the class should be compensated for the "reduced interested earned on the auction rate securities, which would have been higher had the securities not been sold under false pretenses" appears to be a claim for benefit-of-the-bargain damages. *See UBS*, 2009 WL 860812, at *5 (claim that fraudulent acts "prevented Plaintiffs from receiving a sufficiently high rate of interest or dividends to compensate them for the risk of illiquidity associated with their [auction rate securities] investments" was premised on benefit-of-the-bargain measure of damages). "The aim of benefit-of-the-bargain damages is to put an injured plaintiff in the position he would have been in had his expectancy ensued." *Id*. (internal quotations marks and citation omitted).

Aimis's claims under ß 10(b) and Rule 10b-5 must fail because Aimis has already received compensation for losses suffered as a result of the alleged misstatements or omissions. As the court explained in *UBS*, a plaintiff in a ß 10(b) and Rule 10b-5 action must "choose between rescinding a transaction and being paid restitution on the one hand and holding the defrauder to the bargain and recovering out-of-pocket losses resulting from the fraudulent transaction on the other hand." *Id*. at *4. "Rescission and restitution are *alternatives* to money damages; a plaintiff cannot both rescind a transaction and ask for the benefit of the bargain rescinded." *Id*. at *5 (*quoting Kauffmann v. Yoskowitz*, No. 85 Civ. 8414, 1989 WL 79364, at *8 (S.D.N.Y. July 13, 1989) (*quoting Quintel Corp., N.V. v. Citibank, N.A.*, 596 F. Supp. 797, 803 (S.D.N.Y. 1984))) (emphasis in original). Aimis received the par value of its investment in the auction rate securities funds in December 2008, effectively rescinding the transaction. Aimis therefore cannot receive any further recovery from the transaction. [4]

> 4 Defendants argue that the Second Circuit has explicitly forbidden the use of benefit-of-the-bargain damages in ß 10(b) actions, citing *Gordon Partners v. Blumenthal*, 293 Fed. Appx. 815, 817-18 (2d Cir. 2008), and *Gurary v. Winehouse*, 235 F.3d 792, 799 (2d Cir. 2000), upon which *Gordon Partners* relies. *Gurary* relies in turn upon language in *McMahan & Co. v. Wherehouse Entm't, Inc*., 65 F.3d 1044 (2d Cir. 1995) . The language in *McMahan* that *Gurary* cites was from *Levine v. Seilon, Inc*., 439 F.2d 328, 334 (2d Cir. 1971), and that language was described by the *McMahan* court as dicta; the *McMahan* court actually "affirm[ed] so much of the district court's order as allows plaintiffs to recover benefit-of-the-bargain damages under section 10 of the 1934 Act." 65 F.3d at 1045. Notwithstanding the apparent confusion in the case law regarding the availability of benefit-of-the-bargain damages in an action under ß 10(b) and Rule 10b-5, the Court finds that Aimis cannot recover anything beyond what it already received when it effectively rescinded its purchase of the auction rate securities investments.

The claim based on damages allegedly caused by Aimis's inability to purchase art from February 2008 to December 2008 fails for the same reasons. However, this claim also fails because a plaintiff in an action under ß 10(b) and Rule 10b-5 "cannot recover for 'damages' based on hypothetical investments he did not make." *In re Merrill Lynch Inv. Mgmt. Funds Sees. Litia.*. 434 F. Supp. 2d 233, 238 (S.D.N.Y. 2006) (*citing Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723 (1975)) . Section 28(a) of the Exchange Act provides that "no person permitted to maintain a suit for damages under the provisions of this chapter shall recover ... a total amount in excess of his actual damages on account of the act complained of." 15 U.S.C. ß 78bb. This provision prevents courts from awarding "speculative recoveries." *Panos v. Island Gem Enters., Ltd., N.V.*, 880 F. Supp. 169, 175 (S.D.N.Y. 1995). Aimis's contention that it suffered damages when it could not use its funds to purchase unspecified works of art from February 2008 to December 2008 is precisely the kind of speculative claim for damages that the Exchange Act does not permit. Aimis's ß 10(b) and Rule 10b-5 claim is therefore dismissed.

B. *SECTION 20(a) CLAIM FAILS*

To the extent that Aimis has failed to sufficiently allege a predicate violation of ß 10(b), the control person claim under ß 20(a) also fails. *See Rombach*, 355 F.3d at 177-78; *First Jersey*. 101 F. 3d at 1472; *Elliott Assocs., L.P. v. Hayes*, 141 F. Supp. 2d 344, 360-61 (S.D.N.Y. 2000).

C. *LACK OF STANDING TO RAISE OTHER CLASS MEMBERS' CLAIMS*

Aimis purports to represent a class "consisting of all persons and entities who purchased auction rate securities from or through [Defendants] between September 16, 2004 and February 13, 2008, inclusive, and continued to hold such accounts and auction rate securities as of February 13, 2008." (Amended Complaint P 43.) At least some of the purported class members ostensibly did not redeem their shares of auction rate securities investments at par value, and thus still hold those securities. (*See* Lead Plaintiff's Memorandum in Opposition to Defendants' Motion to Dismiss Amended Complaint, dated March 9, 2009, at 8 n.6 ("Defendants do not even acknowledge that the alleged class includes current or former Northern Trust customers who were sold [auction rate securities] by Northern Trust, but who were not offered a buy-back and who continue to hold [auction rate securities] purchased for them by Northern Trust.").)

Named class plaintiffs must "allege and show that they personally have been injured, not that injury has been suffered by other, unidentified members of the class to which they belong and which they purport to represent." *Central States Se. & Sw. Areas Health & Welfare Fund v. Merck-Medco Managed Care, LLC*, 433 F.3d 181, 199 (2d Cir. 2005) (*quoting Warth v. Seldin*, 422 U.S. 490, 502 (1975)). Named or lead class action plaintiffs who purport to represent a class must "demonstrate the requisite case or controversy between themselves personally and [defendants]." *Warth*, 422 U.S. at 502.

Aimis has not suffered damages that are recoverable in a ß 10(b) and Rule 10b-5 action because it has already rescinded its purchase of auction rate securities and is entitled to no further recovery. Aimis therefore lacks standing to bring the claims of other members of the purported class who have not rescinded their auction rate securities transactions by redeeming those investments at par value. The motion to dismiss is therefore granted as to Aimis's claims raised on behalf of the remaining class members.

