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December 9, 1982

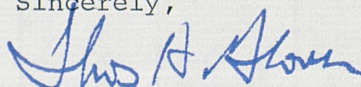
Honorable G. Wix Unthank
Judge, United States District Court
U. S. Courthouse
Pikeville, Kentucky 41501

Re: Travelers v. Alaky Coal Sales, Inc., et al
U. S. District Court at Pikeville
Civil Action No. 81-240

Dear Judge Unthank:

Enclosed is a judgment which I have prepared and hereby tender for your signature and entry into the record. Please ask the clerk to return an executed copy to me and to Mr. Shepherd for our files. Thank you for your consideration.

Sincerely,



THOMAS H. GLOVER

THG/pld
Enclosure

cc: Honorable Wayne Shepherd

TO: Judge
FROM: Donald
DATE: 12-2-82
RE: 81-240

The Travelers Indemnity Co. v. Alaky Coal Sales, Inc., et al
Status Conference, Friday, 12-3-82, at 11:00 a.m.

Synopsis:

Plff seeks to be indemnified for payments it has made on bonds executed to defendants to insure reclamation of land. It seems the Commonwealth of KY found defendants to be in violation of their mining permits and ordered forfeiture of the bonds, which plff paid.

Since the last preliminary conference, held on 5-14-82, plffs have obtained default judgment against defendants, William F. Beane and Katheryne Beane, in the sum of \$138,500.00.

At that conference, the Court gave the parties until 10-29-82 to file motions for S/J. Responses were to be filed by 11-19-82.

Plff has moved for S/J, with supporting memo and affidavit. Defendants filed no response thereto.

Pending Motions: Plff's motion for summary judgment.

Comments:

1. It appears to be a cut and dried situation. Plff's memo is good.

*held in chambers
without a clerk or
court reporter -
annul to prepare
proposed order
for Court's
consideration
M.
5-14-82*

PRELIMINARY CONFERENCE: Travelers Indemnity Co. v. Akaky Coal Sales, etZal

Jurisdiction founded on diversity. This is an action for indemnity, reimbursement, and exoneration for bonds paid to the Commonwealth of Kentucky by the plaintiff on behalf of the defendants.

FACTS: Plaintiff executed some bonds to defendants to insure reclamation of mined lands. Strip mine permits were issued, mining commenced and defendants were found to have violated certain statutes by not complying with conditions of their permit. The bonds were ordered forfeited, and plaintiff paid the forfeiture. Plaintiff now seeks to be indemnified from the individual and corporate defendants according to the agreement between them.

- ISSUES:
- 1) Whether defendants are liable for payments by plaintiff to Comm. of Ky. because of surety bonds issued by the plaintiff to its principals.
 - 2) Whether plaintiff was obligated to pay the amounts of the bonds pursuant to order of forfeiture.
 - 3) Whether plaintiff, by reason of payment, is subrogated to the rights, remedies, means and methods which the Dept. and the Commonwealth might have against defendants.
 - 4) Whether plaintiff is entitled to place in funds an amount sufficient to cover the forfeiture of a bond which the Dept. has ordered forfeit, but which plaintiff has not yet paid.

Defendants state the issues as follows:

- 1) Whether Bethel Beane and Judy Powell (now Walters) can be held liable since they were not parties to the transactions in question.
 - a) Whether the case is ripe for determination since the amount and nature of the expenditures by the plaintiff are not yet determined.
- 2) Whether plaintiff acted in good faith in allowing exposure for which it expects indemnification.

*agreed Joske Co.
redone
agreed document
affidavit
Court 2. 5
agreed parties to Court 1*

Defendants argue that plaintiff acted arbitrarily and therefore should be estopped from asserting its claims against defendants.

Defendants also ask (but haven't moved) that Bethel Beane and Judy Powell be dismissed.

PENDING MATTERS: Need to order filed the tendered PRELIMINARY CONFERENCE MEMORANDUM OF plaintiff.

Satch

p.s. Attached is the basic Kentucky case on indemnification (with basically similar facts)

5-14-82

arrangement, is of course valid under this subsection unless the results of putting it into operation would be the creation of an unconscionable state of affairs.

It is also quite clear that the requirement of a reasonable notification does not relate to the method of giving notice, but to the circumstances under which the notice is given and the extent of advanced warning of termination that the notification gives.

