

**IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

VITALGO, Inc. and VITALGO SYSTEMS LTD., )		
	)	Case No. 16-cv-5577
Plaintiff,	)	
	)	Judge Robert M. Dow, Jr.
v.	)	
	)	
KREG THERAPEUTICS, INC. and	)	
CRAIG POULOS,	)	
	)	
Defendants.	)	

**MEMORANDUM OPINION AND ORDER**

Plaintiffs VitalGo, Inc. and VitalGo Systems Ltd. bring this action against Defendants Kreg Therapeutics, Inc. and Craig Poulos alleging copyright and trademark infringement and unfair competition under federal and state law. Currently before the Court is Defendants’ motion to dismiss [18]. For the reasons set forth below, the Court grants in part and denies in part Defendants’ motion. Defendants’ motion to dismiss [18] is denied as to any claims based on the Kreg Catalyst Bed and granted as to Plaintiffs’ remaining claims, without prejudice to Plaintiffs seeking leave to amend VitalGo, Inc.’s counterclaims in the 2011 Lawsuit, *Kreg Therapeutics, Inc. v. VitalGo, Inc.*, No. 11-cv-6771. The present action is set for further status hearing on April 19, 2017 at 9:00 a.m.

**I. Background**

Plaintiff VitalGo, Inc. and Defendant Kreg Therapeutics, Inc. have been engaged in litigation before this Court for a considerable period of time. In fact, that litigation predates the filing of the current suit and is ongoing. The Court will set out the factual and procedural background of this longstanding litigation as it pertains to the current action. See *Henson v. CSC Credit Servs.*, 29 F.3d 280, 284 (7th Cir. 1994) (explaining that a court may take judicial notice

of matters in public record, including court documents, in deciding a motion to dismiss without converting it to a motion for summary judgment).

Plaintiff VitalGo Systems, Ltd. (“VSI”) is a foreign corporation based in Nicosia, Cyprus. VSI designed and developed the “Total Lift Bed,” a hospital-grade bed that can elevate a patient from lying down to a fully-standing position. Plaintiff VitalGo, Inc. (“VitalGo”) is a Delaware corporation that produces and sells the Total Lift Bed in North America. Defendant Kreg Therapeutics, Inc. (“Kreg”) is an Illinois corporation that provides specialty medical equipment to hospitals and nursing homes. Defendant Craig Poulos is the president of Kreg.

On or about December 23, 2009, Kreg and VitalGo entered into an agreement (“the Agreement”) pursuant to which Kreg was granted the exclusive right to distribute the Total Lift Bed in certain regions of the country (“the original territories”) in exchange for its agreement to commit to purchase minimum quantities of the bed. *Kreg Therapeutics, Inc. v. VitalGo, Inc.*, 2013 WL 1286681, at \*2 (N.D. Ill. Mar. 28, 2013). On April 6, 2010, Kreg and VitalGo executed an amendment (“the Amendment”) to the Agreement, which added additional territories. *Id.* at \*4.

In April 2011, a consultant emailed Ohad Paz, VitalGo’s Managing Director and CEO, notifying him that Poulos was “calling the beds the Kreg bed” and that Kreg was sponsoring a trial of the bed at Johns Hopkins.<sup>1</sup> *Id.* at \*5. Paz responded, “The fact that he is making a study is good for us. Why should we fight it. It is for the Total Lift Bed. We will act when the time is right for us. I am in waiting position.” Paz continued, “The fact he is calling the bed KREG bed is a Joke, as we can decide at any time not to sell him beds and in such case he has no beds.” *Id.*

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<sup>1</sup> Kreg marketed the Total Lift Bed to its clients across the country by developing protocols and sponsoring in-hospital trials and studies involving the beds. *Id.* at \*5.

In early May 2011, a vendor e-mailed Paz photographs that the vendor had taken of Kreg's booth at a convention. The vendor noted that "[o]ne of the beds have [sic] different wheels installed," and "there was no VitalGo nameplates on the beds at all." Paz wrote back, "We have problems with the guy. He is making changes with the beds without notifying us, although we told him he must." *Id.* at \*6.

On June 2, 2011, Paz sent Poulos an email and letter of notice that the parties' agreements were terminated. In the email, Paz asserted that "the agreements are terminated" because "you did not make any commitment for purchase of our products for 2011, as you should have, in order to keep your exclusivity." He requested that Kreg "immediately refrain from any further representation in regard to your status as our exclusive distributor in any of the territories." *Id.* Meanwhile, Paz was talking with RecoverCare, another medical supply company, to establish an agreement pursuant to which RecoverCare would distribute the Total Lift Beds. *Id.* On June 2, 2011, Paz emailed a RecoverCare representative indicating that Kreg's exclusivity ended and noting that Kreg "is also in violation of the agreement as [they are] using our trademark and [were] supposed to show us any advertisement [they are] making." *Id.*; [2011 Lawsuit, 79-25].

Poulos responded to Paz's June 2 correspondence via email on June 6, 2011. He noted that he was "disappointed to receive [Paz's] letter" because "[Kreg] has spent countless hours, money and resources to build the reputation, market and to support your products in our exclusive territories where we have introduced your products to our hard-earned loyal clients. [Kreg] never would have made these expenditures and introductions but for the fact that our territories are exclusive and we believed our agreements would continue at least through February 1, 2012." Poulos averred that Kreg was "willing to agree to commit to future minimum

purchases in 2011” if VitalGo were able to update it on “certain latent design issues with the Total Lift Beds” and “the production status of Total Lift Bariatric Beds,” which the Agreement had contemplated but which had not yet come to fruition. *Id.* at \*7.

On June 8, 2011, Paz responded to Poulos with a lengthy letter. He reiterated his position that “[t]he two agreements had expired on January 31st and May 31st, respectively,” and that Kreg had failed to give VitalGo its commitment to purchase additional beds before the January 31, 2011 deadline. Paz also disputed Poulos’s allegations that there were design flaws in the Total Lift Bed and contended that Kreg had impermissibly made modifications to the Total Lift Beds without VitalGo’s consent. *Id.*

On June 15, 2011, VitalGo and RecoverCare issued a press release announcing a “partnership to launch the Total Lift Bed™.” On September 15, 2011, Kreg sent VitalGo a purchase order for five Total Lift Beds. VitalGo declined to fill the purchase order for the beds. *Id.* at \*8.

**A. The 2011 Lawsuit**

On September 26, 2011, Kreg brought suit against VitalGo alleging that Kreg was the exclusive distributor of the Total Lift Beds in the original and additional territories through May 31, 2002 under the Agreement and the Amendment, (collectively “the agreements”), and that VitalGo breached the agreements by claiming in June 2011 that the agreements had expired and thereafter refusing to sell beds to Kreg, (the “2011 Lawsuit”). On October 17, 2011, VitalGo counterclaimed, alleging that Kreg violated the Agreement by making unauthorized alterations to the Total Lift Bed without VitalGo’s prior written approval, even after VitalGo demanded that Kreg stop, [2011 Lawsuit, 26 (VitalGo’s Answer and Counterclaim), at ¶¶ 19–24], and by failing

to obtain VitalGo's approval of all advertisements and promotional materials Kreg used to promote and sell the Total Lift Beds, [*id.* at ¶¶ 17–18].

The Court ruled on the parties' cross-motions for summary judgment on Kreg's claim on March 28, 2013. [2011 Lawsuit, 93.] The Court concluded that as to the original territories, Kreg established the first three elements of a claim for breach of contract under New York Law<sup>2</sup>: (1) the existence of a contract, (2) Kreg's own performance, and (3) VitalGo's breach. However, the Court held that Kreg had not demonstrated damages and was thus not entitled to a permanent injunction. *Id.* at \*17. Nevertheless, the Court noted that it could not preclude the possibility that the VitalGo's breach "resulted in the kinds of damages that Kreg anticipated but was not (yet) able to prove," and thus Kreg might be entitled to alternative relief. *Id.* The Court later set a damages bench trial for March 9, 2015. [2011 Lawsuit, 152, 153.]

As to VitalGo's claim that Kreg violated Paragraph 5 of the Agreement by making unauthorized alterations to the Total Lift Bed without VitalGo's prior written approval, the Court concluded that Kreg did not breach the agreement by altering the beds because nothing in the Agreement or the Amendment prohibited Kreg from doing so. *Kreg Therapeutics, Inc. v. VitalGo, Inc.*, 2013 WL 1286681, at \*13. The Court noted that Paragraph 12 of the Agreement prohibits Kreg from using or referring to VitalGo's trademarks and trade names "except as specified in this Agreement or as expressly authorized by Company in writing" but says nothing about altering the beds or referring to them as "Kreg Beds." *Id.*

#### **B. The 2014 Bankruptcy**

However, before damages could be determined at the bench trial, VitalGo filed for bankruptcy in December 2014, causing the 2011 Lawsuit to be stayed. [2011 Lawsuit, 155.]

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<sup>2</sup> The parties did not dispute that New York law, as provided in the Agreement and the Amendment, governs their breach of contract claims. *Id.* at \*10.

Kreg alleges, and VitalGo does not dispute, that VitalGo filed for bankruptcy to avoid the impending damages trial. [17, at 1; *In re VitalGo, Inc.*, No. 14-36711 (Bankr. S.D. Fla. Dec. 5, 2014).] On January 23, 2015, VitalGo filed its Summary of Schedules in the bankruptcy case and represented under penalty of perjury that it did not possess any “contingent and unliquidated claims of any nature, including \* \* \* counterclaims of the debtor and rights to setoff claims.” Similarly, in its April 15, 2015 Disclosure Statement, VitalGo stated that it had not identified any causes of action to pursue.

Shortly after Kreg moved to appoint a Chapter 11 trustee and the bankruptcy court set an evidentiary hearing on Kreg’s motion, VitalGo moved for a voluntary dismissal of its bankruptcy, which the bankruptcy court granted in December 2015.<sup>3</sup> On March 24, 2016, this Court reinstated the 2011 Lawsuit and reset the damages bench trial. [2011 Lawsuit, 167.] The bench trial was held on September 26 and 27, 2016 [see 2011 Lawsuit, 214, 215], and a schedule for post-trial briefs will be set as soon as the trial transcripts are available.

### **C. The 2016 Lawsuit**

On May 25, 2016, VitalGo and VSI filed the current lawsuit asserting claims against Kreg and Poulos for copyright infringement, false designation of origin under the Lanham Act, false advertisement under the Lanham Act, common law trademark infringement, common law unfair competition, violation of the Illinois Uniform Deceptive Trade Practices Act, and violation of the Illinois Consumer Fraud and Deceptive Business Practices Act. [1, at ¶ 2.] Plaintiffs allege that they first began using the VitalGo and Total Lift Bed marks in the United States in 2008. [*Id.* at ¶ 14.] They further allege that in approximately 2008, they began showing the Total Lift Bed in advertising and marketing materials and that VSI has filed copyright

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<sup>3</sup> VSI initially moved to dismiss VitalGo’s bankruptcy, and VitalGo later joined VSI’s motion to dismiss.

applications for one of its brochures and two digital renderings or pictures of its Total Lift Bed, (collectively, the “Copyrighted Works”). [*Id.* at ¶¶ 14, 18.]

Plaintiffs allege that since October 2011, Defendants marketed the Total Lift Bed on their website, in their brochure, in studies, and at conferences as an “Exclusive Kreg Product” or as a “Kreg Bed” and used Plaintiff’s Copyrighted Works. [*Id.* at ¶¶ 29, 36–44, 47, 71, 76.] Plaintiffs further allege that in 2010 or 2011, Defendants began making modifications to Plaintiffs’ Total Lift Beds but still advertised the beds as Total Lift Beds. [*Id.* at ¶¶ 31–35, 77–79.] Finally, Plaintiffs contend that in 2014, Defendants developed the competing Kreg Catalyst Bed, and until March 2016, promoted the Catalyst Bed using the Total Lift Bed mark and Plaintiff’s Copyrighted Works. [*Id.* at ¶¶ 67, 80.] Plaintiffs seek, among other forms of relief, an injunction, damages, and attorneys’ fees and costs under the Copyright Act, 17 U.S.C. § 505. [*Id.* at 35–38.] On July 18, 2016, Defendants filed a motion to dismiss [18], which is currently before the Court.

## **II. Legal Standard**

To survive a Rule 12(b)(6) motion to dismiss for failure to state a claim upon which relief can be granted, the complaint first must comply with Rule 8(a) by providing “a short and plain statement of the claim showing that the pleader is entitled to relief,” Fed. R. Civ. P. 8(a)(2), such that the defendant is given “fair notice of what the \* \* \* claim is and the grounds upon which it rests.” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007) (quoting *Conley v. Gibson*, 355 U.S. 41, 47 (1957)) (alteration in original). Second, the factual allegations in the complaint must be sufficient to raise the possibility of relief above the “speculative level.” *E.E.O.C. v. Concentra Health Servs., Inc.*, 496 F.3d 773, 776 (7th Cir. 2007) (quoting *Twombly*, 550 U.S. at 555). “A pleading that offers ‘labels and conclusions’ or a ‘formulaic recitation of the elements

of a cause of action will not do.” *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (quoting *Twombly*, 550 U.S. at 555). Dismissal for failure to state a claim under Rule 12(b)(6) is proper “when the allegations in a complaint, however true, could not raise a claim of entitlement to relief.” *Twombly*, 550 U.S. at 558. In reviewing a motion to dismiss pursuant to Rule 12(b)(6), the Court accepts as true all of Plaintiff’s well-pleaded factual allegations and draws all reasonable inferences in Plaintiff’s favor. *Killingsworth v. HSBC Bank Nevada, N.A.*, 507 F.3d 614, 618 (7th Cir. 2007). The Court may take judicial notice of matters in public record, including court documents, in deciding a motion to dismiss without converting it to a motion for summary judgment. *Henson*, 29 F.3d at 284.

### **III. Analysis**

Defendants Kreg and Poulos move to dismiss the 2016 Lawsuit on multiple grounds. Defendants argue that (1) the claims in the 2016 Lawsuit arise from the same operative facts as VitalGo’s counterclaims in the 2011 Lawsuit and therefore cannot be alleged in an independent suit; (2) Plaintiffs are judicially estopped from asserting their claims because they knew of but failed to disclose these claims in the 2014 Bankruptcy; (3) no factual allegations demonstrate Defendant Poulos’ personal liability; (4) the doctrine of laches bars Plaintiffs’ Lanham Act claims; (5) Plaintiffs do not allege actual consumer reliance on Defendants’ alleged misleading advertisement as necessary to support its Lanham Act claims; and (6) Plaintiffs cannot seek attorneys’ fees under the Copyright Act because its copyright registrations are untimely.