D. *NO LEAVE TO REPLEAD*

Aimis seeks leave to replead its complaint. A court "should freely give leave" to replead "when justice so requires." Fed. R. Civ. P. 15(a) (2). However, "it is within the sound discretion of the district court to grant or deny leave to amend. A district court has discretion to deny leave for good reason, including futility, bad faith, undue delay, or undue prejudice to the opposing party." *McCarthy v. Dun & Bradstreet Corp*., 482 F.3d 184, 200 (2d Cir. 2007) (internal citations omitted).

As discussed above, Aimis cannot plead damages that are recoverable under ß 10(b) and Rule 10b-5, and Aimis lacks standing to bring claims on behalf of class members who supposedly have suffered damages different from those claimed by Aimis. The Court finds that a repleading by Aimis would be futile, and denies Aimis's request for leave to replead.

IV. *ORDER*

For the reasons discussed above, it is hereby

ORDERED that the motion (Docket No. 24) of defendants Northern Trust Securities, Inc, Northern Trust Corporation, and Northern Trust Company, to dismiss the amended complaint is GRANTED, and the amended complaint is dismissed with prejudice.

The Clerk of the Court is directed to withdraw any pending motions and to close this case.

SO ORDERED:

Dated: New York, New York

6 August 2009

/s/ Victor Marrero

VICTOR MARRERO

U.S.D.J.

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RICHARD A. GANIM, JR., Plaintiff-Appellant, v. COLUMBIA CASUALTY COMPANY, Defendant-Appellee.

No. 08-3945

UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

09a0260p.06; 2009 U.S. App. LEXIS 16174; 2009 FED App. 0260P (6th Cir.)

June 9, 2009, Argued
July 23, 2009, Decided
July 23, 2009, Filed

PRIOR HISTORY:
Appeal from the United States District Court for the Northern District of Ohio at Cleveland. No. 07-01497--Patricia A. Gaughan, District Judge.

CORE TERMS: coverage, arbitration, insurer, breached, bad faith, policy's coverage, financial services, registered, scope of coverage, summary judgment, fiduciary duty, unsuitable, customer, retirement, invest, arbitration proceeding, properly refused, investment advice, citation omitted, misrepresentation, convinced, defended, registered representative, duty to defend, investment advisor, obligated to defend, denial letter, endorsement, indemnity, planning

COUNSEL: ARGUED: Michael David Zaverton, WALTER & HAVERFIELD LLP, Cleveland, Ohio, for Appellant.

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Andrew L. Margulis, ROPERS, MAJESKI, KOHN & BENTLEY, New York, New York, for Appellee.

ON BRIEF: Mark S. Fusco, Susan Keating Anderson, WALTER & HAVERFIELD LLP, Cleveland, Ohio, for Appellant.

Andrew L. Margulis, ROPERS, MAJESKI, KOHN & BENTLEY, New York, New York, for Appellee.

JUDGES: Before: MARTIN, RYAN, and SUTTON, Circuit Judges.

OPINION BY: BOYCE F. MARTIN, JR.

OPINION

BOYCE F. MARTIN, JR., Circuit Judge. Richard Ganim contends that Columbia Casualty Company breached its insurance agreement in bad faith by refusing to defend him in an arbitration proceeding before the National Association of Securities Dealers. The district court determined that Columbia properly refused to defend because the allegations against Ganim did not state a claim potentially within the scope of the policy's coverage. *See Ganim v. Columbia Cas. Co.*, 2008 WL 2390776 (N.D. Ohio Jun. 9, 2008). We agree and AFFIRM summary judgment in Columbia's favor.

I.

Richard Ganim began as a Legacy Financial Services registered representative in January 2004. Nine months later, Vincent Santalucia sued Ganim in Ohio state court after a business venture between them soured. Santalucia alleged that Ganim breached his fiduciary duty, committed fraud, professional negligence, disability discrimination, and wrongful discharge by inducing him to invest more than $ 500,000 in the "Carlyle Financial Group." [1] Santalucia further alleged that Ganim advised Santalucia "in all aspects of his financial planning, including stock and mutual funds purchases, IRA investments, retirement planning, etc."

1 Santalucia apparently knew all along that his investment was not in *The* Carlyle Group--a well-known private equity firm--but, rather, in a similarly-named limited liability company where Ganim served as president and operations officer.

Ganim notified Legacy's insurer, Columbia Casualty Company, of Santalucia's lawsuit. By agreement, Columbia was obligated to defend Legacy's registered representatives for negligence in "rendering or failure to render Professional Services." Columbia agreed to defend Ganim, but reserved the right to later disclaim defense and indemnity coverage. It also told Ganim that no coverage would be available for losses resulting from the Carlyle investments, which were not investments approved by Legacy. Columbia defended Ganim and the case was dismissed without prejudice in 2005.

Santalucia then filed an arbitration claim against Ganim and Legacy before the National Association of Securities Dealers. Santalucia asserted claims for unsuitable investment advice, misrepresentation, negligence, and breach of fiduciary duty. His "Statement of Claim" began: "This arbitration addresses the unsuitable and inappropriate solicitation of a customer's retirement savings by his long-term investment advisor to invest in that investment advisor's *own financial services business* with the resultant loss of the customer's--the Claimant's--entire retirement savings; an amount in excess of $ 500,000." (emphasis in original). According to Santalucia, Ganim expressed his "longtime personal dream" to own a "'one stop' financial services business" to Santalucia and then convinced him to "pour money" into the newly-founded "Carlyle Entities," depleting Santalucia's personal investments and leaving him in financial ruin. Santalucia sought to recover the loss in the value of his investment accounts as well as the amount that they would have appreciated if they had been "reasonably and prudently invested."

