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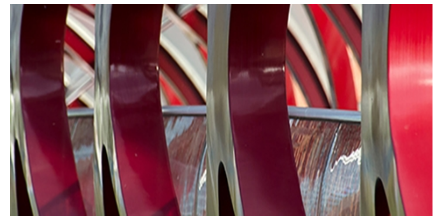

News & Types: Commercial, Competition & Trade Update

Litigious Attitude Coupled With Major Blunders Leads to Big Loss

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Practices: Commercial, Competition & Trade, Corporate, Finance & Acquisitions, Litigation

Usually, being aggressive in business and in litigation is considered an advantage. But, as illustrated in a recent 7th Circuit case, it is possible to be overly aggressive. When this is coupled with some serious mistakes in business and in litigation, it can be disastrous. (*4SEMO.COM Incorporated v. Southern Illinois Storm Shelters, Inc., Ingoldsby Excavating, Inc. and Bob Ingoldsby*, 7th Circuit Court of Appeals, Nos. 18-1998 & 18-2095, October 7, 2019)

4SEMO is a home remodeling company located in southeast Missouri. In 2004, 4SEMO purchased a storm shelter from a dealer of Southern Illinois Storm Shelters, Inc. (SISS) and installed it. 4SEMO was pleased with the storm shelter and began promoting the storm shelters to potential customers. SISS's dealer from which 4SEMO purchased the original storm shelter offered to have 4SEMO buy its inventory and become an SISS dealer. 4SEMO and its president, Ray Fielack, accepted.

Fielack decided that it would be good to have a trademark to use to promote the SISS storm shelters. In March or April 2005, Fielack decided on the name "Life Saver Storm Shelters" that would be used with a logo: a red Greek cross on a black background. The "Life Saver Storm Shelters" name would be written across the horizontal bar in yellow lettering. Around April or May 2005, 4SEMO began promoting the SISS storm shelters using the words and mark together.

On May 5, 2005, 4SEMO signed a formal dealership agreement with SISS. 4SEMO would have exclusive rights in a territory that included parts of Missouri and Arkansas. The trademarks were not mentioned in the Agreement.

In February 2006, brothers Bob and Scott Ingoldsby asked 4SEMO for permission for SISS to use the "Life Saver Storm Shelters" marks in connection with retail sales and installations in southern Illinois. 4SEMO orally agreed to permit SISS to use the marks on three conditions – it could only be used to promote shelters manufactured by the Ingoldsbys, installation would be in a manner familiar to 4SEMO and 4SEMO would control all of the promotional materials bearing the marks.

In its first mistake, the Ingoldsbys did not comply with the Agreement. Doing business under the SISS name and later as "Ingoldsby Excavating", the Ingoldsbys used the marks in a nationwide promotion and even registered the domain name "www.lifesaverstormshelters.com." In fact, according to the opinion, the Ingoldsbys' strategy was to continue these activities until discovered by 4SEMO at which point the Ingoldsbys would try to buy the marks from 4SEMO.

In 2011, 4SEMO discovered the unauthorized use of the marks and demanded SISS cease. Scott Ingoldsby offered to purchase the marks and negotiations progressed toward this end. But, in its next series of errors, Bob Ingoldsby called off the deal in August 2012. That didn't stop the Ingoldsbys, Ingoldsby Excavating and SISS from continuing to use the marks which they did even up to the month of trial. Then, in perhaps its greatest blunder and an act of incredible chutzpah, SISS and Ingoldsby Excavating, the actual infringers of the marks, sued 4SEMO for trademark infringement.

4SEMO counterclaimed against Bob Ingoldsby, Ingoldsby Excavating and SISS (which, for brevity, the court referred to collectively as "SISS"). After extensive litigation, SISS acknowledged that most of its claims had no factual or legal basis. The trial judge dismissed SISS's claims and entered summary judgment for 4SEMO. The judge then held a bench trial on the damages issue.

4SEMO's expert testified that SISS's revenue from its sales of "Life Saver" branded shelters was $17.4 million. In another mistake, this went unchallenged by SISS. SISS even waived its right to prove offsetting costs.