Anderson, *supra*, in the cumulative supplement volume at p. 282, cites two Minnesota cases relating to the time which might be needed for recoupment of investment. *McGinnis Piano and Organ Co. v. Yamaha International Corporation*, 480 F.2d 474 (8th Cir. 1973) is cited for the proposition that "in some states, it is implied that a dealership contract which may be terminated upon notice must be allowed to continue for a sufficient period to enable the franchisee to recoup his investment." The case of *O. M. Droney Beverage Co. v. Miller Brewing Co.*, 365 F.Supp. 1067 (D.Minn.1973), is cited for the proposition that "under Minnesota law 'a reasonable duration will be implied in franchise agreements where a dealer has made substantial investments in reliance on the agreement.'"

[4] The distributorship agreement existing between appellant and appellee is one in which the essence was the sale of goods. Appellant was certainly not an employee or commissioned salesman of appellee. Appellant purchased the products of the appellee at wholesale prices, and marketed them in the Lexington area. The appellant does not dispute the fact that the agreement was terminable at will, but he contends, and the law so holds, that the appellee was required to give reasonable notification of intent to terminate the contract. What length of time constitutes reasonable notice is a question of material fact which remains to be decided. We cannot say that the written notice given in this case was "reasonable" as a matter of law.

The summary judgment granted by the trial court must therefore be vacated, and the case remanded for further proceedings.

All concur.

UNITED STATES FIDELITY & GUARANTY COMPANY, Appellant and Cross-Appellee,

v.

NAPIER ELECTRIC & CONSTRUCTION COMPANY, INC., Hadward Napier and Frances Napier, Appellees and Cross-Appellants.

Nos. 76-316, 76-348.

Court of Appeals of Kentucky.

July 7, 1978.

Action was instituted upon an indemnity agreement. The Perry Circuit Court, Don A. Ward, J., entered judgment on verdict for plaintiff, and cross appeals were taken. The Court of Appeals, Gant, J., held that: (1) indemnity agreement calling for indemnitor to pay surety for all liabilities, losses and expenses and for all sums paid by surety in good faith did not give indemnitor right to attack payments made by surety when evidence of bad faith or fraud on behalf of surety was lacking, and (2) instructions which were given in action based upon an indemnity agreement, not upon a surety contract or quantum meruit, were clearly erroneous where they referred to such extraneous matters as fair market value of all materials, fair standard cost of labor and services, and amount necessary to complete performance of contract.

Reversed and remanded with directions.

1. Indemnity ⇌ 6

Nature of indemnitor's liability under an indemnity agreement shall be determined by provisions of instrument itself.

2. Indemnity ⇌ 3

It is not against public policy for an indemnity agreement to contain a provision

that vouchers or other evidence of payments or an itemized statement of payments sworn to by an officer of the surety shall be prima facie evidence of fact and extent of liability of indemnitor to surety.

3. Indemnity ⇐ 3

A provision in an indemnity agreement that indemnitor shall be liable for all liabilities, losses and expenses incurred by surety and all sums paid by surety in good faith under belief that surety was or might be liable for said payments or that said payments are necessary and advisable to protect surety's right or to avoid and lessen surety's liability is not against public policy.

4. Indemnity ⇐ 15(6)

Under an indemnity agreement calling for indemnitor to pay surety for all liabilities, losses and expenses and for all sums paid by surety in good faith, indemnitor may successfully attack payments made by surety only by pleading and proving fraud or lack of good faith by surety.

5. Indemnity ⇐ 15(4)

Indemnity agreement calling for indemnitor to pay surety for all liabilities, losses and expenses and for all sums paid by surety in good faith did not give indemnitor right to attack payments made by surety when evidence of bad faith or fraud on behalf of surety was lacking.

6. Indemnity ⇐ 15(11)

Instructions which were given in an action based upon an indemnity agreement, not upon a surety contract or quantum meruit, were clearly erroneous where they referred to such extraneous matters as fair market value of all materials, fair standard cost of labor and services, and amount necessary to complete performance of contract.

C. Dant Kearns, John W. Potter, Stites, McElwain & Fowler, Louisville, Richard D. Cooper, Cooper, Gullet, Combs & Engle, Hazard, for appellant.

Lohren F. Martin, Jr., Rose, Martin & Scalf, Williamsburg, for appellees.

Before GANT, HOWARD and HOWERTON, JJ.

GANT, Judge.