#### **A. Claim-Splitting**

Defendants first argue that Plaintiffs’ claims in the present suit must be dismissed because they arise from the same set of operative facts underlying VitalGo’s counterclaims in the 2011 Lawsuit. Under the doctrine of claim splitting, a form of *res judicata*, a party cannot split a

cause of action into separate grounds of recovery and bring successive lawsuits. *Nalco Co. v. Chen*, 843 F.3d 670, 674 (7th Cir. 2016); *Kim v. Sara Lee Bakery Grp., Inc.*, 412 F. Supp. 2d 929, 941 (N.D. Ill. 2006). Rather, a party must bring in one lawsuit “all legal theories arising out of the same transaction or series of transactions.” *Kim*, 412 F. Supp. 2d at 941; see also *Wilson v. City of Chicago*, 120 F.3d 681, 686 (7th Cir. 1997) (“Two claims arising from the same set of facts are one claim for *res judicata* purposes, and may not be split \* \* \* by making each claim the subject of a separate suit[.]”); *Serlin v. Arthur Andersen & Co.*, 3 F.3d 221, 223 (7th Cir. 1993) (“As a general rule, a federal suit may be dismissed for reasons of wise judicial administration \* \* \* whenever it is duplicative of a parallel action already pending[.]” (citation and internal quotation marks omitted) (alteration in original)). Unlike *res judicata*, the doctrine of claim splitting applies before there is a final judgment in a prior action. *Anderson v. Guaranteed Rate, Inc.*, 2013 WL 2319138, at \*4 (N.D. Ill. May 28, 2013); *Kim*, 412 F. Supp. 2d at 941–42; *CIVIX-DDI, LLC v. Expedia, Inc.*, 2005 WL 1126906, at \*4 (N.D. Ill. May 2, 2005) (collecting cases).

**1. Claims Based on (1) Modifications to the Total Lift Bed and (2) Marketing Materials**

Here, the doctrine of claim splitting precludes Plaintiffs from bringing claims based on Defendants’ modifications to the Total Lift Bed and Defendants’ allegedly infringing marketing and promotional materials for the Total Lift Bed. In the 2011 Lawsuit, VitalGo brought a counterclaim against Kreg alleging that Kreg violated the Agreement by making unauthorized alterations to the Total Lift Bed without VitalGo’s prior written approval. [2011 Lawsuit, 26, at ¶¶ 19–24.] Plaintiffs’ claim in the current lawsuit that Defendants modified the Total Lift Bed but still advertised the beds using Plaintiffs’ Total Lift Bed trademark and Copyrighted Works is based on the same set of operative facts underlying VitalGo’s counterclaim in the 2011 Lawsuit.

See *Palka v. City of Chicago*, 662 F.3d 428, 437 (7th Cir. 2011) (explaining that claim splitting in duplicative lawsuits is a litigation tactic that *res judicata* is meant to prevent); *Pennsylvania Chiropractic Ass'n v. Blue Cross Blue Shield Ass'n*, 2013 WL 5951505, at \*3 (N.D. Ill. Nov. 7, 2013) (holding that where the set of facts that gave rise to the earlier federal suit were the exact same set of facts underlying the claims in the second suit, the doctrine of claim splitting barred plaintiffs' claims).

Similarly, in the 2011 Lawsuit, VitalGo alleged that Kreg violated the Agreement by failing to obtain VitalGo's approval of all advertisements and promotional materials Kreg used to promote and sell the Total Lift Beds. [*Id.* at ¶¶ 17–18.] And Plaintiffs' claims in the current lawsuit that Defendants' advertisements and promotional materials (including their website, brochures, and materials for conferences and studies) infringed on Plaintiff's Total Lift Bed trademark and Copyrighted Works are based on the same set of operative facts: Kreg's advertising of the Total Lift Beds. See *Chicago Title Land Trust Co. v. Potash Corp. of Saskatchewan Sales*, 664 F.3d 1075, 1081 (7th Cir. 2011) (explaining that the “principle that *res judicata* prohibits a party from later seeking relief on the basis of issues which might have been raised in the prior action also prevents a litigant from splitting a single cause of action into more than one proceeding.” (citation and internal quotation marks omitted)). Although VitalGo brought its counterclaims under a breach of contract theory and Plaintiffs frame their current claims as intellectual property violations, simply changing the legal theory does not permit a plaintiff to bring separate suits arising from the same transaction. *Carr v. Tillery*, 591 F.3d 909, 913 (7th Cir. 2010) (“[A plaintiff] cannot maintain a suit, arising from the same transaction or events underlying a previous suit, simply by a change of legal theory. That is called ‘claim splitting[.]’”); *Car Carriers, Inc. v. Ford Motor Co.*, 789 F.2d 589, 593 (7th Cir. 1986) (“[A]

mere change in the legal theory does not create a new cause of action.” (citation and internal quotation marks omitted)).

The Court also notes that the parties’ arguments related to the permissive/compulsory counterclaims distinction are “red herring[s] for current purposes.” *Nalco*, 843 F.3d at 674 (7th Cir. 2016). On one hand, Defendants argue that Plaintiffs’ claims in the current lawsuit are compulsory counterclaims in the 2011 Lawsuit and thus cannot be brought in a separate lawsuit. On the other hand, Plaintiffs contend that their intellectual property claims are permissive counterclaims in the 2011 Lawsuit and thus they were not required to bring them in 2011. However, this argument would be relevant only if VitalGo had done nothing but defend against Kreg’s breach of contract claim in the 2011 Lawsuit. Since VitalGo elected to take the offensive by asserting counterclaims in the 2011 Lawsuit, VitalGo was “obliged to raise all claims that stem from the same transaction.” *Id.* (explaining that when a defendant in a civil action elects to assert counterclaims, the rule against claim splitting obligates it to raise all claims that stem from the same transaction or series of related transactions, even if some of those counterclaims would have been permissive). As Seventh Circuit explained in *Nalco*, 843 F.3d at 674, the rule against claim splitting extinguishes a claim by the plaintiff against the defendant even if the plaintiff in the second action presents theories of the case not presented in the first action or seeks remedies not demanded in the first action. *Id.*

Plaintiffs make several arguments as to why the doctrine of claim splitting should not apply here. First, Plaintiffs argue that “the law is clear that a breach of contract does not arise out of the same transaction or occurrence as a copyright infringement, trademark infringement, and/or unfair competition claim.” [25, at 9.] Plaintiffs’ attempt to set forth a categorical rule fails because courts utilize a case-by-case approach to determine if a particular factual situation

constitutes a single transaction or occurrence. Cf. *Thomas v. Chestnut Hill Apartments*, 2010 WL 4806990, at \*1 (E.D. Wis. Nov. 22, 2010). Here, the facts underlying Plaintiffs’ breach of contract counterclaims are the same facts underlying their new intellectual property claims, thus all claims arising from these facts must have been brought in the same suit or lost. Cf. *Cummins, Inc. v. TAS Distrib. Co.*, 676 F. Supp. 2d 701, 710 (C.D. Ill. 2009), *aff’d*, 700 F.3d 1329 (Fed. Cir. 2012) (holding that where patent invalidity claims were “certainly related in time, space, origin, and motivation to the breach of contract at issue” in a prior lawsuit, the patent invalidity claims were barred by *res judicata*); see also *Shaver v. F.W. Woolworth Co.*, 840 F.2d 1361, 1365 (7th Cir. 1988) (“Once a transaction has caused injury, all claims arising from that transaction must be brought in one suit or lost.”).

Next, Plaintiffs argue that their intellectual property claims involve facts and issues that did not develop until *after* VitalGo filed its counterclaims in the 2011 Lawsuit, and thus they could not have brought these intellectual property claims in the 2011 Lawsuit. [25, at 10.] To support this argument, Plaintiffs rely on the following allegations from their complaint: as of December 7, 2015, Defendants’ website stated “KREG introduces the Total Lift Bed™,” [1, at ¶ 36]; as of December 30, 2015, Defendants’ website used Plaintiffs’ Total Lift Bed mark and Copyrighted Works, and stated “Our patented technology gently raises the patient to a standing position,” and “Exclusive in Illinois, Indiana, Wisconsin, Atlanta (Ga.), Jacksonville, Orlando and Tampa/Ft. Myers (Fla.), Philadelphia, Trento [sic] and Camden (NJ), & St. Louis (Mo.),” [*id.* at ¶¶ 37–41, 71].

However, although these allegations concern activity in December 2015, the activity is merely a continuation of conduct that Plaintiffs were aware of prior to bringing their

counterclaims in the 2011 Lawsuit on October 17, 2011.<sup>4</sup> In April 2011, Paz, VitalGo's Managing Director and CEO, was notified that Poulos was calling the Total Lift Bed the "Kreg bed." *Kreg Therapeutics*, 2013 WL 1286681, at \*5. By at least June 2, 2011, Paz was aware that Kreg was using VitalGo's trademarks in their advertising. *Id.* at \*6; [2011 Lawsuit, 79-25]. And Plaintiffs allege in their complaint that in October 2011, Plaintiffs asked Defendants to cease and desist from asserting that Kreg remained an exclusive distributor of Plaintiffs' Total Lift Bed. [1, at ¶¶ 28–29.] Thus, Plaintiffs could have asserted their intellectual property claims related to this conduct in the 2011 Lawsuit. See *Pennsylvania Chiropractic Ass'n*, 2013 WL 5951505, at \*3 (rejecting plaintiffs' argument that the doctrine of claim splitting did not apply because they remained vulnerable to violations not addressed in the original action); cf. *Bell v. Taylor*, 827 F.3d 699, 706 (7th Cir. 2016) (*res judicata* bars claims that were actually litigated or could have been litigated in another lawsuit).

Further, the Court is not convinced by Plaintiffs' argument that their intellectual property claims could have not accrued until after the Agreement between Kreg and VitalGo ended on May 31, 2012 and after the Court ruled on the parties' motions for summary judgment on March 28, 2013. [25, at 10.] Plaintiffs took the position in the 2011 Lawsuit that the Agreement giving Kreg exclusive distributorship as to the original territories ended by June 2011 because Kreg did not commit to minimum purchase requirements as required to keep its exclusivity. See *Kreg Therapeutics*, 2013 WL 1286681, at \*6 (noting that on June 2, 2011, Paz notified Poulos that the parties' agreements were terminated and requesting that Kreg "immediately refrain from any further representation in regard to [its] status as [VitalGo's] exclusive distributor in any of the territories"). Similarly, Plaintiffs allege in their complaint that in October 2011, Plaintiffs asked

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<sup>4</sup> The Court will discuss separately Plaintiffs' allegations concerning Defendants' introduction of their competing Kreg Catalyst Bed in 2014 and their alleged use of Plaintiffs' Total Lift Bed trademark and Copyrighted Works to introduced and promote sales of the Catalyst Bed.

Defendants to “cease and desist from asserting that [Defendants] remained an exclusive distributor of Plaintiffs’ Total Lift Bed.” [1, at ¶¶ 28–29.] Thus, Plaintiffs had no reason to wait until the Court concluded on March 28, 2013 that the Agreement ended on May 31, 2012 to bring their intellectual property claims. Plaintiffs’ claims that Defendants infringed on their intellectual property by using Plaintiffs’ trademarks and Copyrighted Works after the Agreement between Kreg and VitalGo ended would have been perfectly consistent with VitalGo’s position in the 2011 Lawsuit that the Agreement ended by June 2011.

Finally, Plaintiffs argue that since VitalGo’s affiliate VSI and Kreg’s owner and president Poulos were not parties to the 2011 Lawsuit, the doctrine of claim-splitting does not apply. [25, at 10–11.] However, “just as the adoption of a new legal theory will not salvage litigation arising from a set of facts that has already been litigated, a party may not avoid the rule against claim splitting by slightly altering the parties in subsequent actions.” *Pennsylvania Chiropractic Ass’n*, 2013 WL 5951505, at \*3 (citing *Zarniecki v. City of Chicago*, 633 F.3d 545, 549 (7th Cir. 2011)). If the new parties are in privity with the parties in the original action, the doctrine of claim splitting will apply. See *Zurich Capital Markets Inc. v. Coglianese*, 383 F. Supp. 2d 1041, 1048 (N.D. Ill. 2005). Courts apply a “functional approach” to determining whether parties are in privity. *Serv. Employees Int’l Union Local 1 v. Digby’s Detective & Sec. Agency, Inc.*, 2009 WL 721003, at \*2 (N.D. Ill. Mar. 18, 2009). “It is the identity of interest that controls in determining privity, not the nominal identity of the parties.” *Chicago Title Land Trust Co.*, 664 F.3d at 1080 (citation and internal quotation marks omitted).

Here, Poulos, a Defendant in the current action, is in privity with Kreg, which was the only Counter-Defendant in the 2011 Lawsuit. Plaintiffs allege that Poulos is the founder, owner, president, and CEO of Kreg, [1, at ¶ 81], and Seventh Circuit case law dictates that Poulos is

thus in privity with Kreg. *Studio Art Theatre of Evansville, Inc. v. City of Evansville, Ind.*, 76 F.3d 128, 131 (7th Cir. 1996) (president of company was “clearly in privity” with his company); *Henry v. Farmer City State Bank*, 808 F.2d 1228, 1235 (7th Cir. 1986) (holding that even though a bank was the only actual party in the first action, the other defendants in the second action were in privity with the bank for purposes of *res judicata* because they were directors, officers, employees, and attorneys of the bank).

In addition, VSI (VitalGo Systems, Ltd.), a Plaintiff in this action, shares a sufficient identity of interest with its affiliate VitalGo, which was the Counter-Plaintiff in the 2011 Lawsuit, that VSI is in privity with VitalGo. See *Serv. Employees Int'l Union Local 1*, 2009 WL 721003, at \*3 (explaining that although the parties were “nominally different,” they shared the same legal interests, and were thus in privity). Plaintiffs allege in their complaint that VSI, a corporation based in Nicosia, Cyprus, established VitalGo NA LLC in 2008 for the purpose of distributing the Total Lift Bed in North America. [1, at ¶¶ 4, 13.] According to Plaintiffs, VSI and VitalGo NA LLC signed a license and distribution agreement, which granted VitalGo NA LLC the right to use VSI’s intellectual property. [*Id.* at ¶ 13.] Plaintiffs contend that in March 2009, VitalGo NA LLC transferred its assets and operations to Plaintiff VitalGo, a Delaware corporation. [*Id.* at ¶¶ 3, 13]; see *Pet Prod. Innovations, LLC v. Paw Wash, LLC*, 2012 WL 2022038, at \*7 (N.D. Ill. June 5, 2012), (“[T]he Seventh Circuit has made it clear that the purchaser of a company’s assets may be in privity with the seller, even without common ownership.”). Plaintiffs further contend that VSI signed a new license agreement with VitalGo, granting VitalGo the exclusive right to produce and sell the Total Lift Bed in North America, and the nonexclusive right to use the VitalGo and Total Lift Bed marks, among other marks and intellectual property. [*Id.* at ¶ 13.] Additionally, VSI stated in its motion to dismiss VitalGo’s

2014 Bankruptcy that “Paz formed [VSI] and Vitalgo [sic] to commercialize the Total Lift Bed Technology” and that “in 2009, [VSI] formed Vitalgo, [sic] a Delaware corporation.” [17, Exhibit O, at 4.] VSI also asserted that although the ownership of VSI and VitalGo is not identical, it is overlapping. [*Id.*]

Further, the record in VitalGo’s bankruptcy establishes that Paz is the CEO of both VSI and VitalGo, VSI has no employees other than Paz, VSI is a 12% owner of VitalGo, and the same four individuals collectively own 65% of both VSI and VitalGo. [35, at 6 (citing *In re VitalGo*, No. 14-36711-RBR, 139, at 2 (Bankr. N.D. Ill. Dec. 8, 2015)).] Finally, Plaintiffs refer to themselves collectively as “Plaintiffs” in their complaint and do not plead any facts from which the Court can infer that they do not share legal interests. [See, *e.g.*, 1, at ¶ 14 (“Plaintiffs first began using the [VitalGo] and [Total Lift Bed] marks in the United States in 2008. Since that time, Plaintiffs have made widespread, consistent and continuous use of the [VitalGo] and [Total Lift Bed] marks in interstate commerce in association with their Total Lift Bed. As a result, Plaintiffs enjoy the exclusive right to use the [VitalGo] and [Total Lift Bed] marks in the United States in connection with the goods provided by Plaintiffs.”); ¶ 25 (“Notwithstanding Plaintiffs’ exclusive and senior rights in and to the [Total Lift Bed] mark \* \* \* Defendants have used and/or continue to use Plaintiffs’ [Total Lift Bed] mark both with and without Plaintiffs’ Copyrighted Works[.]”).]