As with the earlier lawsuit, Ganim submitted the arbitration claim to Columbia. This time, however, Columbia responded by denying defense and indemnity coverage under Part B of the policy. Coverage under Part B was limited to "investment advisory services" and the "sale or attempted sale or servicing of securities . . . approved by" Legacy. Part B excluded claims involving "products or services not approved by [Legacy]" or "any security that is not registered with the Security [sic] and Exchange Commission." Columbia explained that because Santalucia's interest in Carlyle was neither a registered security nor a product approved by Legacy, his claim against Ganim did not trigger Columbia's duty to defend. Columbia's denial letter did not discuss whether defense coverage was available under any other part of the policy.

Ganim then sued Columbia in district court alleging that the insurer: (1) breached its contract by refusing to provide Ganim with an arbitration defense; (2) acted in bad faith by withholding a defense without a reasonable justification; (3) breached its "good faith obligation" by refusing to defend Ganim in the arbitration claim after it had represented him in a "substantially similar" civil adjudicatory proceeding in state court; and (4) breached its good faith obligation by providing coverage to Legacy Financial Services under the "Selling Away Coverage" endorsement instead of under an endorsement with a lower retention. The district court granted Columbia's motion for summary judgment on all Ganim's claims. Ganim appeals.

II.

This Court reviews *de novo* the grant of summary judgment. *Mohnkern v. Prof'l Ins. Co.*, 542 F.3d 157, 160-61 (6th Cir. 2008).

III.

Ganim argues that he presented sufficient evidence to warrant a jury trial on his claim that Columbia breached, in bad faith, its contractual duty to defend him in the arbitration proceeding. The crux of this argument is that Columbia impermissibly looked beyond the allegations in Santalucia's arbitration claim in deciding whether it was obligated to defend Ganim. Ganim contends that, based on Santalucia's allegations, the claim could have potentially fallen within the scope of coverage, thus obligating Columbia to provide Ganim's defense.

Under Ohio law, which the parties agree applies, an insurer's promise to defend allegations that are "groundless, false or fraudulent" imposes "the absolute duty to assume the defense of the action where the underlying tort complaint states a claim which is potentially or arguably within the policy coverage." *Sanderson v. Ohio Edison Co.*, 635 N.E.2d 19, 23 (Ohio 1994); *Willoughby Hills v. Cincinnati Ins. Co.*, 459 N.E.2d 555, 558 (Ohio 1984). And the inverse is also true; Ohio law "does not require a defense where the complaint contains no allegation that states a claim 'potentially or arguably within the policy coverage.'" *Wedge Prods., Inc. v. Hartford Equity Sales Co.*, 509 N.E.2d 74, 76 (Ohio 1987) (internal citation omitted).

Requiring insurers to defend claims that are "potentially" within a policy's coverage acknowledges that, under notice pleading, a complaint may lack detail necessary to "conclusively establish the duty." *Willoughby Hills*, 459 N.E.2d at 557. Relevant facts and details may come to light "at some later stage in the litigation." *Id*. Thus, an insurer's obligation to defend against claims "potentially" within the scope of coverage prevents an insurer from strictly or narrowly construing a complaint's allegations and refusing to defend. *See id*. at 558.

In this case, under Part B of Columbia's policy, coverage was limited to investments that were approved by Legacy and were SEC registered securities. The question is whether Santalucia's allegations stated a claim "potentially" or "arguably" within Columbia's policy. The district court properly concluded that they did not. Columbia was not confronted with bare allegations that some later-discovered fact might have swept within the scope of coverage. Rather, Santalucia's detailed and specific allegations described how Ganim solicited him to invest in Ganim's "own financial services business [Carlyle]" and that "[r]elying upon Ganim's advice, encouragement and pressure, Santalucia continued to pour money into the Carlyle Entities even after his original assets had been depleted." The arbitration claim mentioned no other investments. And, as the district court observed, Ganim admitted in his motion to dismiss that, "All of the losses for which Santalucia is seeking recovery stem from these supposedly recommended investments that he made in the Carlyle Entities during that time period." There was no potential that a later development could have changed the nature of the investment at issue.

Of course, as Ganim points out, it would be nonsense for Columbia's obligations to evaporate solely because Santalucia did not specify whether Carlyle was a registered security or approved by Legacy. After all, Carlyle's registration with the SEC or approval by Legacy may have been irrelevant to the claims Santalucia brought against Ganim. But Columbia's decision to deny coverage did not turn on a mechanical word search of Santalucia's claim for "approved by Legacy" or "securities." As Ganim concedes, at the time Santalucia filed his arbitration claim both Columbia and Ganim knew that the only investment mentioned in the claim--Carlyle--was neither a registered security nor a Legacy-approved product. Accordingly, it was specifically excluded from coverage under the policy and could not "potentially" fall within it.

Nor are we convinced that Columbia should have defended Ganim because Santalucia stated that his claim was based on Ganim's failure to "make only recommendations which are suitable for a customer based on his/her age, experience, risk tolerance and financial objectives." This statement was not tied to a factual basis; it described a cause of action appearing under the heading "Respondents' Liability to Claimant: Unsuitable Investment Advice, Misrepresentation, Negligence and Breach of Fiduciary Duty." Assuming that Ganim's actions amounted to a breach of a fiduciary duty does not change the conclusion that the claim was not covered because it involved an investment excluded by the policy. Columbia therefore properly refused to defend Ganim based on the allegations in Santalucia's claim because they were not "potentially or arguably" within the scope of its coverage. *See Wedge Prods., Inc.*, 509 N.E.2d at 76.

Ganim also argues that Columbia denied his claim in bad faith. An insurer acts in bad faith when its denial of a claim "is not predicated upon circumstances that furnish reasonable justification therefor." *Zoppo v. Homestead Ins. Co.*, 644 N.E.2d 397, 400 (Ohio 1994) (internal citation omitted). Ganim argues that there was no "reasonable justification" for Columbia's decision. But, as we discuss above, Columbia and Ganim knew that Carlyle did not meet the criteria for coverage under Part B of the policy. As the district court properly observed, "[Ganim's] contention that [Columbia's] knowledge in this respect shows that it went beyond the pleadings puts an unreasonable spin on what is required in reviewing a claim." *Ganim*, 2008 WL 2390776 at *9.

Finally, Ganim's objections to the length of Columbia's February 2006 denial letter and its failure to analyze coverage under Part A do not support a bad faith claim. The length of the letter is immaterial. And Ganim does not explain how he would have benefitted from a rejection under Part A, which covered services as a notary, the sale and administration of employee benefit plans, insurance, and annuities--none of which Santalucia alleged in his claim.