The judge then ruled strongly against SISS. He found the Ingoldsbys were not credible witnesses. He further found that 4SEMO owned the marks, that SISS breached the license agreement, and that the infringement was "willful, intentional, egregious, even malicious." The judge awarded the incredibly high damage figure of $17,371,003, virtually SISS's entire sales under the mark as 4SEMO's expert testified. On top of this, the judge held Bob Ingoldsby jointly and severally liable because he was doing business under what the judge said were proprietorships. But the judge denied 4SEMO's motion for attorneys' fees.

After the brutal treatment at the trial level, SISS may have thought it would have better success on appeal. But it did not. SISS came off even worse than it did with the trial judge.

Judge Sykes, author of the 7th Circuit opinion, dismissed SISS's arguments fairly handily. First, SISS argued that 4SEMO's logo was unlawful because it resembled the logo of the American Red Cross, imitation of which is potentially a crime. But, as Judge Sykes pointed out, the U.S. Trademark Office asked for minor modifications to 4SEMO's logo to get it registered and the only reason registration was not completed was the pending litigation. So this argument failed.

Then SISS argued that it actually had prior rights to the mark. It claimed to have marketed storm shelters under a virtually indistinguishable name – "Life-Saver Storm Shelters" (with a hyphen). SISS cited a treatise that gave the manufacturer a rebuttable presumption of ownership of a mark. In another error, SISS raised this first on appeal, so Judge Sykes held it had been waived. No matter – Judge Sykes said it was a loser anyway since 4SEMO's prior ownership had been "conclusively established as a factual matter."

Finally, SISS got around to the huge damage award of more than $17 million. It argued, reasonably, that this represents total sales of SISS without deduction for costs. But Judge Sykes again stated that SISS had waived its right to prove up deductions and did not object to 4SEMO's expert's calculations so this argument was waived. Count another major mistake by SISS.

SISS also argued that the trial judge should have excluded profits earned outside 4SEMO's limited territory. Again, Judge Sykes stated the argument was not raised below and was waived. But Judge Sykes went on to say that the argument had no merit anyway. 4SEMO's sales of SISS storm shelters was limited in territory, but not 4SEMO's right to use the marks that SISS infringed.

Recall that the judgement was also against Bob Ingoldsby personally. In what could be the Ingoldsbys' biggest blunder, they did not take the simple steps of establishing an entity that limited their individual liability, such as a corporation or limited liability company. Judge Sykes, citing the trial judge, noted, "[The trial judge] found no evidence that the Ingoldsbys respected the corporate form of either SISS or Ingoldsby Excavating. 'The record is devoid of any corporate formation documents, articles of incorporation, bylaws, operating agreements, board resolutions, or any other evidence of corporate activity in general. . . . ' These businesses were proprietorships, not truly independent corporate entities."

It got worse for SISS. The trial judge declined to award attorneys' fees to 4SEMO. In trademark cases, the court can award attorneys' fees "in exceptional cases" to the prevailing party. Judge Sykes felt it contradictory that the trial judge called SISS's conduct "bad faith", "willful", "egregious", "intentional", and even "malicious" yet failed to award 4SEMO attorneys' fees. To Judge Sykes, conduct described in this way was an "exceptional case." So Judge Sykes remanded the case to the trial judge to determine the amount of attorneys' fees to be awarded to 4SEMO.

The bad result for SISS and the Ingoldsby brothers could mostly be blamed on Bob and Scott Ingoldsby. Their mistakes and downright blunders are astonishing. A partial list includes:

- Intentional breach of the licensing agreement with 4SEMO by improperly using 4SEMO's marks in a nationwide sales campaign;
- Developing an ill-conceived strategy of using the intentional breach as leverage to buy the marks from 4SEMO;
- Pursuing negotiations with 4SEMO but then calling off the negotiations when the parties appeared close to agreement;
- Despite intentionally breaching the license agreement and facing exposure for such breach, being the first to start litigation against 4SEMO for trademark infringement;
- Failing to contest 4SEMO's expert's opinion that SISS's revenue from sales of "Life Saver" branded products was more than $17 million; and
- Last, but certainly not least, failing to use the corporate form in doing business or in following corporate formalities to protect against personal liability.

At SISS and the Ingoldsby brothers' expense, we have valuable learning lessons on what companies should avoid doing in business and in litigation.