Thus, the Court concludes that the addition of VSI as a Plaintiff and Poulos as a Defendant to the current lawsuit does not preclude the application of the doctrine of claim splitting. See *Nalco*, 843 F.3d at 672 (noting that plaintiff’s argument that the doctrine of claim splitting did not apply because plaintiff named a defendant in the second action who was not party to the first action was a “questionable proposition even if [the new defendant] were a

distinct entity [from the original defendant], for federal courts no longer require mutuality in civil litigation,” and ultimately rejecting this argument because the two allegedly separate defendants were just “different names for the same thing”); cf. *Aetna Cas. & Sur. Co. of Hartford, Connecticut v. Kerr-McGee Chem. Corp.*, 875 F.2d 1252, 1257 (7th Cir. 1989) (explaining that for *res judicata* purposes, the “same parties” requirement may be satisfied even though technically distinct corporate entities are involved in the various actions and concluding that the parent and the subsidiaries had sufficiently similar interests such that the “same parties” requirement was met); *Janusz v. Fasco Indus., Inc.* 1999 WL 162793, at \*5 (N.D. Ill. Mar. 12, 1999) (explaining that the Seventh Circuit has held that for *res judicata* purposes, a corporation and its subsidiaries are in privity). The doctrine of claim splitting precludes Plaintiffs from bringing claims based on Defendants’ modifications to the Total Lift Beds and Defendants’ allegedly infringing marketing and promotional materials for the Total Lift Bed.

Finally, the Court notes that Plaintiffs state in a footnote: “Should the Court find that any of Plaintiffs’ IP Claims are compulsory counterclaims or constitute claim splitting, then Plaintiffs respectfully request leave to amend VitalGo’s counterclaims in the pending Kreg Breach Case[.]” [25, at 12 n.16.] Plaintiffs’ embedding of a request for leave to amend in a footnote of a response brief is improper. See *Capital Mach. Co. v. Miller Veneers, Inc.*, 2012 WL 243563, at \*3 (S.D. Ind. Jan. 25, 2012) (denying a request for leave to amend buried in a response brief rather than in a separate motion with independent briefing); *Novak v. State Parkway Condominium Ass’n*, 2015 WL 1058014, at \*4 (N.D. Ill. Mar. 6, 2015) (reserving ruling on a request for leave to amend until plaintiffs have “made a proper motion for leave to amend rather than act on a request imbedded in a response brief,” so that the parties may properly brief the relevant issues). If VitalGo wishes to pursue these claims in the 2011 Lawsuit, it must file a

motion for leave to amend its counterclaims in that action. The Court expresses no opinion on whether such a motion would have merit and would allow full briefing on the motion before ruling on it.

## **2. Claims Based On The Kreg Catalyst Bed**

However, Plaintiffs' claims based on Defendants' marketing of the Kreg Catalyst Bed in 2014 using Plaintiffs' intellectual property are not barred by the doctrine of claim splitting because they are based on facts that are separate and distinct from those underlying VitalGo's counterclaims in the 2011 Lawsuit. Specifically, Plaintiffs contend that on or about 2014, Defendants introduced their Catalyst Bed to compete with Plaintiffs' Total Lift Bed but failed to show their Catalyst Bed in marketing materials and on their website. [1, at ¶ 67.] Instead, until on or about March 2016, Defendants allegedly used Plaintiffs' Total Lift Bed mark and Plaintiffs' Copyrighted Works to introduce and to promote sales of Defendants' Catalyst Bed. [*Id.*] According to Plaintiffs, Defendants used the Total Lift Bed mark "to create consumer confusion and traffic off of Plaintiff's reputation and goodwill" under the Total Lift Bed mark. [*Id.*] Plaintiffs further allege that Defendants used Plaintiff's Copyrighted Works in conjunction with the Total Lift Bed mark to introduce and to promote sales of Defendants' Catalyst Bed. [*Id.* at ¶¶ 67, 80.] Plaintiffs contend that Defendant Poulos filed a provisional patent application related to the Kreg Catalyst Bed on April 18, 2014 and a non-provisional patent application on April 18, 2015, and that Defendant Poulos' patent application was published on October 22, 2015. [*Id.* at ¶ 68.]

Since Plaintiffs' claims related to Defendant's marketing of their Catalyst Bed using Plaintiffs' intellectual property are based on underlying facts that are separate and distinct from

those underlying VitalGo's counterclaims in the 2011 Lawsuit, Plaintiffs may proceed on these claims in the current action.

**B. Judicial Estoppel**

Defendants also argue that VitalGo's failure to disclose its supposedly new claims against Defendants in the now-dismissed 2014 Bankruptcy precludes Plaintiffs from bringing their claims in the current lawsuit. Defendants contend that in VitalGo's January 23, 2015 Summary of Schedules and its April 15, 2015 Disclosure Statement, VitalGo represented to the bankruptcy court under oath that it did not possess any claims, counterclaims, or setoff rights against Kreg or others. According to Defendants, having made these representations and then having successfully sought dismissal of the 2014 Bankruptcy without amending its asset disclosure, VitalGo should now be judicially estopped from pursuing such claims.

Judicial estoppel precludes a party from abandoning positions after they have prevailed on them in earlier litigation. *Zedner v. United States*, 547 U.S. 489, 504 (2006). The doctrine "is invoked to protect the integrity of the judicial process by estopping parties from asserting contradictory positions in court to derive an unfair advantage." *Burns v. Villiage of Crestwood*, 2013 WL 352784, at \*3 (N.D. Ill. Jan. 29, 2013); see also *Levinson v. United States*, 969 F.2d 260, 264 (7th Cir. 1992) (Judicial estoppel is "intended to protect the courts from being manipulated by chameleonic litigants who seek to prevail, twice, on opposite theories."). Judicial estoppel is an equitable doctrine that cannot be reduced to a precise formula or test, see *Zedner*, 547 U.S. at 504, and it is a matter of discretion. *Commonwealth Ins. Co. v. Titan Tire Corp.*, 398 F.3d 879, 887 (7th Cir. 2004). Three factors that inform the decision about whether to apply judicial estoppel are: (1) whether the later position is clearly inconsistent with the earlier position; (2) whether the party to be estopped succeeded in persuading the first court to accept its

earlier position, “so that judicial acceptance of an inconsistent position in a later proceeding would create the perception that either the first or second court was misled;” and (3) whether the party seeking to assert an inconsistent position would derive an unfair advantage or impose an unfair detriment on the opposing party if not estopped. *In re Knight-Celotex, LLC*, 695 F.3d 714, 721 (7th Cir. 2012) (citation and internal quotation marks omitted).

Here, VitalGo did not persuade the bankruptcy court to accept its earlier position that VitalGo did not possess any claims, as the bankruptcy court rejected VitalGo’s proposed reorganization plan in August 2015, and VitalGo did not obtain the benefit of a discharge. Additionally, VitalGo moved for voluntary dismissal of its bankruptcy, which the bankruptcy court granted in December 2015. Thus, even though VitalGo’s bankruptcy filing was neither well-intended nor well-taken by the bankruptcy court, a careful review of Seventh Circuit precedent leaves the Court disinclined to conclude that Plaintiffs are judicially estopped from bringing their claims. See *United States v. Newell*, 239 F.3d 917, 921 (7th Cir. 2001) (noting that there is a minority view that “judicial estoppel applies even where no court has accepted the prior assertion if the party taking contrary positions demonstrates an intent to play ‘fast and loose’ with the courts,” but explaining that this is “clearly not the view of” the Seventh Circuit); see also *Williams v. Airborne Express Inc.*, 2006 WL 932347, at \*2–3 (N.D. Ill. Apr. 11, 2006) (judicial estoppel did not apply where plaintiff failed to disclose claim to bankruptcy court, but bankruptcy court dismissed plaintiff’s petition before a reorganization plan was confirmed, and thus plaintiff did not prevail on his prior position); cf. *Fricke v. Healthcare Revenue Recovery Group, LLC*, 2015 WL 4778527, at \*4 (N.D. Ill. Aug. 12, 2015) (holding that judicial estoppel did not apply even though “plaintiff may have received a number of benefits from her bankruptcy, such as an automatic stay pursuant to 11 U.S.C. § 362”).

Defendants argue that it is immaterial that VitalGo did not receive a discharge because VitalGo received “a significant benefit from its Chapter 11 bankruptcy filing—the automatic stay that delayed the damages trial on Kreg’s breach of contract claim in the 2011 Lawsuit.” [35, at 9.] To support their argument, Defendants rely on *Williams v. Hainje*, 375 Fed. App’x 625 (7th Cir. 2010), but *Williams* is distinguishable from the case at hand. In *Williams*, the Seventh Circuit held that judicial estoppel applied where the plaintiff’s lawsuit had been pending for nearly two years when the plaintiff filed for bankruptcy, and the plaintiff did not amend his personal property schedules to account for the lawsuit until after the defendant had discovered the omission and moved for summary judgment on judicial estopped grounds. *Id.* at 628. The Seventh Circuit explained that it was immaterial that the plaintiff never received a discharge because he still received “significant financial benefits during his short stint in bankruptcy,” including the automatic stay, which held creditors at bay for about twenty months and enabled him to keep his house and car and to avoid new interest charges on his mortgage arrearage while he pursued his undisclosed lawsuit. *Id.* at 627.

However, in *Williams*, the bankruptcy court confirmed a reorganization plan that substantially reduced the plaintiff’s debt. 375 Fed. App’x at 626. Thus, although the plaintiff’s debts were not permanently discharged, he did receive preliminary benefits from concealing his lawsuit from the bankruptcy court. *Id.* In contrast, VitalGo’s reorganization plan was never confirmed, and VitalGo’s debts were not discharged. Although VitalGo was able to delay the damages trial on Kreg’s breach of contract claim in the 2011 Lawsuit, any benefit VitalGo received was minimal. Additionally, the *Williams* bankruptcy was dismissed because the plaintiff defaulted on his reorganization payments. *Id.* at 627. VitalGo, on the other hand,

moved for a voluntary dismissal of its bankruptcy before the bankruptcy court relied on its nondisclosure.

Further, when the plaintiff in *Williams* filed for bankruptcy, his undisclosed lawsuit was active and well into discovery, and the court noted that the plaintiff's suit was on his mind as he prepared his bankruptcy disclosures because he reported as unsecured debt the medical expenses that he allegedly incurred from the injury underlying his lawsuit. *Id.* at 628. In contrast, Plaintiffs in the case at bar did not file this present lawsuit until May 25, 2016, about five months after the bankruptcy court dismissed VitalGo's bankruptcy. Thus, although the actions underlying their claims took place prior to VitalGo's filing for bankruptcy on December 5, 2014 and Plaintiffs were aware of the underlying facts, it is not clearly apparent that VitalGo purposefully concealed its claims from the bankruptcy court. See *Burns*, 2013 WL 352784, at \*4 ("Courts generally consider a party's subjective intent in deciding whether to apply judicial estoppel.").

The other cases that Defendants cite in support of their argument for judicial estoppel are similarly distinguishable. See, e.g., *Davis v. Mitsubishi Motors of N. Am., Inc.*, 2011 WL 4056072, at \*2 (C.D. Ill. Sept. 8, 2011) (holding that judicial estoppel applied where plaintiff did not notify the bankruptcy court of the lawsuit he was actively pursuing even though plaintiff did not obtain a discharge of his debts, where plan was confirmed and bankruptcy was dismissed, at least in part, as a result of plaintiff's failure to make his required plan payments); *Karraker v. Rent-A-Center, Inc.*, 2005 WL 297652, at \*1-3 (C.D. Ill. Nov. 7, 2005) (holding that even though plaintiff did not obtain a successful result in bankruptcy because he defaulted on his plan payments and the bankruptcy court thus dismissed his case, judicial estoppel barred plaintiff from asserting a claim he did not disclose to the bankruptcy court where plaintiff filed his lawsuit

prior to filing for bankruptcy and the bankruptcy court accepted and relied on the plaintiff's nondisclosure). For all of these reasons, the Court declines to dismiss Plaintiffs' claims on judicial estoppel grounds.

### **C. Poulos' Personal Liability**

Next, Defendants allege that all claims against Defendant Poulos should be dismissed because Plaintiffs have not alleged facts sufficient to make the requisite "special showing" that Defendant Poulos could be personally liable for Defendant Kreg's alleged wrongful conduct. Under *Dangler v. Imperial Mach. Co.*, 11 F.2d 945, 947 (7th Cir. 1926) and progeny, officers are not personally liable for a corporation's infringement, even if the infringement was committed under their general direction. A plaintiff seeking to hold an officer personally liable must make a "special showing" that the officer acted "willfully and knowingly" such as by "personally participat[ing] in the manufacture or sale of the infringing article (acts other than as an officer)," or by "[using] the corporation as an instrument to carry out his own willful and deliberate infringements." *Specht v. Google, Inc.*, 660 F. Supp. 2d 585, 864 (N.D. Ill. 2009) (citation omitted) (alteration in original).