The corporate appellee contracted to construct the sewer lines, water lines and a sewage treatment facility for Woodson Bend, Inc., near Somerset, Kentucky. Appellant, United States Fidelity & Guaranty Company, was surety on two bonds for the corporate appellee, one being a Labor and Material Payment Bond in the face amount of \$778,000, obligating the appellant to pay all materialmen and suppliers should the appellee default; the other being a Performance Bond, binding the appellee to complete the project in the event of default. As a part of the consideration for writing this and other bonds for the corporate appellee, the latter, together with the individual appellees, owners of the corporation, executed an Indemnity Agreement to the appellant, which bound the appellees to indemnify the appellant for all "liabilities, losses and expenses" incurred by the appellant, including all amounts paid by appellant "in good faith under the belief that: (1) Surety was or might be liable therefor; (2) Such payments were necessary or advisable to protect any of Surety's right or to avoid or lessen Surety's liability or alleged liability.

Appellee defaulted on his contract, causing the appellant to pay out \$145,956.98 as surety on the Labor and Material Payment Bond to materialmen and suppliers who had not been paid by the appellee company, even though draws had been paid by the owner to that company pursuant to progress reports. In order to complete the project, under the terms and conditions of the Performance Bond, another contractor was hired for the sum of \$257,000, the owner applying the unpaid sums remaining on the contract and the appellant paying the balance of \$124,163.36. Thereafter, appellant instituted this suit asking the sum of \$270,120.34, basing the action on the written Indemnity Agreement signed by the appellee and not on the surety relationship.

The lower court held as a matter of law that all sums paid by the appellant under

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THE U.S. DISTRICT COURT
FOR THE DISTRICT OF KENTUCKY
LEXINGTON, KENTUCKY

the Performance Bond were paid in good faith—indeed there was no evidence to the contrary. The evidence further disclosed that the appellant had, in fact, paid the sum of \$124,163.36 for completion of the project. The parties stipulated that the Indemnity Agreement was valid and binding. This case was submitted to the jury under instructions objected to by both appellant and appellees, which jury returned a verdict in favor of the appellant for \$40,877.98.

Appellant directs its argument primarily toward its contention that, under the circumstances of this case, appellant was entitled to a directed verdict in the amount of \$270,120.34. As hereinabove pointed out, this was an action based upon the Indemnity Agreement, not an action based upon the surety contract or quantum merit. The instructions to the jury, herein, permitted the jury to find such things as the "fair market value of all materials," the "fair standard cost of labor and services," the "amount necessary to complete the performance of the contract," and other extraneous matters. We feel that the law is well settled in Kentucky as set out in the case of *National Surety Corp. v. Peoples Milling Co.*, 57 F.Supp. 281 (W.D.Ky.1944), in which the court states:

The right of an indemnitee to recover of the indemnitor under a contract of indemnity according to the terms of such a contract is well recognized. Such a contract is not against public policy and will be enforced if the indemnitee has suffered loss thereunder and has complied with its terms. *Id.* at 282.

In a case in which the Indemnity Agreement was virtually identical with the one in the instant case, originating in Texas and under the law of that state which we conceive to be the same as that of Kentucky, the guidelines for indemnity are clearly set out. This case is the case of *Engbrock v. Federal Insurance Co.*, 370 F.2d 784 (5th Cir. 1967).

It is our opinion that the following law applies to the case before us:

[1] 1. The nature of an indemnitor's liability under an indemnity contract shall

be determined by the provisions of the indemnity agreement itself.

[2, 3] 2. The provisions of an indemnity agreement that vouchers or other evidence of payments or an itemized statement of payments sworn to by an officer of the surety shall be prima facie evidence of the fact and extent of the liability of the indemnitor to the surety, and provisions that the indemnitor shall be liable for all liabilities, losses and expenses incurred by the surety and all sums paid by the surety in good faith under the belief that surety was or might be liable for said payments or that said payments are necessary and advisable to protect the surety's right or to avoid and lessen the surety's liability were not against public policy.

[4] 3. Under an indemnity agreement containing the provisions hereinabove set out in Paragraph 2, the indemnitor may successfully attack payments made by the surety only by pleading and proving fraud or lack of good faith by the surety.

[5, 6] Applying the above standards to the case at bar, the Indemnity Agreement, which was stipulated to be valid and binding, called for the indemnitor to pay the surety for all liabilities, losses and expenses and for all sums paid by the surety in good faith. There was no proof of bad faith or fraud on behalf of the surety and the lower court found on sufficient evidence that all payments were made in good faith. The surety provided proper evidence pursuant to the agreement of all payments made under both the Labor and Material Payment Bond and the Performance Bond. There was no issue to submit to the jury, and the instructions under these facts were clearly erroneous.

For the reasons above stated, this case is reversed and remanded to the lower court with directions to enter judgment therein for the appellant against the appellees in the amount of \$270,120.34.

All concur.