

FIRM WINS TRIFECTA

O'Neil, Cannon, Hollman, DeJong & Laing S.C. was victorious in three cases before the Wisconsin Supreme Court this year, all involving issues of first impression in Wisconsin.

In the first case, decided on January 29, 2019, the Supreme Court held that bad faith under the Uniform Fiduciaries Act ("UFA") requires proof by a bank customer of bank dishonesty whereby the bank willfully failed to investigate compelling and obvious known facts suggesting fiduciary misconduct because of a deliberate desire to evade knowledge of fiduciary misconduct.

In *Koss v. Park Bank*, 2019 WI 7, 385 Wis. 2d 261, 922 N.W.2d 20, an employee of Koss Corporation embezzled \$34 million from the Company over a 10-year period. A significant portion of the embezzled funds came from cashier's checks obtained by the employee from the employer's bank accounts at Park Bank, which the employee used for her personal benefit. After the embezzlement was discovered, Koss Corporation sued Park Bank, alleging that Park Bank should have discovered the embezzlement earlier and reported it to Koss Corporation, and its failure to do so was bad faith under the UFA, which precludes claims of negligence against banks. After five years of litigation, the trial court dismissed the case on summary judgment, finding that Koss Corporation failed to meet the high standard for establishing bad faith under the UFA. The Court of Appeals affirmed the dismissal, and the Supreme Court did so as well.

In a 2-3-2 decision, the Supreme Court held that the following "foundational principles" are applicable in analyzing a bank's conduct when bad faith is asserted under the UFA: (1) bad faith is an intentional tort requiring that a bank employee suspected fiduciary misconduct but purposefully failed to investigate out of a fear of discovering the misconduct; (2) bad faith is reviewed on a transaction by transaction basis, such that the facts known by each individual bank employee are not aggregated to form collective knowledge of the bank; (3) whether a bank acted in bad faith is determined at the time of the breach of fiduciary duty, not by looking back at transactions that occurred many months earlier; and (4) considerations of bad faith require analyses of a bank's actions to determine its subjective intent.

In applying these bank-friendly standards and principles, the Supreme Court held that "none of Koss Corporation's factual allegations asserted, or even implied, that Park Bank acted dishonestly such as being motivated by self-interest with regard to the transactions [the

customer's employee] initiated," and "none of Koss Corporation's allegations assert that Park Bank suspected that [the customer's employee] was acting improperly." Concluding, the Supreme Court held that, while "[t]here is much here from which a claim of negligence could be made," negligence is not sufficient to establish bad faith under the UFA.

In the second case, decided on March 14, 2019, the Supreme Court held that a business purpose is not required in order for land to be classified as "agricultural land" for property tax purposes. In *State ex rel. Ogden Family Tr. v. Bd. of Review*, 2019 WI 23, 385 Wis. 2d 676, 923 N.W.2d 837, the Ogdens owned property in the Town of Delafield that was originally classified as "agricultural land," thereby resulting in a low assessed value for property tax purposes. In 2016 the Town reclassified the property as "residential" on the grounds that the property was not being used for a business purpose, which resulted in a 50-times increase in the assessed value of the property. The Ogdens challenged the reclassification, arguing that the property is used primarily to harvest apples and hay for food and fiber, and to grow Christmas trees, which are agricultural uses. The Town failed to budge, determining that a business purpose is required for land to be classified as "agricultural land" for property tax purposes. The Ogdens filed a petition for certiorari review, which the trial court rejected, siding with the Town.

The Ogdens appealed, and the Court of Appeals reversed, concluding that a business purpose is not necessary for land to be classified as "agricultural land" for property tax purposes. The Supreme Court affirmed, in a unanimous decision, holding that section 70.32(2)(c)1g., Wis. Stats., merely requires the "growing" of crops, not the marketing, selling, or profiting from them, for land to be classified as "agricultural." As a result, the Supreme Court held that "[a] business purpose is not required in order for land to be classified as 'agricultural' for property tax purposes."

In the third case, decided on May 23, 2019, the Supreme Court held that constructive trust is a remedy, not a cause of action. In *Tikalsky v. Friedman*, 2019 WI 56, 386 Wis. 2d 757, 928 N.W.2d 502, Tikalsky's parents disinherited him from their estates, leaving their entire estates to their other three children, equally. Following his parents' deaths, Tikalsky sued his siblings, alleging that two of them intentionally interfered with his expected inheritance. As to his third sibling, Tikalsky sued her for constructive trust arguing that, even though she was innocent of any wrongdoing, she is in possession of a portion of his expected inheritance and, if he prevails on his claims against his other two siblings, his innocent sibling should be required to disgorge the excess portion she received from her inheritance.

The trial court dismissed the innocent sibling from the lawsuit on the grounds that no cause of action for liability was asserted against her and, without a finding of liability against a party, no remedy can be ordered against that party. The Court of Appeals reversed, holding that constructive trust is available against an innocent beneficiary if wrongful conduct is found against any party and it would be inequitable for the innocent beneficiary to hold onto

the property received as a result of the wrongdoing.

In a 4-3 decision, the Supreme Court reversed the Court of Appeals' decision and held that "constructive trust is a remedy, not a cause of action." The Supreme Court further held that, while "a constructive trust may be imposed on property in the possession of one who is wholly innocent of any" wrongdoing, that remedy is only available where the innocent beneficiary "came into possession of property that was already burdened with a constructive trust," *i.e.*, the owner of the property must have conveyed the property to an innocent beneficiary in violation of a duty to transfer it to the plaintiff (such as by a court order in a divorce proceeding). Concluding, the Supreme Court held that Tikalsky's parents "violated no duty to [Tikalsky] when they caused their estate planning documents to transfer part of their estate to [Tikalsky's innocent sibling]" and, as a result, "where there is no violated duty . . . there can be no constructive trust."

Dean Laing represented the bank in *Koss* and the innocent beneficiary in *Tikalsky*. He can be reached at 414-276-5000.