Here, Plaintiffs allege, among other things, that "Defendant Poulos willfully, knowingly, and/or actively participated in and supervised, the illegal and willfully infringing activities of Defendant Kreg, and used Defendant Kreg to carry out his illegal and willfully infringing activities." [*Id.* at ¶ 97.] Plaintiffs allege on information and belief that "Defendant Poulos personally authorized the use of Plaintiffs' Total Lift Bed Brochure, Total Lift Bed, and Total Lift Bed 2 works on Defendants [sic] Kreg's brochures, advertisements, website, and marketing materials," [*id.* at ¶ 106], and that "it was Defendant Poulos' decision to introduce Defendants' Catalyst bed to compete with Plaintiffs' Total Lift Bed and to not show Defendants' Catalyst bed

in marketing materials and on Defendants' website for almost two years," [*id.* at ¶ 110]. These allegations are enough to make the "special showing" needed to bring a personal liability claim against Defendant Poulos. See *Syscon, Inc. v. Vehicle Valuation Servs., Inc.*, 274 F. Supp. 2d 975, 977 (N.D. Ill. 2003) (holding that plaintiff's allegations were sufficient to state an individual claim against the corporation's officer where plaintiff alleged that the officer "personally directed and participated in allegedly infringing activity, as well as personally authoriz[ed] that activity"); cf. *FM Industries, Inc. v. Citicorp Credit Servs., Inc.*, 2007 WL 4335264, at \*4 (N.D. Ill. Dec. 5, 2007) (plaintiffs did not make special showing required for individual liability where plaintiffs alleged only that defendants "engaged in unauthorized infringement as 'agent[ ] servants and employees of [defendant corporation]'" ).

Defendants argue that Plaintiffs' "conclusory allegations that Mr. Poulos 'willfully and knowingly' participated in Kreg's alleged infringement is [sic] mere conjecture." [17, at 12.] However, Plaintiffs need not prove any of their allegations in order to survive a motion to dismiss. See *Syscon, Inc.*, 274 F. Supp. 2d at 977. Additionally, it is of no import that some of Plaintiffs' allegations are made "on information and belief," as such allegations are acceptable under the liberal notice pleading requirements of Federal Rule of Civil Procedure 8(a). *Syscon, Inc.*, 274 F. Supp. 2d at 977; *Chisholm v. Foothill Capital Corp.*, 940 F. Supp. 1273, 1280 (N.D. Ill. 1996) (Unlike Rule 9, which is applicable to claims of fraud, Rule 8 has no requirement that the circumstances of the allegation be pleaded with particularity). Therefore, without expressing an opinion on whether Plaintiffs will be able to prove their claims against Defendant Poulos at a later stage in this litigation, Court concludes that Plaintiffs have sufficiently alleged that Defendant Poulos could be personally liable for Defendant Kreg's alleged wrongful conduct.

**D. Laches**

Next, Defendants contend that Plaintiffs' claims are barred by the doctrine of laches. The doctrine of laches is derived from the maxim that those who sleep on their rights will lose them. *Hot Wax, Inc. v. Turtle Wax, Inc.*, 191 F.3d 813, 820 (7th Cir. 1999). For laches to apply, Defendants must demonstrate: (1) an unreasonable lack of diligence by Plaintiffs, and (2) prejudice arising therefrom. *Id.* Courts have recognized that even if the elements of laches are established, a court need not bar a plaintiff's suit, as the application of the laches defense is discretionary, and courts are to "look to all the facts and circumstances of the case and weigh the equities of the parties." *Clever Ideas, Inc. v. Citicorp Diners Club, Inc.*, 2003 WL 21982141, at \*11 (N.D. Ill. Aug. 20, 2003) (citation and internal quotation marks omitted).

Here, Plaintiffs allege that Defendants introduced their Catalyst Bed to compete with Plaintiffs' Total Lift Bed in around 2014 and used Plaintiffs' intellectual property to market the Kreg Catalyst Bed. They further contend that Defendant Poulos filed patent applications for the Catalyst Bed in 2014 and 2015. Plaintiffs brought this lawsuit on May 25, 2016. Based on this timeline, the Court declines to conclude that the doctrine of laches bars Plaintiffs' claims based on the Kreg Catalyst Bed.

The Court need not rule on how the doctrine of laches may apply to Plaintiffs' claims based on Defendants' modifications to the Total Lift Beds and Defendants' allegedly infringing marketing and promotional materials for the Total Lift Bed, as the Court has already concluded that those claims are barred by the doctrine of claim-splitting. If Plaintiffs file a motion for leave to amend their counterclaims in the 2011 Lawsuit, Defendants are not precluded from raising an argument based on laches.

**E. Consumer Reliance**

Defendants briefly argue that Plaintiffs do not allege actual consumer reliance on Defendants' allegedly misleading advertisements as required to state a false advertisement claim under the Lanham Act. "In order to state a valid damages claim under the Lanham Act, a plaintiff must demonstrate that it has been damaged by actual consumer reliance on defendant's misrepresentations, for example a loss of sales, profits, or present value." *Navistar Int'l Transp. Corp. v. Freightliner Corp.*, 1997 WL 729060, at \*2 (N.D. Ill. Aug. 28, 1997).

Here, Plaintiffs allege that "Defendants' use of Plaintiffs' [Total Lift Bed] mark is likely to cause, *has caused*, and *is causing actual consumer confusion* in the marketplace as to the origin of Plaintiffs' hospital beds and Plaintiffs' affiliation with Defendants and Defendants' hospital beds." [1, at ¶ 64 (emphasis added).] They further allege that "Plaintiffs have sustained injury, damage, and loss based on Defendants' actions." [*Id.* at ¶ 144.] Thus, Plaintiffs have sufficiently alleged actual consumer reliance to survive a motion to dismiss. Cf. *Navistar*, 1997 WL 729060, at \*2 (plaintiff's allegation that it is "likely" to be injured by defendant's conduct was not enough to state a Lanham Act claim). Again, Defendants' argument that these allegations are too conclusory fails because Plaintiffs need not prove any of their allegations in order to survive a motion to dismiss. See *Syscon, Inc.*, 274 F. Supp. 2d at 977.

**F. Attorneys' Fees under the Copyright Act**

Finally, Defendants argue that Plaintiffs' claim for attorneys' fees pursuant to § 505 of the Copyright Act must be dismissed because Plaintiffs did not register the works at issue with the U.S. Copyright Office within three months of the works' publication as required by § 412 of the Copyright Act for an award of attorneys' fees. See 17 U.S.C. § 412 ("no award of statutory damages or of attorney's fees \* \* \* shall be made for \* \* \* any infringement of copyright

commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work”); *Intercom Ventures, LLC v. City Media Plus Ex-Yu Streaming*, 2013 WL 4011052, at \*5 (N.D. Ill. Aug. 6, 2013) (explaining that § 412 provides that a copyright plaintiff seeking statutory damages or attorney fees for published works must complete copyright registration within three months of first publication). VSI’s copyright applications were filed with the Copyright Office on March 22, 2016 but state that the works were first published in 2008. [1, Exhibits A–C.]

Plaintiffs do not respond to this argument and thus waive their right to contest a dismissal on this basis. See *Alioto v. Town of Lisbon*, 651 F.3d 715, 719 (7th Cir. 2011) (“As to the defendants’ motion to dismiss the complaint, [plaintiff] waived his right to contest the dismissal by failing to oppose the motion[ ].”); *Kirksey v. R.J. Reynolds Tobacco Co.*, 168 F.3d 1039, 1041 (7th Cir. 1999) (If a defendant provides plausible grounds for granting a motion to dismiss, the court will not “do the plaintiff’s research and try to discover whether there might be something to say against the defendants’ reasoning.”). Thus, Plaintiffs’ claims for attorneys’ fees pursuant to § 505 of the Copyright Act are dismissed.

#### **IV. Conclusion**

For the foregoing reasons, the Court grants in part and denies in part Defendants’ motion to dismiss [18]. Defendants’ motion to dismiss [18] is denied as to any claims based on the Kreg Catalyst Bed and granted as to Plaintiffs’ remaining claims, without prejudice to Plaintiffs seeking leave to amend VitalGo’s counterclaims in the 2011 Lawsuit, *Kreg Therapeutics, Inc. v. VitalGo, Inc.*, No. 11-cv-6771. The present action is set for further status hearing on April 19, 2017 at 9:00 a.m.

Date: March 29, 2017

A handwritten signature in black ink, appearing to read "Robert M. Dow, Jr.", written over a horizontal line.

Robert M. Dow, Jr.  
United States District Judge



30, 2018 at 10:00 a.m. to discuss a discovery plan.<sup>1</sup> Counsel are directed to confer and submit an updated joint status report no later than January 26, 2018.

## **I. Background**

The background of this case, and of the more extensive litigation in which VitalGo and Kreg have been engaged before this Court, is set forth in the Court's previous opinion in this case, knowledge of which is assumed here. [See 41 at 1–7.] Briefly summarized, the parties entered into an agreement pursuant to which Kreg was granted the exclusive right to distribute Plaintiffs' Total Lift Bed product in certain regions of the country. In 2011, VitalGo terminated the parties' agreement, and Kreg thereafter filed suit (the "2011 Lawsuit") against VitalGo for breach of that agreement. VitalGo counterclaimed that Kreg had violated the parties' agreement by both making unauthorized alterations to the Total Lift Bed without VitalGo's prior written approval and by failing to obtain VitalGo's approval of all advertisements and promotional materials Kreg used to promote and sell Total Lift Beds.<sup>2</sup>

In May 2016, Plaintiffs filed the instant lawsuit, bringing claims against Defendants for copyright infringement in violation of 17 U.S.C. § 501 (Count I); unfair competition and false designation of origin pursuant to Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A) (Count II); unfair competition and false advertisement pursuant to Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(B) (Count III); common law trademark infringement (Count IV);

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<sup>1</sup> In their motion [55] to stay discovery, Defendants have complained about the scope of the discovery requests that Plaintiffs served on them in May 2017. In light of the Court's decision, Plaintiffs should tailor their requests to be consistent with the claims that are allowed to go forward. To the extent that Plaintiffs are successful in the future in meeting the Rule 9(b) particularity standard for the claims that are being dismissed here, Plaintiffs may expand the scope of discovery at the appropriate time.

<sup>2</sup> The 2011 Lawsuit has concluded proceedings before the district court and is currently on appeal. After a bench trial, the Court concluded that Kreg was entitled to \$642,610 in damages plus \$364,593 in prejudgment interest, for a total award of \$1,007,203. See *Kreg Therapeutics, Inc. v. Vitalgo, Inc.*, Docket Entry 250, No. 11-cv-6771 (N.D. Ill.) (Memorandum Opinion and Order).

common law unfair competition (Count V); violation of the Illinois Uniform Deceptive Trade Practices Act (IUDTPA), 815 Ill. Comp. Stat. 510/1 *et seq.* (Count VI); and violation of the Illinois Consumer Fraud and Deceptive Business Practices Act (ICFA), 815 Ill. Comp. Stat. 505/1 *et seq.* (Count VII). [1 ¶ 2.] According to the original complaint, Plaintiffs began using VitalGo and Total Lift Bed marks in the United States in 2008, Plaintiffs began showing the Total Lift Bed in advertising and marketing materials in approximately 2008, and Plaintiffs have filed copyright applications for a brochure and for two digital renderings of the Total Lift Bed. [1 ¶¶ 14, 18.] Plaintiffs alleged that (1) Defendants marketed Plaintiffs' Total Lift Bed as an "Exclusive Kreg Product" or as a "Kreg Bed" and used Plaintiffs' Copyrighted Works in doing so since October 2011; (2) Defendants made modifications to Plaintiffs' Total Lift Beds but continued to advertise them as Total Lift Beds in 2010 or 2011; and (3) Defendants developed the Kreg Catalyst Bed in 2014 to compete with the Total Lift Bed and, until March 2016, they promoted the Catalyst Bed using the Total Lift Bed mark and Plaintiffs' Copyrighted Works. [41 at 7.]

Defendants moved to dismiss [18] Plaintiffs' complaint in July 2016. To support their motion, Defendants argued that (1) Plaintiffs were judicially estopped from asserting their claims; (2) Plaintiffs' claims could not be alleged in an independent lawsuit because they constituted impermissible claim splitting; (3) no factual allegations demonstrated Defendant Poulos's personal liability; (4) the doctrine of laches barred Plaintiffs' Lanham Act claims; (5) Plaintiffs did not allege actual consumer reliance on Defendants' alleged misleading advertisements as necessary to support its Lanham Act claims; and (6) Plaintiffs could not seek attorneys' fees under the Copyright Act. On March 29, 2017, the Court granted in part and denied in part Defendants' motion. [See 41.] The Court held that the doctrine of claim splitting

precluded Plaintiffs from bringing claims against Defendants relating to Defendants' modifications to the Total Lift Bed and to Defendants' allegedly infringing marketing and promotional materials for the Total Lift Bed because those claims were based on the same set of operative facts underlying VitalGo's counterclaim in the 2011 Lawsuit. [41 at 9–18.] The Court also held that Plaintiffs could proceed with their claims to the extent these claims are based on Defendants' alleged marketing of their Catalyst Bed using Plaintiffs' intellectual property because the underlying facts on which these allegations are based are separate and distinct from those underlying Plaintiff VitalGo's counterclaims in the 2011 Lawsuit. [41 at 18–19.] The Court also dismissed Plaintiffs' claims for attorneys' fees pursuant to § 505 of the Copyright Act. [41 at 27.]

Plaintiffs then filed their First Amended Complaint on May 3, 2017. [See 43.] Defendants responded on May 31, 2017 by filing the instant motion [49] to strike various allegations from the First Amended Complaint concerning the Total Lift Bed pursuant to Federal Rule of Civil Procedure (“Rule”) 12(f) and to dismiss the remaining claims in the First Amended Complaint pursuant to Rule 12(b)(6).

## **II. Defendants' Rule 12(f) Motion to Strike**

### **A. Legal Standard**

Under Rule 12(f), “[t]he court may strike from a pleading an insufficient defense or any redundant, immaterial, impertinent, or scandalous matter.” Fed. R. Civ. P. 12(f). Motions to strike are generally disfavored but may be used to expedite a case by “remov[ing] unnecessary clutter.” *Heller Fin., Inc. v. Midwhey Powder Co., Inc.*, 883 F.2d 1286, 1294 (7th Cir. 1989); see also *NewNet Commc'n Techs., LLC v. VI E-Cell Tropical Telecom, Ltd.*, 85 F. Supp. 3d 988, 993 (N.D. Ill. 2015) (“But where a defendant's asserted [affirmative defenses] are both legion and

mostly frivolous, a motion to strike can aid the parties in resolving the case by removing irrelevant issues from consideration.”). When seeking to strike specific allegations, “the movant must show that the allegations being challenged are so unrelated to plaintiff’s claim as to be void of merit and unworthy of any consideration and that the allegations are unduly prejudicial.” *Cumis Ins. Soc’y, Inc. v. Peters*, 983 F. Supp. 787, 798 (N.D. Ill. 1997) (internal quotation marks and citation omitted); see also *Manuel v. Lucenti*, 2004 WL 2608355, at \*2 (N.D. Ill. Nov. 16, 2004) (“To prevail on a motion to strike under Rule 12(f), defendants must demonstrate that the material at issue does not bear on the subject matter of the litigation and will prejudice the defendants.”). A district court has “considerable discretion” in striking redundant, immaterial, impertinent, or scandalous matter. *Delta Consulting Grp., Inc. v. R. Randle Constr., Inc.*, 554 F.3d 1133, 1141 (7th Cir. 2009).