IV.

In sum, Columbia had a reasonable justification to deny Ganim a defense because Santalucia's claim did not allege any facts that could potentially bring it within the scope of coverage. The district court properly entered summary judgment in Columbia Casualty Company's favor. We AFFIRM.

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MERITAN, INC. as sponsor of SENIOR SERVICES PENSION PLAN, SENIOR SERVICES PENSION PLAN, and GENERUS STEPPING STONES, INC., Plaintiffs, v. REGIONS BANK d/b/a/ REGIONS MORGAN KEEGAN TRUST, Defendants.

No. 08-2757-STA-dkv

UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF TENNESSEE, WESTERN DIVISION

2009 U.S. Dist. LEXIS 62808

July 16, 2009, Decided
July 16, 2009, Filed

CORE TERMS: punitive damages, fiduciary duties, equitable, jury trial, fiduciary, law claims, compensatory, preempted, beneficiary, common law, remedial, misrepresentation, extracontractual, preempt, Tennessee Securities Act, breach of trust, principal place of business, standard of review, recommendation, sub-prime, mortgage, Federal Rules, state common law, income funds, mutual funds, fair value, causes of action, compensatory damages, right to trial, equitable relief

COUNSEL: Dewun R. Settle, Miscellaneous, Pro se, Memphis, TN.

For Meritan, Inc, as sponsor of the Senior Services Pension Plan, Generus Stepping Stones, Inc., Senior Services Pension Plan, Plaintiffs: Harold Naill Falls, Jr., John B. Veach, III, LEAD ATTORNEYS, FALLS & VEACH, Nashville, TN; Scott T. Beall, LEAD ATTORNEY, LAW OFFICES OF SCOTT T. BEALL, Memphis, TN.

For Regions Bank, doing business as Regions Morgan Keegan Trust, Defendant: Cynthia G. Lamar-Hart, Luther M. Dorr, Jr., LEAD ATTORNEYS, MAYNARD COOPER & GALE, P.C., Birmingham, AL; John McQuiston, II, LEAD ATTORNEY, EVANS & PETREE, P.C., Memphis, TN; Lewis Clayton Culpepper, III, LEAD ATTORNEY, EVANS PETREE BOGATIN, PC, Memphis, TN.

For David D. Franks, Defendant: John McQuiston, II, LEAD ATTORNEY, EVANS & PETREE, P.C., Memphis, TN.

JUDGES: S. THOMAS ANDERSON, UNITED STATES DISTRICT JUDGE.

OPINION BY: S. THOMAS ANDERSON

OPINION

ORDER GRANTING IN PART, DENYING IN PART MOTION TO DISMISS

Before the Court is Defendant Regions Bank's Motion to Dismiss (D.E. # 13) filed on January 22, 2009. Plaintiffs have responded in opposition. For the reasons set forth below, the Motion is **GRANTED IN PART, DENIED IN PART.**

BACKGROUND

Plaintiffs' Amended Complaint alleges counts of common law misrepresentation (Count I), fiduciary breach (Count II), negligence (Count III), violation of the Tennessee Consumer Protection Act ("TCPA") (Count IV), violation of the Tennessee Securities Act ("TSA") (Count V), and violation of the Employee Retirement Income Act of 1974 ("ERISA") (Count VI). Plaintiff Meritan, Inc. ("Meritan") is a non-profit organization with its principal place of business in Memphis, Tennessee. Am. Compl. P 1. Meritan is the sponsor of Plaintiff Senior Services Pension Plan ("Pension Plan"), an employee benefit plan established for the benefit of Meritan's employees pursuant to ERISA. *Id.* Plaintiff Generus Stepping Stones, Inc. ("Generus") is a non-profit corporation with its principal place of business in Mississippi and is affiliated with Meritan. *Id.* at P 2. Defendant Regions Bank d/b/a Regions Morgan Keegan Trust ("Regions Trust") is a national bank with its principal place of business in Birmingham, Alabama. *Id.* at P 3.

According to Plaintiffs, Meritan and Generus are related charitable organizations providing services to senior citizens. *Id.* at P 6. In September 2003, Meritan and the Pension Plan began to employ the services of Regions Trust to act as trustee of the Pension Plan and to provide investment advice and services to the Pension Plan. *Id.* at P 7. David Franks was, at all material times, the officer of Regions Trust who primarily dealt with and advised plaintiffs. *Id.* Plaintiffs allege that Meritan stated to Regions Trust that it could not afford to lose the assets in the Pension Plan. *Id.* at P 8. The Pension Plan is a defined benefit plan that is legally required to have a certain portion of its obligations secured by existing assets. *Id.* In the event the Pension Plan loses assets, Meritan may be required to divert assets from charitable services to cover shortfalls in the Pension Plan. *Id.*

At the recommendation of representatives of Regions Trust, the Pension Plan invested $ 2 million in January 2004 in two mutual funds run by an asset management company affiliated with Regions Trust: the Regions Morgan Keegan Select High Income Fund and the Regions Morgan Keegan Intermediate Fund ("the Funds"). *Id.* at P 9. Plaintiffs allege that Region Trust's recommendations that the Pension Plan invest $ 2 million in the Funds was negligent and reckless. *Id.* at P 11. According to Plaintiffs, the Funds were extraordinarily risky and not suitable for the Pension Plan, particularly in such a large investment amount ($ 2 million represented approximately 28% of the total assets of the Pension Plan in January 2004). *Id.* Plaintiffs further contend that Regions Trust failed to disclose these risks and other problems with the Funds. *Id.* [1] Similarly, upon Defendant's recommendation, Generus invested approximately $ 93,000 in the Intermediate Fund in 2006-2007 without Defendant's full disclosure of the unsuitable risks. *Id.* at P 13.

1 For example, among the risks of which Plaintiffs complain are unusually heavy investment (as compared to other income funds) in complex novel "investment structures as to which data was very difficult to obtain, the risk and fair value of which were extremely difficult to assess, and which had never been tested in a down market cycle" including sub-prime mortgages. *Id.* at PP 14(a)-(i).