## **B. Analysis**

Defendants argue that the vast majority of the factual allegations contained in Plaintiffs’ First Amended Complaint must be stricken because they only relate to the previously dismissed claims (regarding Defendants’ modifications to the Total Lift Bed and to Defendants’ allegedly infringing marketing and promotional materials for the Total Lift Bed) and, as such, are irrelevant to the Catalyst Bed-related claims that remain in the case. Specifically, Defendants request that the Court strike paragraphs 20–23, 25–66, 69–79, 84–87, 89–91, 108–09, and 116–28 in their entirety and portions of paragraphs 25 and 113 from the First Amended Complaint. Defendants argue that it would be highly prejudicial for these factual allegations to remain in the First Amended Complaint—thus “reviving” the previously-dismissed claims—because then Defendants would not reap the benefit of their successful motion to dismiss.

The Court concludes that at least some of the allegations in the First Amended Complaint must be stricken because they have no apparent relevance to the Catalyst Bed-related claims that remain in the litigation. A court may strike particular allegations if “[t]he Court unequivocally dismissed Plaintiff’s claims based on these allegations with prejudice, thereby precluding Plaintiff from raising them again” in an amended complaint. *Wei Liang v. Frontline Asset Strategies, LLC*, 2017 WL 1365604, at \*2 (N.D. Ill. Apr. 14, 2017) (striking several paragraphs from Plaintiff’s amended complaint and rejecting the plaintiff’s argument that these facts were still relevant to his remaining claims); see also *Simons v. Ditto Trade, Inc.*, 2015 WL 1918617, at \*5–6 (N.D. Ill. Apr. 28, 2015) (striking a counterclaim’s allegations regarding the plaintiff’s relationship to another because “none” of the amended counterclaims were about that relationship); *Hickman v. Wells Fargo Bank NA*, 2010 WL 3833669, at \*7 (N.D. Ill. May 11, 2010) (striking disputed language from amended complaint because “the Court has already held that Plaintiff has failed to state a claim \* \* \* in this regard”); *David v. Vill. of Oak Lawn*, 1996 WL 494268, at \*2 (N.D. Ill. Aug. 27, 1996) (striking references to a conspiracy in plaintiff’s amended complaint because the court had previously dismissed the conspiracy counts). Here, several of the factual allegations in the First Amended Complaint relate solely to the two theories that the Court has previously dismissed because they cannot be brought in a lawsuit separate from the 2011 Lawsuit: (1) that Defendants marketed the Total Lift Bed as an “Exclusive Kreg Product” or as a “Kreg Bed” using Plaintiff’s Copyrighted Works, and (2) that Defendants made modifications to Plaintiffs’ Total Lift Beds but continued to advertise them as Total Lift Beds. These allegations are without any relevance to the Catalyst Bed claims.<sup>3</sup> Keeping such

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<sup>3</sup> As an example, paragraph 34 in the First Amended Complaint states, “[d]espite Defendants’ substantial modifications or alterations to Plaintiffs’ Total Lift Beds, Defendants used and continue to use Plaintiffs’ TOTAL LIFT BED mark to advertise, market, rent, and/or sell hospital beds that were not, and are not, Plaintiffs’ Total Lift Beds.” [43 ¶ 34.] This paragraph entirely relates to dismissed claims premised on

allegations in the operative complaint would have the effect of “confusing the issues” and thus causing prejudice to Defendants in that respect. *Cumis Ins. Soc’y*, 983 F. Supp. at 798.

Plaintiffs argue that the allegations Defendants seek to have stricken are necessary to support and provide context to Plaintiffs’ claims and clearly bear on the subject matter of the litigation. The Court disagrees that all of the allegations Plaintiffs have included in their First Amended Complaint perform such functions. Allegations in a complaint need not bear directly on the subject matter of a claim, and thus need not be stricken from the complaint, as long as they bear some relationship to the parties’ or the Court’s understanding of the actual claims in the case. See *Extra Equipamentos E Exportacao Ltda. v. Case Corp.*, 2005 WL 843297, at \*13–14 (N.D. Ill. Jan. 20, 2005) (allegations should not be stricken if they “might serve to achieve a better understanding of the claim or perform some other useful purpose in the just disposition of the litigation”) (internal alterations omitted); *Vakharia v. Little Co. of Mary Hosp. & Health Care Ctrs.*, 2 F. Supp. 2d 1028, 1033 (N.D. Ill. 1998) (refusing to strike allegations where they were “so general in nature” that they “very well” could relate to the viable claims in a case). But here, many of the disputed paragraphs that Defendants seek to strike from the First Amended Complaint are not general background information regarding the parties’ relationship but specific facts that relate to the previously dismissed claims. As such, they are irrelevant to the subject matter of the litigation.

Nevertheless, Defendants’ motion has painted with too broad of a brush. Some of the paragraphs that Defendants seek to have stricken provide context regarding the parties’

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allegations that Defendants made modifications to the Total Lift Beds yet continued to advertise them as Total Lift Beds and is irrelevant to allegations regarding Defendants’ Catalyst Bed. See also [43 ¶ 30] (“On or about 2010 and 2011, Defendants began making modifications or alterations to Plaintiffs’ Total Lift Beds. In the Prior Litigation, Defendants admitted they made substantial modifications or alterations to Plaintiffs’ Total Lift Beds.”); [*Id.* ¶ 33] (“As a result of Defendants’ substantial modifications or alterations to Plaintiffs’ Total Lift Beds, Defendants are offering a product that is materially different from the Total Lift Bed supplied by Plaintiffs.”).

relationship, what the Total Lift Bed marks and Plaintiffs' Copyrighted Works are, and the alleged personal liability of Defendant Poulos. See, e.g., [43 ¶ 20] ("In 2011, Defendant Kreg stated that Plaintiffs' 'Total Lift Bed is the only hospital-grade bed that can elevate someone from a lying to a fully standing position, with zero lifting on the part of the caregiver.'"); [id. ¶ 66] ("Defendants intentionally used Plaintiffs' TOTAL LIFT BED mark so as to create consumer confusion and traffic off of Plaintiffs' reputation and goodwill under the TOTAL LIFT BED mark."); [id. ¶ 87] ("In the Prior Litigation, Defendant Poulos testified during his deposition that he focuses all of his time on behalf of Defendant Kreg to sales and marketing."). Leaving these paragraphs in the First Amended Complaint would not prejudice Defendants and therefore they do not need to be stricken. Other paragraphs that Defendants move to strike arguably relate to Plaintiffs' claims regarding the Catalyst Bed because they refer generally to Defendants' hospital beds. See, e.g., [43 ¶ 56] ("Defendants are not authorized to use Plaintiffs' TOTAL LIFT BED mark in association with hospital beds."); [id. ¶ 59] ("Defendants' use of Plaintiffs' TOTAL LIFT BED mark falsely suggests that \* \* \* Defendants' hospital beds originate from Plaintiffs."); [id. ¶ 64] ("Defendants' use of Plaintiffs' TOTAL LIFT BED mark is likely to cause, has caused, and is causing actual consumer confusion in the marketplace as to \* \* \* Plaintiffs' affiliation with Defendants and Defendants' hospital beds."). Considering the close relationship between Defendants' Rule 12(f) and Rule 12(b)(6) motions, and considering the need to draw all reasonable inferences in Plaintiff's favor at the motion to dismiss stage, *Killingsworth v. HSBC Bank Nevada, N.A.*, 507 F.3d 614, 618 (7th Cir. 2007), the Court will not strike allegations as immaterial that could refer to Plaintiffs' Catalyst Bed claims. These paragraphs may remain in the First Amended Complaint, but only as they relate to the Catalyst Bed.

The Court will therefore grant in part and deny in part Defendants' motion to strike as follows. Paragraphs 28–47, 50–53, 55, 64, 77–79, 84–87, 89–91, and 108–09, as well as the portions of paragraphs 25 and 113 that relate exclusively to the dismissed claims (25(1)–(10) and 113(1)–(10)), are stricken from the First Amended Complaint as they relate solely to the claims this Court has previously dismissed. The Court declines to strike the remaining paragraphs that Defendants have identified on the understanding that these paragraphs are offered as background or support for Plaintiffs' Catalyst Bed theory only.

### **III. Defendants' Rule 12(b)(6) Motion to Dismiss**

Defendants next move to dismiss Plaintiffs' remaining Catalyst Bed-related claims in the First Amended Complaint. Specifically, Defendants move to dismiss the Lanham Act unfair competition, common law unfair competition, IUOTPA, and ICFA claims (Counts II–III and V–VII) because they do not meet the heightened pleading requirements of Rule 9(b). Defendants also move to dismiss the copyright infringement and common law trademark infringement claims (Counts I and IV) because they do not meet the more liberal pleading requirements of Rule 8.

#### **A. Legal Standard**

“To survive a motion to dismiss under Rule 12(b)(6), plaintiff's complaint must allege facts which, when taken as true, ‘plausibly suggest that the plaintiff has a right to relief, raising that possibility above a speculative level.’” *Cochran v. Illinois State Toll Highway Auth.*, 828 F.3d 597, 599 (7th Cir. 2016) (quoting *EEOC v. Concentra Health Servs., Inc.*, 496 F.3d 773, 776 (7th Cir. 2007)). The Court “accept[s] all well-pleaded facts as true and draw all reasonable inferences in plaintiff's favor.” *Id.* at 600 (citing *Tamayo v. Blagojevich*, 526 F.3d 1074, 1081 (7th Cir. 2008)). The Court reads and assesses the plausibility of the complaint as a whole. See

*Atkins v. City of Chicago*, 631 F.3d 823, 832 (7th Cir. 2011). In reviewing a motion to dismiss pursuant to Rule 12(b)(6), the Court accepts as true all of Plaintiffs' well-pleaded factual allegations and draws all reasonable inferences in Plaintiffs' favor. *Killingsworth*, 507 F.3d at 618.

## **B. Analysis**

Defendants argue that all remaining claims against them must be dismissed because, once the irrelevant allegations against them are removed pursuant to Rule 12(f), the First Amended Complaint is insufficient to support these remaining claims under either the heightened pleading standard of Rule 9(b) (for Counts II–III and V–VII) or the regular pleading standard of Rule 8(a) (for Counts I and IV). Plaintiffs make several arguments in opposition. They argue (1) Defendants' second Rule 12(b) motion should be denied outright pursuant to Rule 12(g)'s consolidation bar; (2) Defendants' Rule 12(b)(6) motion should be denied based on the doctrines of law of the case and judicial estoppel; and (3) Defendants' motion should be denied because Plaintiffs sufficiently pled the remaining asserted claims.

### **1. Rule 12(g)'s Consolidation Bar**

Plaintiffs first argue that Rule 12(g) bars Defendants' instant motion because they have previously moved to dismiss the complaint based on Rule 12(b)(6). [See 18.] Rule 12(g) states that, “[e]xcept as provided in Rule 12(h)(2) or (3), a party that makes a motion under this rule must not make another motion under this rule raising a defense or objection that was available to the party but omitted from its earlier motion.” Fed. R. Civ. P. 12(g)(2). Plaintiffs argue that all of Defendants' Rule 12(b)(6) arguments were available when Defendants filed their first Rule 12(b)(6) motion in July 2016 and, therefore, must have been included in that first motion.

Plaintiffs' argument fails for two reasons. First, Defendants' current Rule 12(b)(6) arguments were not "available" to them prior to the Court's ruling on March 29, 2017. Defendants have moved to dismiss the claims contained in the First Amended Complaint "[a]fter removing all of VitalGo's allegations related to the Total Lift Bed Claims." [50 at 7.] Their motion to dismiss is explicitly based on a court order and targeted at an amended complaint that did not exist when they previously moved to dismiss the original complaint and, as such, would not be included in the Rule 12(g) consolidation bar. Second, even if these arguments were available to Defendants earlier, the Seventh Circuit has clearly stated that "Rule 12(g)(2) does not prohibit a new Rule 12(b)(6) argument from being raised in a successive motion." *Ennenga v. Starns*, 677 F.3d 766, 773 (7th Cir. 2012); see also *Cheese Depot, Inc. v. Sirob Imports, Inc.*, 2015 WL 7251949, at \*3 (N.D. Ill. Nov. 17, 2015) (applying *Ennenga* to hold that defendant was within its right to bring a motion for failure to state a claim in a successive motion to dismiss); *About U.S. Real Estate, Inc. v. Burnley*, 2015 WL 3397025, at \*6 (N.D. Ill. May 26, 2015) (same). Therefore, the Court will not deny Defendants' motion on this basis.

## **2. Judicial Estoppel**

Plaintiffs next argue that Defendants are precluded by judicial estoppel and the law of the case doctrine from arguing that Rule 9(b) applies to any of their claims, as they contended in their first Rule 12(b)(6) motion that Rule 8 applied to all of Plaintiffs claims. Judicial estoppel precludes a party from abandoning positions after they have prevailed on them in earlier litigation. *Zedner v. United States*, 547 U.S. 489, 504 (2006). The doctrine "is invoked to protect the integrity of the judicial process by estopping parties from asserting contradictory positions in court to derive an unfair advantage." *Burns v. Vill. of Crestwood*, 2013 WL 352784, at \*3 (N.D. Ill. Jan. 29, 2013); see also *Levinson v. United States*, 969 F.2d 260, 264 (7th Cir.

1992) (Judicial estoppel is “intended to protect the courts from being manipulated by chameleonic litigants who seek to prevail, twice, on opposite theories.”). Judicial estoppel is an equitable doctrine that cannot be reduced to a precise formula or test, see *Zedner*, 547 U.S. at 504, and it is a matter of discretion. *Commonwealth Ins. Co. v. Titan Tire Corp.*, 398 F.3d 879, 887 (7th Cir. 2004). Three factors that inform the decision about whether to apply judicial estoppel are: (1) whether the later position is clearly inconsistent with the earlier position; (2) whether the party to be estopped succeeded in persuading the first court to accept its earlier position, “so that judicial acceptance of an inconsistent position in a later proceeding would create the perception that either the first or second court was misled;” and (3) whether the party seeking to assert an inconsistent position would derive an unfair advantage or impose an unfair detriment on the opposing party if not estopped. *In re Knight-Celotex, LLC*, 695 F.3d 714, 721 (7th Cir. 2012) (citation and internal quotation marks omitted). Under the law of the case doctrine, “a ruling made in an earlier phase of a litigation controls the later phases unless a good reason is shown to depart from it.” *Tice v. Am. Airlines, Inc.*, 373 F.3d 851, 853 (7th Cir. 2004).

The Court concludes that neither judicial estoppel nor the law of the case doctrine bars Defendants’ arguments regarding the applicability of Rule 9(b). In their first Rule 12(b)(6) motion, Defendants did not even mention the applicability of either standard, much less construct an argument based on them. [See 17, 35, 41.] The majority of arguments that Defendants made focused on legal defenses rather than whether Plaintiffs had sufficiently stated a claim. Defendants’ principal argument directed towards the content of the original complaint was that Plaintiffs did not allege actual consumer reliance to support their Lanham Act claims. [See 41 at 26.] This argument did not rely on the sufficiency of the allegations under either pleading

standard, however, and the Court did not reference Rule 8 in its decision on this argument.<sup>4</sup> [*Id.*] Moreover, the Court's discussion of Rule 8(a) in the context of the legal standard on a motion to dismiss does not represent a decision that Rule 9(b) does not apply to these claims. See *Drobny v. JP Morgan Chase Bank, NA*, 929 F. Supp. 2d 839, 844 (N.D. Ill. 2013) (noting that Rule 9 must be read "in conjunction" with Rule 8). Because the Court has not previously decided whether Rule 9(b)'s heightened pleading standard applies to the unfair competition claims in Plaintiffs' complaint, this argument is not barred by judicial estoppel or the law of the case. *Cf. Carnegie v. Household Int'l, Inc.*, 220 F.R.D. 542, 545 (N.D. Ill. 2004) (judicial estoppel barred reconsideration of prior ruling by the district court specifically holding that the complaint had satisfied the heightened pleading requirements of Rule 9(b)).

### **3. 12(b)(6) Arguments**

Defendants argue that all of the claims in Plaintiffs' amended complaint must be dismissed for failure to state a claim. Defendants first argue that the unfair competition-related claims must be dismissed for failure to satisfy Rule 9(b)'s particularity requirement. Defendants also argue that Plaintiffs' copyright infringement and trademark infringement claims must be dismissed for failure to satisfy Rule 8(a)'s pleading requirement.

#### **a. Counts II–III and V–VII**

Defendants contend that the First Amended Complaint's Lanham Act claims, along with the IUOTPA, ICFA, and common law unfair competition claims, all sound in fraud and therefore must comply with the heightened pleading requirements of Rule 9(b); according to Defendants, Plaintiffs' First Amended Complaint does not comply with this standard. Plaintiffs argue that

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<sup>4</sup> The Court did reference the difference between Rule 8 and Rule 9 in its decision on the sufficiency of the allegations regarding Defendant Poulos's personal liability, [see 41 at 24], but this was not in response to any particular argument made by Defendants.

the Rule 9(b) heightened pleading standard does not apply to these claims but, even if it does, their claims sufficiently comply with the rule's requirements.

Rule 9(b) requires that, “[i]n alleging fraud or mistake, a party must state with particularity the circumstances constituting fraud or mistake.” Fed. R. Civ. P. 9(b). “To satisfy the heightened pleading standard of Rule 9(b), the circumstances [of the alleged misrepresentation] must be pleaded in detail. The who, what, when, where, and how: the first paragraph of any newspaper story.” *Blankenship v. Pushpin Holdings, LLC*, 2015 WL 5895416, at \*7 (N.D. Ill. Oct. 6, 2015) (internal quotation marks omitted; citing *DiLeo v. Ernst & Young*, 901 F.2d 624, 627 (7th Cir. 1990)). Rule 9(b) specifically requires alleging with particularity: “the identity of the person making the misrepresentation, the time, place, and content of the misrepresentation, and the method by which the misrepresentation was communicated to the plaintiff.” *Id.* at \*5 (quoting *U.S. ex rel. Grenadyor v. Ukrainian Vill. Pharmacy, Inc.*, 772 F.3d 1102, 1106 (7th Cir. 2014)).

Plaintiffs bring two unfair competition claims under Section 43(a) of the Lanham Act: a claim for false designation of origin and a claim for false advertising.<sup>5</sup> District courts in the Seventh Circuit have not been uniform in requiring that such claims meet the heightened pleading standards of Rule 9(b). Several courts have applied Rule 9(b)'s heightened pleading

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<sup>5</sup> Because the state law claims rely on the same factual allegations as these Lanham Act claims, they are analyzed according to the same principles as the Lanham Act claims. See *Morningware, Inc. v. Hearthware Home Prod., Inc.*, 673 F. Supp. 2d 630, 639 (N.D. Ill. 2009) (“Where a plaintiff’s factual allegations under the Illinois Uniform Deceptive Trade Practices Act also form the basis for plaintiff’s claim under the Lanham Act, the legal inquiry is the same under both statutes.”) (citation omitted); see also *Bob Creeden & Assocs., Ltd. v. Infosoft, Inc.*, 326 F. Supp. 2d 876, 880 (N.D. Ill. 2004) (noting that courts resolve state law unfair competition and deceptive practices claims according to the same principles as set forth in the Lanham Act); *MJ & Partners Res. Ltd. P’ship v. Zadikoff*, 10 F. Supp. 2d 922, 929 (N.D. Ill. 1998) (“[T]he legal inquiry is the same under the Lanham Act as under the Consumer Fraud Act and the Deceptive Trade Practices Act.”). Therefore, for purposes of determining whether Rule 9(b)'s pleading standard applies, the IUDTPA and ICFA claims “must rise or fall based on the outcome of the Lanham Act claim[s].” *BlueStar Mgmt. v. The Annex Club, LLC*, 2010 WL 2802213, at \*8 (N.D. Ill. July 12, 2010); see also *Morningware*, 673 F. Supp. 2d at 639 (common law unfair competition claim does not need to be addressed separately because it is codified by the IUDTPA).

standard to Lanham Act (and related state law) claims when these claims sound in fraud. See, e.g., *Oil-Dri Corp. of Am. v. Nestle Purina Petcare Co.*, 2017 WL 1436965, at \*3 (N.D. Ill. Apr. 24, 2017) (“Lanham Act claims alleging false representation must meet Rule 9(b)’s heightened pleading requirements.”); *Philippi-Hagenbuch, Inc. v. W. Tech. Servs. Int’l, Inc.*, 2015 WL 13590400, at \*1 (C.D. Ill. Feb. 2, 2015) (assuming for purposes of motion to dismiss that Rule 9(b) applies to Lanham Act false advertising claims); *Ferris Mfg. Corp. v. Carr*, 2015 WL 279355, at \*6 (N.D. Ill. Jan. 21, 2015) (applying Rule 9(b) standard to Lanham Act claim for false designation of origin); *Toddy Gear, Inc. v. Navarre Corp.*, 2014 WL 4271631, at \*3 (N.D. Ill. Aug. 26, 2014) (applying Rule 9(b) to Lanham Act false advertising and IUDTPA claims); *Vertical Web Media, L.L.C. v. Etailinsights, Inc.*, 2014 WL 2868789, at \*3 (N.D. Ill. June 24, 2014) (concluding that Rule 9(b) generally applies to claims alleging false advertising under the Lanham Act); *Dynamic Fluid Control (PTY) Ltd. v. Int’l Valve Mfg., LLC*, 790 F. Supp. 2d 732, 738 (N.D. Ill. 2011) (differentiating between false advertising claims under Section 1125(a)(1)(B), which may be subject to Rule 9(b) because they involve false statements and deception, and likelihood of confusion claims under Section 1125(a)(1)(A), which are not subject to Rule 9(b) because there is no requirement to allege fraud); *Control Sols., LLC v. Oshkosh Corp.*, 2011 WL 1131329, at \*2–3 (N.D. Ill. Mar. 28, 2011) (applying Rule 9(b) standard to Lanham Act and related state law claims because they “involve allegations sounding in fraud”); *CardioNet, Inc. v. LifeWatch Corp.*, 2008 WL 567031, at \*2 (N.D. Ill. Feb. 27, 2008) (“Claims that allege false representation or false advertising under the Lanham Act are subject to the heightened pleading requirements of [Rule] 9(b).”) (citing *Conditioned Ocular Enhancement v. Bonaventura*, 458 F. Supp. 2d 704, 709 (N.D. Ill. 2006)); *Fisher & Paykel Appliances, Ltd. v. LG*

*Elecs., Inc.*, 2003 WL 21910622, at \*1 (N.D. Ill. Aug. 7, 2003) (heightened pleading requirements apply to claim for false advertising under the Lanham Act).

Other district courts have either explicitly questioned whether Rule 9(b) applies to Lanham Act claims or have applied Rule 8(a) without considering the issue. See *Par Sterile Prod., LLC v. Fresenius Kabi USA LLC*, 2015 WL 1263041, at \*3 (N.D. Ill. Mar. 17, 2015) (applying Rule 8(a) pleading standard to a Lanham Act false advertising claim); see also *Brickstructures, Inc. v. Coaster Dynamix, Inc.*, 2017 WL 4310671, at \*4 (N.D. Ill. Sept. 28, 2017) (stating that because the complaint was seriously deficient, the court would not get into “the complex question of whether [Rule] 9(b)’s standard for pleading fraud” applied to Lanham Act claims, although the court was “not so sure” that Rule 9(b) did apply). Cf. *Publications Int’l, Ltd. v. Leapfrog Enters., Inc.*, 2002 WL 31426651, at \*6 (N.D. Ill. Oct. 29, 2002) (noting that not all claims brought under the ICFA would constitute fraud and thus not all such claims would need to meet heightened pleading requirements).

The Seventh Circuit has also indicated, albeit in dicta, that Rule 9(b) may be applied to Lanham Act claims that sound in fraud. See *Gensler v. Strabala*, 764 F.3d 735, 736 (7th Cir. 2014) (noting that the plaintiff, in bringing claim based on Section 43(a)(1)(A) of the Lanham Act, had “charge[d] [Defendant] with a form of fraud, so we would expect its complaint to allege with particularity the nature of the grievance—what [Defendant] said and why it is false”) (citing Fed. R. Civ. P. 9(b)). Even if *Gensler* is not controlling, the Court finds its analysis persuasive and thus will apply Rule 9(b)’s heightened pleading standard to Plaintiffs’ Lanham Act claims, which do sound in fraud. A claim “sounds in fraud” if it “is premised upon a course of fraudulent conduct.” *Borsellino v. Goldman Sachs Grp., Inc.*, 477 F.3d 502, 507 (7th Cir. 2007). Plaintiffs’ First Amended Complaint clearly alleges fraudulent conduct: In addition to claiming

that there is a likelihood of confusion based on Defendants' conduct, Plaintiffs claim that Defendants' conduct was intentional and deceptive to consumers. See, e.g., [43 ¶ 1] (Plaintiffs are seeking relief "for Defendants' false and misleading solicitation of consumers and promotion of Defendants and Defendants' products in a manner calculated to deceived the consuming public"); [id. ¶ 140] ("Defendants' deceptive actions are likely to influence the consuming public's purchasing decisions"); [id. ¶ 161] ("Defendants' unauthorized, intentional, and willful representations are false and misleading and were done to deceive the consuming public and to capitalize on the goodwill developed by Plaintiffs."); [id. ¶ 177] ("The acts of Defendants complained of herein in Counts I–VI constitute fraud and deceptive business practices in violation of [the ICFA]."). And these allegations are similar to those in other cases in which courts have found that the allegations in the complaint sound in fraud, and so need to meet Rule 9(b). See, e.g., *In re Honey Transshipping Litig.*, 87 F. Supp. 3d 855, 866 (N.D. Ill. 2015) (stating that allegations that defendants misrepresented the origin of their honey to potential buyers sounded in fraud and thus needed to comply with Rule 9(b)); *Medscript Pharmacy, LLC v. My Script, LLC*, 77 F. Supp. 3d 788, 793 (N.D. Ill. 2015) (applying Rule 9(b) to Lanham Act claims where the claims "allege that defendants engaged in fraudulent conduct," including by making false statements and by attempting to pass themselves off as plaintiff); *CardioNet*, 2008 WL 567031, at \*2 (allegations sound in fraud where counterclaimant alleged that counterclaim-defendant "knowingly and deliberately made misrepresentations in its marketing strategy."); *MPC Containment Sys., Ltd. v. Moreland*, 2006 WL 2331148, at \*2–3 (N.D. Ill. Aug. 10, 2006) (applying Rule 9(b)'s standard to claims that the defendants had, through misrepresentation, created a likelihood of confusion as to the plaintiff's "association with defendants and/or endorsement of defendants' product").<sup>6</sup>

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<sup>6</sup> Plaintiffs rely heavily on *Priority Int'l Animal Concepts, Inc. v. Bryk*, 2012 WL 6020044 (E.D. Wis.

Plaintiffs argue that Rule 9(b) cannot apply to its false designation of origin claim (Count II) because Rule 9(b) does not apply to likelihood of confusion theories. [58 at 7] (citing *Dynamic Fluid Control*, 79 F. Supp. 2d at 738). However, “[t]he law in this Circuit is well-settled that the applicability of Rule 9(b)’s heightened pleading standard turns not on the title of the claim but on the underlying facts alleged in the complaint.” *Sequel Capital, LLC v. Pearson*, 2010 WL 4008161, at \*7 (N.D. Ill. Oct. 13, 2010) (citing *Borsellino*, 477 F.3d at 507); see also *Gensler*, 764 F.3d at 736 (contemplating that Rule 9(b) applies to a false designation of origin claim under Section 43(a)(1)(A) where the allegations charge a fraudulent course of conduct). Therefore, both Lanham Act claims, as well as the related state law claims, are subject to the heightened pleading standard of Rule 9(b) because they are all premised on the same course of fraudulent conduct. *BlueStar*, 2010 WL 2802213, at \*8.

Turning to whether the remaining allegations in the First Amended Complaint meet Rule 9(b)’s heightened pleading requirements, the Court concludes that they do not. In the First Amended Complaint, Plaintiffs have alleged that (1) the identities of those making the misrepresentation are Defendants Kreg and Poulos, [43 ¶¶ 110–11]; (2) the time of the misrepresentation is sometime between 2014 and 2016, [*id.* ¶¶ 67, 80]; (3) the place of the misrepresentation is the Northern District of Illinois, [*id.* ¶ 11]; (4) the content of the misrepresentation is that Defendants have “falsely suggest[ed] that \* \* \* Defendants’ Catalyst bed is a Total Lift Bed made by Plaintiffs,” [*id.* ¶¶ 25, 113]; and (5) the method by which the misrepresentation was communicated was through Defendants website and marketing materials, [*id.* ¶¶ 67, 80, 141, 148].

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Dec. 3, 2012) for the proposition that Lanham Act claims do not sound in fraud where allegations of fraudulent conduct are “not essential” to those claims. *Id.* at \*3. This decision has been called “difficult to reconcile” with binding Seventh Circuit precedent (see *Vertical Web Media*, 2014 WL 2868789, at \*3), and thus the Court declines to follow it.

What Plaintiffs have provided is the headline of the newspaper story, but not its “first paragraph.” *DiLeo*, 901 F.2d at 627. Plaintiffs have not pleaded these claims with the particularity that Rule 9(b) requires: they have not pointed to any specific marketing device (such as the exact brochure or website) in which Defendants have made particular misrepresentations about the Catalyst Bed in the two-and-a-half-year window between 2014 and 2016. Such “nebulous allegations fall short of Rule 9(b)’s requirements.” *CardioNet*, 2008 WL 567031, at \*3.