Plaintiffs allege that in mid-August 2007, the Funds made SEC filings disclosing that they had asset liquidity problems and difficulty in obtaining realistic values for some of the Funds' securities.

Id. at P 16. These SEC filings also stated that the Funds were unable to file certified shareholder reports on a timely basis and had retained a valuation consultant to assist in determining the fair value of the Funds' securities. *Id.* According to Plaintiff, Defendant never advised them of these problems. *Id.* The SEC filings did, however, lead to a rapid decline in the value of the Funds. *Id.* at P 17. In response to the falling share price of the Funds, Franks sent an email to Meritan stating that Defendant decided to "exit" the Funds and blamed the loss in value on sub-prime mortgage fears characterizing it as "guilt by association on the street." *Id.* Plaintiffs contend that the email was misleading in that Defendant had not sold Plaintiffs' entire position in the Funds and it under-represented the Funds' holdings in sub-prime mortgages. *Id.* at PP 18-19. As the Funds continued to lose value, Defendant sold more of the Pension Plan's shares in October and November 2007. *Id.* at P 20. By that point, the Pension Plan had losses totaling $ 1.5 million. *Id.* Defendant likewise sold Generus' shares in the Intermediate Fund on November 30, 2007, at a substantial loss. *Id.* Plaintiffs allege that the Funds to-date have lost 90% of their value, underperforming other similar mutual funds in the high income bond category. *Id.* at P 21.

Plaintiffs have asserted several causes of action arising from their dealings with Defendant. First, Plaintiffs allege that Defendant is liable for misrepresentation to all Plaintiffs for which Plaintiffs are entitled to the recovery of their losses plus interest and punitive damages. *Id.* at PP 22-26. Second, Plaintiffs allege that Defendant is liable for breach of the fiduciary duties of reasonable diligence, honesty, and good faith. *Id.* at PP 27-31. Third, Plaintiffs allege that Defendant is liable for negligence for breach of its professional duty to exercise care in handling Plaintiffs' investments. *Id.* at PP 32-36. Fourth, Plaintiffs allege that Defendant is liable for violation of the TCPA by virtue of unfair trade and commercial practices. *Id.* at PP 37- 40. Fifth, Plaintiffs allege that Defendant is liable for violation of the Tennessee Securities Act by engaging in prohibited practices in connection with the offer and sale of securities. *Id.* at PP 41-45. Finally, Meritan and the Pension Plan allege that Defendant is liable for violation of ERISA, specifically breach of its fiduciary duties imposed by ERISA ß 404, 29 U.S.C. ß 1104(a). *Id.* at PP 46-50. As relief Plaintiffs seek in part compensatory damages, punitive damages, and trial by jury.

Defendant filed the instant Motion to Dismiss seeking dismissal of Counts I through IV of Plaintiffs' Amended Complaint: the common law counts of misrepresentation, breach of fiduciary duty, and negligence, and the TCPA count. Defendant has also moved to strike Plaintiffs' demand for a jury. With respect to the common law counts, Defendant argues that ERISA preempts all of Plaintiff's common law counts and the TCPA count. Defendant characterizes Plaintiffs' state law claims as the type of alternative enforcement mechanism preempted by ERISA. Defendant cites a Sixth Circuit case in which a plaintiff's state law claims against a third-party administrator of an ERISA plan were preempted. Defendant further asks the Court to strike Plaintiffs' prayer for extracontractual, compensatory, and punitive damages, the recovery of which is not permitted under ERISA. Defendant finally contends that Plaintiffs have no right to a jury trial for claims pursuant to ERISA or any claim that ERISA preempts. Therefore, Defendant seeks partial dismissal of the Amended Complaint.

Plaintiffs have responded in opposition to Defendant's Motion to Dismiss. First, Meritan and the Pension Plan concede that their state common law claims and TCPA claims are preempted by ERISA. [2] However, Plaintiff Generus was not an ERISA plan and had no ERISA-governed relationship with Defendant. As a result, Generus's state law claims should survive Defendant's Motion and any limit on Generus' right to a jury or an award of damages foreclosed by ERISA is inapposite. With respect to Meritan and the Pension Plan, Plaintiffs argue that the Sixth Circuit has not resolved the question of whether a plaintiff has a right to a jury for breach of fiduciary duty claims made pursuant to 29 U.S.C. ß502(a)(2) of ERISA. In this case, Plaintiffs argue that they are entitled to a jury because the relief sought is legal rather than equitable in nature. If nothing else, Plaintiffs argue that they have the right to trial by jury for the Tennessee Securities Act claims. While Defendant argues that Plaintiffs cannot recover compensatory damages pursuant to ERISA ß 502(a), Plaintiffs point out that their claim for compensatory damages is made pursuant to ERISA ß 409. Plaintiffs contend that the authority cited by Defendant held that a beneficiary may not recover compensatory or punitive damages under ERISA. However, the Supreme Court and the Sixth Circuit has never ruled that a plan cannot recover such damages. Plaintiffs acknowledge that there is little support for permitting punitive damages but also argue that the legal and not equitable nature of their claims should at least allow for the possibility of recovering punitive damages.

2 Plaintiffs condition their concession on Defendant's continued admission that it acted as an ERISA fiduciary with respect to Meritan and the Pension Plan. Should Defendant later contest that ERISA applies, Plaintiffs reserve their right to withdraw their concession, to withdraw their First Amended Complaint, and to contest federal jurisdiction. In light of their concession and the standard for testing a pleading under Rule 12(b)(6), the Court does not reach the issue of whether Defendant was a fiduciary for purposes of ERISA or the ultimate issue of whether ERISA governs this case.

STANDARD OF REVIEW

A defendant may move to dismiss a claim "for failure to state a claim upon which relief can be granted" under Federal Rule of Civil Procedure 12(b)(6). When considering a Rule 12(b)(6) motion, the Court must treat all of the well-pleaded allegations of the complaint as true and construe all of the allegations in the light most favorable to the non-moving party. [3] However, legal conclusions or unwarranted factual inferences need not be accepted as true. [4] "To avoid dismissal under Rule 12(b)(6), a complaint must contain either direct or inferential allegations with respect to all material elements of the claim." [5] "The Federal Rules of Civil Procedure do not require a claimant to set out in detail all the facts upon which he bases his claim." [6]

3 *Scheuer v. Rhodes,* 416 U.S. 232, 236 (1974); *Saylor v. Parker Seal Co.,* 975 F.2d 252, 254 (6th Cir. 1992).
4 *Morgan v. Church's Fried Chicken,* 829 F.2d 10, 12 (6th Cir. 1987).
5 *Wittstock v. Mark a Van Sile, Inc.,* 330 F.3d 889, 902 (6th Cir. 2003).
6 *Conley v. Gibson,* 355 U.S. 41, 47 (1957).