To be sure, some district courts have been more lenient in assessing claims under Rule 9(b)’s heightened standard, particularly where there is an information asymmetry between the parties preventing the plaintiff from having access to the particulars of the alleged misrepresentations. See, e.g., *Merix Pharm. Corp. v. GlaxoSmithKline Consumer Healthcare, L.P.*, 2006 WL 1843370, at \*2 (N.D. Ill. June 28, 2006) (finding that Rule 9(b) was satisfied where plaintiffs had pled that the alleged misrepresentations were happening “on an ongoing basis” in “the Northern District of Illinois” through “the internet, in print, press releases, point-of-purchase and television advertising”); see also *Corley v. Rosewood Care Ctr., Inc.*, 142 F.3d 1041, 1051 (7th Cir. 1998) (“[T]he particularity requirement of Rule 9(b) must be relaxed where the plaintiff lacks access to all facts necessary to detail his claim.”). But this is not such a case. These parties have been litigating each other over these beds since 2011, and, given their litigation history, Plaintiffs have had a better opportunity than the average litigant to nail down the particulars of the fraud that they are alleging. As such, the Court will not relax the particularity requirement of Rule 9(b) based on Plaintiffs’ assertion that they “lack access to the full spectrum” of Defendants’ materials at this stage of the case. [58 at 12.]

Therefore, Defendants' motion to dismiss is granted as to Count II, Count III, Count V, Count VI, and Count VII. However, because the Court has clarified for the first time in this case the applicability of Rule 9(b) to these claims, the Court will allow Plaintiffs one more opportunity to amend to try to meet that standard. Any further amended pleading must be filed no later than January 22, 2018.

**b. Counts I and IV**

Defendants argue that, even under the more liberal pleading standard of Rule 8(a), Plaintiffs have failed to state a claim for either copyright infringement (Count I) or trademark infringement (Count IV).

The Court agrees with Plaintiffs that these two claims are sufficiently pled to withstand a motion to dismiss. Regarding the copyright infringement claim, the United States Copyright Act provides that “[a]nyone who violates any of the exclusive rights of the copyright owner \* \* \* is an infringer of the copyright.” 17 U.S.C. § 501(a). The Copyright Act grants a copyright owner the exclusive rights to reproduce, prepare derivative works, distribute copies of, and display a copyrighted design to the public. 17 U.S.C. § 106. “To state a claim for direct copyright infringement, a plaintiff must allege facts setting forth (1) ownership of a valid copyright in a work and (2) the copying of elements of the work that are original.” *Flava Works, Inc. v. Clavio*, 2012 WL 2459146, at \*2 (N.D. Ill. June 27, 2012) (citing *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.* 499 U.S. 340, 361 (1991)).

Plaintiffs' First Amended Complaint contains adequate factual allegations to satisfy Rule 8(a)'s pleading standard. Plaintiffs allege that they have filed copyright applications for a brochure and two digital renderings or pictures of its Total Lift Bed. [43 ¶¶ 18, 131.] Plaintiffs further allege that Defendants “used and continued to use Plaintiffs' Copyrighted Works \* \* \* to

introduce and to promote sales of Defendants' Catalyst bed." [*Id.* ¶ 67.] See also [*id.* ¶ 80] ("On or about 2014, Defendants introduced their Catalyst bed to compete with Plaintiffs' Total Lift Bed but Defendants failed to show their Catalyst bed in marketing materials. Until on or about March 2016, Defendants intentionally used only Plaintiff's Copyrighted Works to introduce and promote sales of Defendants' Catalyst bed."); [*id.* ¶ 25] ("Defendants have used and/or continue to use Plaintiffs' TOTAL LIFT BED mark both with and without Plaintiffs' Copyrighted Works to deceive consumers and to falsely suggest that \* \* \* Defendants' Catalyst bed is a Total Lift Bed made by Plaintiffs."). Plaintiffs also point to specific infringing uses of Plaintiffs' Copyrighted Works on Defendants' website. See [43 ¶ 71] ("As of at least December 30, 2015, Defendants reproduced, distributed, displayed, and used Plaintiffs' Total Lift Bed Brochure and Total Lift Bed 2 works on its website at [www.kreg.us/NewInnovations.html](http://www.kreg.us/NewInnovations.html)"). As discussed above, see Section II.B, these allegations remain in the First Amended Complaint only to the extent that they relate to the Catalyst Bed, and therefore provide factual support for Plaintiffs' claims in that respect. These allegations therefore provide Defendants with "fair notice" of the copyright infringement claim as well as "the grounds upon which it rests." *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007); see also *Frerck v. Pearson Educ., Inc.*, 2012 WL 1280771, at \*3 (N.D. Ill. Apr. 16, 2012) (rejecting argument that plaintiff is required to plead specific details as to infringing acts because "[t]his requirement would impose a higher burden on copyright claims than is required under the federal rules").

The Court similarly concludes that Plaintiffs have stated a claim for trademark infringement. To state a claim for trademark infringement, "a plaintiff must allege that: (1) it has a protectable right in the asserted trademarks; and (2) the defendant's use of the mark is likely to cause confusion." *KJ Korea, Inc. v. Health Korea, Inc.*, 66 F. Supp. 3d 1005, 1012 (N.D. Ill.

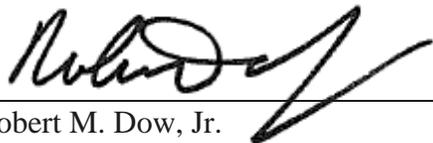
2014). Here, Plaintiff has alleged that (1) it has protectable common law rights in its Total Lift Bed mark, [43 ¶ 154], and (2) Defendants are using this mark in a way that falsely suggests that Defendants are affiliated with Plaintiffs' hospital bed, which is likely to cause confusion for consumers "as to the origin of Defendants' hospital beds," [id. ¶¶ 57–62.] Plaintiffs specifically allege that Defendants used Plaintiffs' mark "to introduce and to promote sales of Defendants' Catalyst bed" and that Defendants did so "to create consumer confusion and traffic off of Plaintiffs' reputation and goodwill." [Id. ¶ 67.] These allegations are enough to satisfy Rule 8(a)'s pleading requirements. See *Second Chance Body Armor, Inc. v. Am. Body Armor, Inc.*, 1996 WL 568794, at \*2 (N.D. Ill. Sept. 30, 1996) ("At the pleading stage, plaintiff need only allege, not prove" the elements of a trademark infringement claim).

Therefore, Defendants' motion to dismiss is denied as to Count I and Count IV.

#### **IV. Conclusion**

For the foregoing reasons, Defendants' motion [49] is granted and part and denied in part. The Court grants Defendants' motion to strike in part: paragraphs 28–47, 50–53, 55, 64, 77–79, 84–87, 89–91, and 108–09, as well as portions of paragraphs 25 and 113 (25(1)–(10) and 113(1)–(10)), are stricken from the First Amended Complaint as they relate solely to the claims this Court has previously dismissed. Furthermore, the Court grants Defendants' motion to dismiss Count II, Count III, Count V, Count VI, and Count VII, and denies Defendants' motion to dismiss Count I and Count IV. Plaintiffs will be given one final attempt to replead Counts II, III, V, VI, and VII on or before January 22, 2018. Defendants' motion [55] to stay discovery pending the resolution of its motion to strike and to dismiss is denied as moot. This case is set for further status on January 30, 2018 at 10:00 a.m. to discuss a discovery plan. Counsel are directed to confer and submit an updated joint status report no later than January 26, 2018.

Date: December 21, 2017

A handwritten signature in black ink, appearing to read "Robert M. Dow, Jr.", written over a horizontal line.

Robert M. Dow, Jr.  
United States District Judge

**IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

VITALGO, INC. and VITALGO	)	
SYSTEMS LTD.,	)	
	)	Case No. 16-cv-5577
Plaintiff,	)	
	)	Judge Robert M. Dow, Jr.
v.	)	
	)	
	)	
KREG THERAPEUTICS, INC. and	)	
CRAIG POULOS,	)	
	)	
Defendants.	)	

**MEMORANDUM OPINION AND ORDER**

Plaintiffs VitalGo, Inc. (“VitalGo”) and VitalGo Systems Ltd. (collectively, “Plaintiffs”) bring this action against Defendants Kreg Therapeutics, Inc. (“Kreg”) and Craig Poulos (collectively, “Defendants”) alleging copyright and trademark infringement and unfair competition under federal and state law. Currently before the Court is Defendants’ combined motion [77] to strike portions of Plaintiffs’ Second Amended Complaint and to dismiss all claims in the Second Amended Complaint with prejudice. For the reasons stated below, Defendants’ motion [77] is granted in part and denied in part. The Court grants Defendants’ motion to strike in part as follows: portions of paragraphs 29, 51, 60, 122, 131, 159, 167, and 180 (29(1), 51(i), 60 (last sentence), 122 (last clause), 131(i), 159(i), 167(i), 180(i)) are stricken from the Second Amended Complaint as they address claims that this Court has previously dismissed. Furthermore, the Court grants Defendants’ motion to dismiss Count III, and denies Defendants’ motion as to Count I, Count II, Count IV, Count V, Count VI, and Count VII. This case is set for further status hearing on April 10, 2019 at 9:30 a.m.

## I. Background<sup>1</sup>

The background of this case, and of the more extensive litigation in which VitalGo and Kreg have been engaged before this Court, is set forth in the Court's previous opinions in this case, knowledge of which is assumed here. [See 41, at 1–7; 67, at 1–4.] Briefly summarized, the parties entered into an agreement pursuant to which Kreg was granted the exclusive right to distribute Plaintiffs' Total Lift Bed product in certain regions of the country. In 2011, VitalGo terminated the parties' agreement, and Kreg thereafter filed suit (the "2011 Lawsuit") against VitalGo for breach of that agreement. VitalGo counterclaimed that Kreg had violated the parties' agreement by both making unauthorized alterations to the Total Lift Bed without VitalGo's prior written approval and by failing to obtain VitalGo's approval of all advertisements and promotional materials Kreg used to promote and sell Total Lift Beds. The 2011 Lawsuit ended after a bench trial in which the Court concluded that Kreg was entitled to \$642,610 in damages plus \$364,593 in prejudgment interest, for a total award of \$1,007,203. See *Kreg Therapeutics, Inc. v. Vitalgo, Inc.*, Dkt. Entry 250, No. 11-cv-6771 (N.D. Ill.). The Seventh Circuit recently affirmed that judgment. See *Kreg Therapeutics, Inc. v. VitalGo, Inc.*, --- F.3d ---, 2019 WL 1198376 (7th Cir. Mar. 14, 2019).

In May 2016, Plaintiffs filed the instant lawsuit, bringing claims against Defendants for copyright infringement in violation of 17 U.S.C. § 501 (Count I); unfair competition and false designation of origin pursuant to Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A) (Count II); unfair competition and false advertisement pursuant to Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(B) (Count III); common law trademark infringement (Count IV);

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<sup>1</sup> For purposes of the motion to dismiss, the Court accepts as true all of Plaintiff's well-pleaded factual allegations and draws all reasonable inferences in Plaintiff's favor. *Killingsworth v. HSBC Bank Nev., N.A.*, 507 F.3d 614, 618 (7th Cir. 2007).

common law unfair competition (Count V); violation of the Illinois Uniform Deceptive Trade Practices Act (IUDTPA), 815 Ill. Comp. Stat. 510/1 *et seq.* (Count VI); and violation of the Illinois Consumer Fraud and Deceptive Business Practices Act (ICFA), 815 Ill. Comp. Stat. 505/1 *et seq.* (Count VII). [1, ¶ 2.] According to the original complaint, Plaintiffs began using the VitalGo and TOTAL LIFT BED marks in the United States in 2008; Plaintiffs began showing the Total Lift Bed in advertising and marketing materials in approximately 2008; and Plaintiffs have filed copyright applications for a brochure and for two digital renderings of the Total Lift Bed. [1, ¶¶ 14, 18.] Plaintiffs alleged that (1) Defendants marketed Plaintiffs' Total Lift Bed as an "Exclusive Kreg Product" or as a "Kreg Bed" and used Plaintiffs' Copyrighted Works in doing so since October 2011; (2) Defendants made modifications to Plaintiffs' Total Lift Beds but continued to advertise them as Total Lift Beds in 2010 or 2011; and (3) Defendants developed the Kreg Catalyst Bed in 2014 to compete with the Total Lift Bed and, until March 2016, they promoted the Catalyst Bed using the Total Lift Bed mark and Plaintiffs' Copyrighted Works. [41, at 7.]

Defendants moved to dismiss [18] Plaintiffs' complaint in July 2016. In support of their motion, Defendants argued that (1) Plaintiffs were judicially estopped from asserting their claims; (2) Plaintiffs' claims could not be alleged in an independent lawsuit because they constituted impermissible claim splitting; (3) no factual allegations demonstrated Defendant Poulos's personal liability; (4) the doctrine of laches barred Plaintiffs' Lanham Act claims; (5) Plaintiffs did not allege actual consumer reliance on Defendants' alleged misleading advertisements as necessary to support its Lanham Act claims; and (6) Plaintiffs could not seek attorneys' fees under the Copyright Act. On March 29, 2017, the Court granted in part and denied in part Defendants' motion. [See 41.] The Court held that the doctrine of claim splitting precluded Plaintiffs from bringing claims against Defendants relating to Defendants' modifications to the Total Lift Bed and

to Defendants' allegedly infringing marketing and promotional materials for the Total Lift Bed because those claims were based on the same set of operative facts underlying VitalGo's counterclaim in the 2011 Lawsuit. [41, at 9–18.] However, the Court determined that Plaintiffs could proceed with their claims to the extent the claims were based on Defendants' alleged marketing of their Catalyst Bed using Plaintiffs' intellectual property because the underlying facts on which the allegations were based were separate and distinct from those underlying Plaintiff VitalGo's counterclaims in the 2011 Lawsuit. [41, at 18–19.] The Court also dismissed Plaintiffs' claims for attorneys' fees pursuant to § 505 of the Copyright Act. [41, at 27.]

Plaintiffs then filed their First Amended Complaint on May 3, 2017. [See 43.] Defendants responded on May 31, 2017 by filing a motion [49] to strike various allegations from the First Amended Complaint concerning the Total Lift Bed pursuant to Federal Rule of Civil Procedure ("Rule") 12(f) and to dismiss the remaining claims in the First Amended Complaint pursuant to Rule 12(b)(6). To support their motion, Defendants asserted (1) that the majority of the factual allegations contained in Plaintiffs' First Amended Complaint had to be stricken because they only related to the previously dismissed claims, and (2) that once the irrelevant allegations against them were removed pursuant to Rule 12(f), the First Amended Complaint would be insufficient to support the remaining claims under either the heightened pleading standard of Rule 9(b) (for Counts II–III and V–VII) or the regular pleading standard of Rule 8(a) (for Counts I and IV). [See 49, 50.] The Court granted Defendants' motion to strike in part, striking significant portions of the Plaintiffs' First Amended Complaint. [See 67.] The Court similarly granted Defendants' motion to dismiss with regard to Count II, Count III, Count V, Count VI, and Count VII, and denied the motion with regard to Count I and Count IV. [See *id.*] The Court then gave Plaintiffs one final opportunity to adequately plead the dismissed counts. [*Id.* at 22.]