The Supreme Court has more recently stated that the Federal Rules "do not require a heightened fact pleading of specifics, but only enough facts to state a claim that is plausible on its face." [7] The Sixth Circuit has subsequently acknowledged "[s]ignificant uncertainty" as to the intended scope of *Twombly.* [8] Consequently, the Sixth Circuit has articulated the following as the standard of review for 12(b)(6) motions: on a motion to dismiss, the Court must construe the complaint in the light most favorable to the plaintiff, accept all factual allegations as true, and determine whether the complaint contains "enough facts to state a claim to relief that is plausible on its face." [9] Thus, although the factual allegations in a complaint need not be detailed, they "must do more than create speculation or suspicion of a legally cognizable cause of action; they must show entitlement to relief." [10]

7 *Bell Atlantic Corp. v. Twombly*, 127 S. Ct. 1955, 1974 (2007) ("retiring" the "no set of facts" standard first announced in *Conley v. Gibson*, 355 U.S. 41, 78 S.Ct. 99, 2 L.Ed.2d 80 (1957)).
8 *Weisbarth v. Geauga Park Dist.*, 499 F.3d 538, 541 (6th Cir.2007); *see also Commercial Money Ctr., Inc. v. Ill. Union Ins. Co.*, 508 F.3d 327, 337 (6th Cir.2007) ("We have noted some uncertainty concerning the scope of *Bell Atlantic Corp. v. Twombly*, ... in which the Supreme Court 'retired' the 'no set of facts' formulation of the Rule 12(b)(6) standard ....").
9 *United States ex rel. Bledsoe v. Cmty. Health Sys., Inc.*, 501 F.3d 493, 502 (6th Cir. 2007) (quoting *Twombly*, 127 S.Ct. at 1974 (2007)).
10 *League of United Latin Am. Citizens v. Bredesen*, 500 F.3d 523, 527 (6th Cir.2007) (emphasis in original) (citing *Twombly*, 127 S.Ct. at 1964-65).

ANALYSIS

I. Counts I through IV

Due to Plaintiffs' Meritan and the Pension Plan concession that their state common law claims and TCPA claims are preempted by ERISA, these claims with respect to Meritan and the Pension Plan are dismissed.

However, the Court finds that the same state law claims are available to Generus. According to the Amended Complaint, Generus has not alleged any claims pursuant to ERISA. Count VI, the ERISA count, specifically states that "Plaintiffs Meritan, Inc. and Pension Plan assert the following claims against defendant under the Employee Retirement Income Act of 1974 ("ERISA")." Am. Compl. P 47. It is clear then that Generus did not join in this claim, and so ERISA would not preempt any other claims stated by Generus in the Amended Complaint. Therefore, Generus' claims as to Counts I through IV must survive Defendant's Motion. Defendant does state in its Memorandum that "Generus Stepping Stones, Inc. is a related company to Meritan, and upon information and belief, their employees participate in the Plan." Def.'s Memo. in Support, Mot. Dismiss, 1. However, under the standard of review for Rule 12(b)(6), the Court accepts the allegations of the complaint as true. Because the Amended Complaint is silent as to whether Generus employees participate in the Pension Plan, the Court holds that Generus has stated its state common law and TCPA claims. Likewise, Defendant's argument that trial by jury and certain damages are unavailable under ERISA does not apply to Generus. Therefore, Defendant's Motion to Dismiss is denied with respect to Generus.

II. Right to Extracontractual, Compensatory, and/or Punitive Damages

Next the Court must decide whether Meritan and the Pension Plan may recover extra-contractual, compensatory, or punitive damages should they prevail on their ERISA claims. As a matter of pleading, the Court notes that Plaintiffs' Amended Complaint specifically sought punitive damages only for their common law allegations of misrepresentation and breach of fiduciary duty. Am. Compl. PP 26, 31. Notably, the Amended Complaint sought only recovery for the alleged ERISA violations "for all losses sustained by Meritan and Pension Plan and for other appropriate remedial or equitable relief, including interest, attorney's fees, and litigation expenses." *Id.* at P 50. Therefore, as a matter of law, Plaintiffs have not claimed punitive damages under ERISA with sufficient particularity.

Even if Plaintiffs' pleadings had specifically sought punitive damages for violation of ERISA, the Court holds that punitive damages are not available for breach of fiduciary duty pursuant to ERISA ß 409. ERISA ß 409(a) provides that anyone who breaches a fiduciary duty to a plan

> shall be personally liable to make good to such plan any losses to the plan resulting from each such breach, and to restore to such plan any profits of such fiduciary which have been made through use of assets of the plan by the fiduciary, and shall be subject to such other equitable or remedial relief as the court may deem appropriate, including removal of such fiduciary. [11]

Plaintiffs correctly point out that the Supreme Court in *Russell* declined to address the issue of whether a plan might recover compensatory or punitive damages pursuant to ERISA 409(a). The Supreme Court stated, "we do not reach any question concerning the extent to which ß 409 may authorize recovery of extracontractual, compensatory or punitive damages from a fiduciary by a *plan*" (emphasis in original). [12] Where ERISA ß 409 refers to "other equitable or remedial relief," the Supreme Court has ruled since *Russell* that "equitable relief" as that term is used in other ERISA provisions does not include punitive damages. [13] Additionally, the Sixth Circuit has ruled that ERISA's preemption of state common law generally precludes the recovery of punitive damages specifically. [14] While it is true that the *Davis* court was considering an individual beneficiary's claim for punitive damages under ERISA ß 502(a)(2), the reasoning the Sixth Circuit adopted applied to ERISA generally, suggesting that ERISA preempted all claims for punitive damages by a beneficiary, a plan, or fiduciary. [15]

11 ERISA ß 409(a), 29 U.S.C. ß 1109(a) (emphasis added).

12 *Massachusetts Mut. Life Ins. Co. v. Russell*, 473 U.S. 134, 144, 105 S.Ct. 3085, 3091 (1985).

13 *Mertens v. Hewitt Assoc.*, 508 U.S. 248, 113 S.Ct. 2063, 124 L.Ed.2d 161 (1993) (construing ß 1132(a)(3)). *See also Allinder v. Inter-City Products Corp. (USA)*, 152 F.3d 544, 552 (6th Cir. 1998).

14 *Davis By and Through Farmers Bank and Capital Trust Co. of Frankfort, Ky. v. Ky. Finance Co. Ret. Plan*, 887 F.2d 689, 696 (6th Cir. 1989); *cert. denied* 495 U.S. 905, 110 S.Ct. 1924, 109 L.Ed.2d 288 (1990). *See also Thomas v. Allen-Stone Boxes, Inc.*, 925 F. Supp. 1316, 1321 (W.D. Tenn. 1995).

15 *Id.* ("this court in *Varhola* explicitly relied on the Supreme Court's decision in *Dedeaux*, reasoning that punitive damages are based on state law and thus also are preempted by ERISA").

Although neither the Supreme Court nor the Sixth Circuit has ever addressed a plan's right to recover punitive damages under ß 409 specifically, the Fifth Circuit has ruled that ERISA ß 409 does not permit a plan to recover punitive damages for breach of fiduciary duty. [16] In *Sommers*, the Fifth Circuit set forth a comprehensive analysis of ERISA ß 409, which this Court finds persuasive. The *Sommers* court concluded that "[p]unitive damages do not fall within the broad category of 'equitable or remedial' relief [available under ß 409]; rather than restoring the plaintiff's losses and protecting him from future harm, punitive damages are designed to punish the wrongdoer and deter others from similar misconduct." [17] The Fifth Circuit found support for this interpretation in ERISA's legislative history and Congress' intent to import into ERISA principles from the law of trusts. [18] The

Sommers court cited several authorities including the Restatement (Second) of Trusts for the proposition that "trustees generally are not liable for punitive damages for breach of fiduciary duty." [19] Additionally, the Fifth Circuit noted the correspondence between the remedies set forth in Restatement (Second) ß 205(a) & (b) and ERISA ß 409(a). [20] The Fifth Circuit concluded that Congress did not intend the recovery of punitive damages for breach of fiduciary duty under ERISA ß 409.

16 *Sommers Drug Stores Co. Employee Profit Sharing Trust v. Corrigan Enter., Inc.*, 793 F.2d 1456, 1463-64 (5th Cir. 1986); *cert. denied* 479 U.S. 1034, 107 S.Ct. 884, 93 L.Ed.2d 837 (1987).

17 *Id.* at 1463. The Fifth Circuit cited several cases for examples of what was properly considered "equitable and remedial relief." *Gilliam v. Edwards,* 492 F. Supp. 1255, 1267 (D.N.J. 1980) (recission); *Katsaros v. Cody,* 744 F.2d 270, 281 (2d Cir.), (removal of the trustee) *cert. denied,* 469 U.S. 1072, 105 S.Ct. 565, 83 L.Ed.2d 506 (1984); *Marshall v. Snyder,* 572 F.2d 894, 901 (2d Cir.1978) (appointment of a receiver).

18 *Sommers,* 793 F.2d at 1463 (citing H.Rep. No. 533, 93d Cong., 1st Sess. (1973), *reprinted in* 1974 U.S.Code Cong. & Ad.News 4639, 4649, 4651; S.Rep. No. 127, 93d Cong., 1st Sess., *reprinted in* 1974 U.S.Code Cong. & Ad.News 4838, 4865, 4869; 120 Cong.Rec. 29,928, 29,932 (1974) (statement by Sen. Harrison Williams introducing conference report), *reprinted in* 1974 U.S.Code Cong. & Ad.News 5177, 5186)).

19 *Sommers,* 793 F.2d at 1463 (citations omitted).

20 *Id.*

While never addressing the same issue presented in *Sommers,* the Sixth Circuit has cited the *Sommers* decision with approval on more than one occasion. The Sixth Circuit has held that punitive damages were not available to an individual beneficiary under ERISA ß 502(a)(3) and observed generally that the United States Supreme Court "treats the statutory scheme of ERISA as one which does not intend to provide for punitive damages." [21] In reaching this conclusion, the Sixth Circuit relied on the Fifth Circuit's reasoning in *Sommers* that ERISA had imported the law of trusts. [22] The Sixth Circuit further cited *Sommers* with approval in the *Davis* decision discussed above. [23] At least one other Circuit Court of Appeals has adopted the *Sommers* rule as well. [24] Therefore, consistent with Sixth Circuit precedent and the reasoning set forth in *Sommers*, this Court holds that extracontractual, compensatory or punitive damages are not available to a plan alleging a breach of fiduciary duty under ERISA ß 409.

21 *Varhola v. Doe,* 820 F.2d 809, 817 (6th Cir. 1987). The Supreme Court eventually resolved the question with respect to ERISA ß 502(a)(3) in the manner the *Varhola* court had predicted. *See Mertens v. Hewitt Assoc.,* 508 U.S. 248, 113 S.Ct. 2063, 124 L.Ed.2d 161 (1993)

22 *Varhola,* 820 F.2d at 817 ("As the *Sommers* court noted, punitive damages ordinarily are not available under trust law in an action for a breach of a trustee's fiduciary duty").

23 *Davis,* 887 F.2d at 696 (holding that ERISA preempts all state law including the remedy of punitive damages).

24 *Sage v. Automation, Inc. Pension Plan and Trust,* 845 F.2d 885, 888 (10th Cir. 1988).

III. Right to Trial by Jury

Finally, Defendant argues that the Court should strike Plaintiffs' demand for a jury trial pursuant to ERISA. Having already determined that Plaintiff Generus has not stated any ERISA claims, any demand for jury made on behalf of Generus appears to be proper. Therefore, Defendant's Motion is denied as to Plaintiff Generus.

With respect to Mertian and the Pension Plan, the Court holds that these Plaintiffs are not entitled to a jury trial on their ERISA claims. [25] Plaintiffs concede that the Sixth Circuit has denied jury trials to beneficiaries seeking the recovery of benefits. [26] However, the Sixth Circuit has never addressed the issue presented here, namely, whether a plan has the right to a jury trial for breach of fiduciary duty pursuant to ERISA ß 409. In the context of ERISA, the Sixth Circuit analyzes the demand for a jury in light of the type of relief sought. [27] A plaintiff seeking a legal remedy is traditionally entitled to a jury; whereas, a plaintiff seeking an equitable remedy will not be granted a jury. In making this determination, the Court should consider the following factors: (1) the custom for determining whether the action would have been deemed legal or equitable in 18th century England prior to the merger of law and equity; (2) the nature of the remedy sought whether it is legal or equitable; and (3) the practical abilities and limitations of juries. [28] The Sixth Circuit has emphasized the importance of the second factor in particular. [29] Where "a party seeks solely injunctive relief ..., the relief sought is equitable and there is no right to a trial by jury." [30]

25 *Thomas*, 925 F. Supp. at 1320-21. *See also Ingram v. Metlife Disability Ins.,* 2003 WL 22005015, *1 (W.D. Tenn. 2003) (citing *Sprague v. Gen. Motors Corp.,* 133 F.3d 388, 406 (6th Cir.1998) for the proposition there exists no right to jury trial on ERISA claims including claims for breach of fiduciary duty).
26 *E.g. Wilkins v. Baptist Healthcare Sys., Inc.,* 150 F.3d 609, 616 (6th Cir. 1998); *Bittinger v. Tecumseh Prod. Co.,* 123 F.3d 877, 882-83 (6th Cir.1997); *Bair v. Gen. Motors Corp.,* 895 F.2d 1094, 1096 (6th Cir.1990); *Daniel v. Eaton Corp.,* 839 F.2d 263, 268 (6th Cir. 1988).
27 *Bair,* 895 F.2d at 1097.
28 *Id.* (citing *United Transp. Union, Local 74 v. Consol. Rail Corp.,* 881 F.2d 282, 286 (6th Cir.1989)). *Accord Granfinaciera, S.A. v. Nordberg,* 492 U.S. 33, 41, 109 S.Ct. 2782, 106 L.Ed.2d 26 (1989).
29 *Bair,* 895 F.2d at 1097.
30 *Id.*

Applying these principles to the case at bar, it is clear that Plaintiffs' breach of fiduciary duty claims sound in equity and the remedies sought are equitable in nature. As a result, Plaintiffs are not entitled to a jury trial on their ERISA claims. By custom, claims against a fidcuciary have been deemed equitable. "[I]n colonial times, the English High Court of Chancery had exclusive jurisdiction over trusts." [31] The Supreme Court has likewise acknowledged that "at common law, the courts of equity had exclusive jurisdiction over virtually all actions by beneficiaries for breach of trust." [32] Thus, the first factor would weigh against granting Plaintiffs a jury trial. As for the second factor, the remedy Plaintiffs seek, it is well settled that" the remedies of the beneficiary against the trustee are exclusively equitable" including actions to remedy a breach of trust by payment into the trust estate of any loss resulting from the breach of trust. [33] The majority of federal courts including courts in this Circuit have held "that suits under section 502(a)(2) of ERISA against fiduciaries brought on behalf of the plan are equitable in both nature and remedy and do not give rise to the right to trial by jury, even when the remedy sought is an award of money." [34] The Court holds that

Meritan and the Pension Plan's claims are essentially equitable and are not suitable for a jury trial. Thus, Defendant's Motion to Dismiss is granted in this regard.

31 *Evans v. Pearson Enter.*, 434 F.3d 839, 849 (6th Cir.2006). *See also Ellis v. Rycenga Homes, Inc.*, 2007 WL 1032367, *2 (W.D. Mich. 2007) (analyzing a plan's breach of fiduciary duty claim under ERISA ß 409 and demand for jury).

32 *Mertens v. Hewitt Assoc.*, 508 U.S. 248, 256, 113 S.Ct. 2063, 124 L.Ed.2d 161 (1993).

33 Restatement (2d) of Trusts ßß 197, 205 (1959).

34 *Ellis*, 2007 WL 1032367 at *3 (citing *Phelps v. CT Enter.*, 394 F.3d 213, 222 (4th Cir.2005); *Borst v. Chevron Corp.*, 36 F.3d 1308, 1323-24 (5th Cir.1994); *Termini v. Life Ins. Co. of N. Am.*, 474 F.Supp.2d 775, 2007 WL 515408 (E.D.Va. 2007); *Vargas v. Child Dev. Council of Franklin County, Inc.*, 269 F.Supp.2d 954, 957 (S.D. Ohio 2003); *Cherepensky v. Sears, Roebuck & Co.*, 455 F.Supp.2d 470, 476 (D.S.C. 2006); *Camp v. Pac. Fin. Group*, 956 F.Supp. 1541, 1552 (C.D. Cal. 1997); *Broadnax Mills, Inc. v. Blue Cross & Blue Shield of Va.*, 876 F.Supp. 809, 815-17 (E.D. Va.1995); *Miner v. Community Mut. Ins. Co.*, 778 F.Supp. 402 (S.D. Ohio 1991)).

CONCLUSION

Having found that Plaintiff Generus has not stated an ERISA claim against Defendant, the Court holds that Generus' state common law claims including its demand for punitive damages and a jury trial have not been preempted. As a result, Defendant's Motion as to Generus is denied. However, Plaintiffs Meritan and the Pension Plan have stated an ERISA claim against Defendant, and, by concession, agreed that their state common law claims and TCPA claims are preempted by ERISA. The Court holds that Plaintiffs are not entitled to the recovery of punitive damages or a trial by jury for their ERISA claims. Defendant's Motion as to Meritan and the Pension Plan is granted. Therefore, Defendant's Motion to Dismiss is **GRANTED IN PART, DENIED IN PART.**

IT IS SO ORDERED.

/s/ S. Thomas Anderson

S. THOMAS ANDERSON

UNITED STATES DISTRICT JUDGE

Date: July 16th, 2009.

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