Plaintiffs subsequently filed their Second Amended Complaint [71] on January 22, 2018. In their Second Amended Complaint, Plaintiffs allege that the Defendants' previously challenged advertisements regarding the Total Lift Bed were part of a conspiracy that ultimately concluded in the Defendants' use of Plaintiffs' intellectual property to sell their own competing lift bed. [See generally 71.] Defendants responded to the Second Amended Complaint on March 20, 2018 by filing another motion [77] to again strike various allegations from the Second Amended Complaint concerning the parties' pre-2014 relationship pursuant to Rule 12(f) and to dismiss the remaining claims in the Second Amended Complaint pursuant to Rule 12(b)(6). Plaintiffs filed a response [79], and Defendants have filed their reply [84].

## **II. Defendants' Rule 12(f) Motion to Strike**

### **A. Legal Standard**

Under Rule 12(f), "the court may strike from a pleading an insufficient defense or any redundant, immaterial, impertinent, or scandalous matter." Fed. R. Civ. P. 12(f). Motions to strike are generally disfavored but may be used to expedite a case by "remov[ing] unnecessary clutter." *Heller Fin., Inc. v. Midwhey Powder Co., Inc.*, 883 F.2d 1286, 1294 (7th Cir. 1989); see also *NewNet Commc'n Techs., LLC v. VIE-Cell Tropical Telecom, Ltd.*, 85 F. Supp. 3d 988, 993 (N.D. Ill. 2015) ("But where a defendant's asserted [affirmative defenses] are both legion and mostly frivolous, a motion to strike can aid the parties in resolving the case by removing irrelevant issues from consideration."). When requesting a court to strike specific allegations, "the movant must show that the allegations being challenged are so unrelated to plaintiff's claim as to be void of merit and unworthy of any consideration and that the allegations are unduly prejudicial." *Cumis Ins. Soc'y, Inc. v. Peters*, 983 F. Supp. 787, 798 (N.D. Ill. 1997) (internal quotation marks and citation omitted); see also *Manuel v. Lucenti*, 2004 WL 2608355, at \*2 (N.D. Ill. Nov. 16, 2004)

(“To prevail on a motion to strike under Rule 12(f), defendants must demonstrate that the material at issue does not bear on the subject matter of the litigation and will prejudice the defendants.”). A district court has “considerable discretion” in striking redundant, immaterial, impertinent, or scandalous matter. *Delta Consulting Grp., Inc. v. R. Randle Constr., Inc.*, 554 F.3d 1133, 1141 (7th Cir. 2009).

### **B. Analysis**

Defendants argue that numerous factual allegations contained in Plaintiffs’ Second Amended Complaint must be stricken once again because they reassert the same claims that this Court has previously dismissed or relate to a patent infringement claim that Plaintiffs have not brought. Defendants point to allegations relating to Defendants’ allegedly infringing marketing and promotional materials for the Total Lift Bed, which they contend are irrelevant to the Catalyst Bed-related claims that remain in the case. Specifically, Defendants request that the Court strike paragraphs 23–27, 52, 54–55, 94, 99–103, and 124 in their entirety and portions of paragraphs 29, 32–33, 50–51, 59–63, 70, 76–77, 122, 131, 159, 167, and 180 from the Second Amended Complaint. [78, ex. D.]

The Court concludes that at least some of the allegations in the Second Amended Complaint should be stricken because they have no relevance to the Catalyst Bed-related claims that remain in the litigation. A court may strike particular allegations if “[t]he Court unequivocally dismissed Plaintiff’s claims based on these allegations with prejudice, thereby precluding Plaintiff from raising them again” in an amended complaint. *Wei Liang v. Frontline Asset Strategies, LLC*, 2017 WL 1365604, at \*2 (N.D. Ill. Apr. 14, 2017) (striking several paragraphs from plaintiff’s amended complaint and rejecting the plaintiff’s argument that these facts were still relevant to his remaining claims); see also *Simons v. Ditto Trade, Inc.*, 2015 WL 1918617, at \*5–6 (N.D. Ill. Apr.

28, 2015) (striking a counterclaim’s allegations regarding the plaintiff’s relationship to another because “none” of the amended counterclaim’s were about that relationship); *Hickman v. Wells Fargo Bank NA*, 2010 WL 3833669, at \*7 (N.D. Ill. May 11, 2010) (striking disputed language from amended complaint because “the Court has already held that Plaintiff has failed to state a claim \* \* \* in this regard”); *David v. Vill. of Oak Lawn*, 1996 WL 494268, at \*2 (N.D. Ill. Aug. 27, 1996) (striking references to a conspiracy in plaintiff’s amended complaint because the court had previously dismissed the conspiracy counts). Here, it appears Plaintiffs once again seek to state a claim for conduct that the Court has already explained cannot be pursued outside the 2011 Lawsuit: the Defendants’ marketing of the Total Lift Bed as an “Exclusive Kreg Product” or as a “Kreg Bed” using Plaintiffs’ copyrighted works. [See 41, 9–18.] Plaintiffs may not pursue a claim in this litigation for Defendants’ advertisements which presented the Total Lift Bed as “their bed.” Keeping allegations in the operative complaint that suggest otherwise would have the effect of “confusing the issues,” potentially prejudicing Defendants, and unnecessarily complicating the case. *Cumis Ins. Soc’y*, 983 F. Supp. at 798.

Plaintiffs respond that they “have expressly limited their claims to the Catalyst Bed, which eliminates the possibility that Plaintiffs can impermissibly enlarge the scope of this action.” [79, at 15.] They also assert that the Defendants’ patent activities “furthered [the Defendants’] fraudulent scheme to unfairly compete with Plaintiffs and benefit from their intellectual property to sell the Catalyst Bed.” [*Id.*] The Court agrees that to the extent Plaintiffs’ allegations relate primarily to Defendants’ Catalyst Bed—including the patent allegations—they may remain in the complaint. However, multiple allegations go beyond that limit and confuse the issues. [See, e.g., 71, ¶ 29 (“Defendants have used and/or continue to use Plaintiffs’ TOTAL LIFT BED mark both with and without Plaintiffs’ Copyrighted Works to deceive consumers and to falsely suggest that:

(1) new versions of Plaintiffs’ Total Lift Bed that Defendants never received from Plaintiffs are available to rent from Defendants”); ¶ 122 (“falsely suggest that Plaintiffs’ Total Lift Beds originated with Defendant Kreg”); ¶ 131 (“new versions of Plaintiffs’ Total Lift Bed that Defendants never received are available to rent from Defendants”); ¶ 159 (“Plaintiffs’ hospital beds come from Defendants”).]

The Court will therefore grant in part and deny in part Defendants’ motion to strike as follows. The portions of Paragraphs 29, 51, 60, 122, 131, 159, 167, and 180 that allege Defendants have advertised and/or continue to advertise Total Lift Beds that they never received or that the “Total Lift Bed” is Defendants’ mark (29(1), 51(i), 60 (last sentence), 122 (last clause), 131(i), 159(i), 167(i), 180(i)), are stricken from the Second Amended Complaint as they relate to the same course of conduct—the advertisement of the Total Lift Bed—that that this Court has already explained cannot be used to state a claim in this litigation.

### **III. Defendants’ Rule 12(b)(6) Motion to Dismiss**

#### **A. Legal Standard**

“To survive a motion to dismiss under Rule 12(b)(6), a plaintiff’s complaint must allege facts which, when taken as true, ‘plausibly suggest that the plaintiff has a right to relief, raising that possibility above a speculative level.’” *Cochran v. Illinois State Toll Highway Auth.*, 828 F.3d 597, 599 (7th Cir. 2016) (quoting *EEOC v. Concentra Health Servs., Inc.*, 496 F.3d 773, 776 (7th Cir. 2007)). The Court “accept[s] all well-pleaded facts as true and draw[s] all reasonable inferences in plaintiff’s favor.” *Id.* at 600 (citing *Tamayo v. Blagojevich*, 526 F.3d 1074, 1081 (7th Cir. 2008)). The Court reads and assesses the plausibility of the complaint as a whole. See *Atkins v. City of Chicago*, 631 F.3d 823, 832 (7th Cir. 2011). In reviewing a motion to dismiss pursuant to Rule 12(b)(6), the Court accepts as true all of Plaintiffs’ well-pleaded factual

allegations and draws all reasonable inferences in Plaintiffs' favor. *Killingsworth*, 507 F.3d at 618.

## **B. Analysis**

Defendants seek to dismiss the entire Second Amended Complaint under the doctrines of (1) *res judicata*, (2) laches, and (3) judicial estoppel. In the alternative, Defendants assert that Plaintiffs still have not met their heightened pleading requirements under Rule 9(b) as to their Lanham Act unfair competition, common law unfair competition, IUOTPA, and ICFA claims (Counts II–III and Counts V–VII). Plaintiffs respond that Defendants' motion should be denied because (1) none of the stated doctrines apply to bar the claims in the Second Amended Complaint and (2) Plaintiffs have now sufficiently pled their claims with respect to Counts II–III and Counts V–VII.

### **1. *Res Judicata***

Defendants assert that the Second Amended Complaint is barred by *res judicata* because Plaintiffs' claims arise from and build upon the same set of operative facts underlying Plaintiffs' counterclaims in the 2011 Lawsuit: Defendants' marketing of the Total Lift Bed. [78, at 6-7; 41, at 8–19.] Plaintiffs' respond that their allegations in the Second Amended Complaint regarding the Total Lift Bed only relate to Defendants' release of a competing bed in 2014 [79, at 5–8], which was part of a scheme that allegedly began in 2010. [71, ¶ 49]. Plaintiffs also assert that the law of the case doctrine bars Defendants from repackaging their previous claim splitting argument in the guise of *res judicata*. [79, at 7 n.4.]

*Res judicata* “precludes parties or their privies from relitigating issues that were or could have been raised in that action.” *Allen v. McCurry*, 449 U.S. 90, 94 (1980). The doctrine will block a second lawsuit if there are (1) identity of the parties in the two suits, (2) a final judgment

on the merits in the first, and (3) an identity of the causes of action. *Barr v. Bd. of Trustees of W. Illinois Univ.*, 796 F.3d 837, 840 (7th Cir. 2015) (citing *Palka v. City of Chicago*, 662 F.3d 428, 437 (7th Cir.2011)). With regard to the third element, “two claims are one for purposes of res judicata if they are based on the same, or nearly the same, factual allegations.” *Herrmann v. Cencom Cable Assocs.*, 999 F.2d 223, 226 (7th Cir.1993).

The Court has already determined that there is privity in this case for *res judicata* purposes [41, at 14–15], and the previous lawsuit between the two parties has been reduced to a final judgment, [see 2011 Lawsuit, Dkt. Entry 250]. Thus, the only question for the Court is whether the Plaintiffs’ claims are based on the same, or nearly the same factual allegations.

In ruling on the Defendants’ first motion to dismiss [17], the Court concluded that “[t]he doctrine of claim splitting [—a form of *res judicata*—] precludes Plaintiffs from bringing claims based on Defendants’ modifications to the Total Lift Beds and Defendants’ allegedly infringing marketing and promotional materials for the Total Lift Bed.” [61, at 17.] Defendants assert that the claims set out in the Second Amended Complaint arise out of the same “core of operative facts” as those previous claims: “Kreg’s advertisement and marketing of the Total Lift Beds.” [78, at 7.] According to Defendants, “Kreg is alleged to have spent years laying the groundwork to later create a false perception that the Catalyst Bed and the Total Lift Bed are the same and/or affiliated.” [*Id.*] These allegations, Defendants argue, show Plaintiffs’ current claims “arise from ‘the same main events’ at issue in the 2011 Lawsuit.” [*Id.*]

Plaintiffs’ respond that they could not have brought their claims relating to the Catalyst Bed in the previous litigation because Defendants did not begin marketing the bed until 2014. [79, at 6.] Because the current claims could not have accrued until 2014 when the Defendants released their bed, Plaintiffs’ explain, their current claims cannot be barred by *res judicata*. [*Id.*]

As the Court explained in its first memorandum opinion and order, Plaintiffs' claims for intellectual property violations related to the Catalyst Bed are not barred by *res judicata*. [41, at 18–19.] However, Plaintiff's cannot recover for conduct that “is merely a continuation of conduct that Plaintiffs were aware of prior to bringing their counterclaims in the 2011 Lawsuit on October 17, 2011.” [41, at 12–13.] Consequently, the Court has already stricken several paragraphs and parts of others in the Second Amended Complaint that relate to those claims. [See *supra* Section II(B).] The remaining allegations, however, demonstrate that the intellectual property claims related to Defendants' marketing of their Catalyst Bed are based on underlying facts separate and distinct from those underlying Plaintiffs' previous counterclaims. [See, e.g., 71, ¶ 50 (“when Defendants Kreg and Poulos eventually released their Catalyst bed in 2014, Defendants continued to advertise only Plaintiffs' Total Lift Bed and to use only Plaintiffs' TOTAL LIFT BED mark on their website and in their promotional materials; (iv) when Defendants Kreg and Poulos eventually released their Catalyst bed in 2014, Defendants Kreg and Poulos showed only their Catalyst bed at tradeshow and conferences even though Defendants only showed Plaintiffs' Total Lift Bed and only used Plaintiffs' TOTAL LIFT BED mark on their website and in marketing materials”), ¶ 64 (“From on or about 2014 until on or about May 25, 2016 \* \* \* Defendants intentionally used only Plaintiffs' TOTAL LIFT BED mark to introduce and to promote sales of Defendants' Catalyst bed.”)]

While the Second Amended Complaint does contain multiple allegations that are barred by the Court's prior opinions, see Section II(B) *supra*, that is grounds for striking those allegations, not dismissing the entire claim or lawsuit. The Court is not convinced that that the Catalyst Bed claims arise from the same course of events giving rise to the claims previously dismissed. Plaintiffs have asserted that the conduct at issue in their previous claims was part of a “master

plan” by Defendants to use the goodwill associated with Plaintiffs’ marks to sell their Catalyst Bed. Nonetheless, as the Court has explained, what is at issue in the instant suit is the fact that Defendants allegedly continued to advertise the Total Lift Bed while selling Defendants’ Catalyst Bed alone. Plaintiffs may only challenge the Defendants continued advertisement of the Total Lift Bed to the extent they can show that the advertisements were used to sell Catalyst Beds. Based on that understanding, the doctrine of *res judicata* does not apply.<sup>2</sup>

## 2. Laches

Defendants next assert that because Plaintiffs knew everything necessary to bring their intellectual property claims in 2012, the doctrine of laches prohibits Plaintiffs from bringing their current claims. [78, at 7–10.] Plaintiffs respond that their claims did not accrue until 2014, making their 2016 lawsuit presumptively timely. [79, 8–11.]

For laches to apply, Defendants must demonstrate both (1) an unreasonable lack of diligence by Plaintiffs, and (2) prejudice arising therefrom. *Hot Wax, Inc. v. Turtle Wax, Inc.*, 191 F.3d 813, 820 (7th Cir. 1999). In trademark and copyright cases, any suit filed three years or more after the first allegedly infringing use is presumptively untimely for laches. *U.S. v. Mack*, 295 U.S. 480, 489 (1935); *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962, 1973 (2014). But even if the elements of laches are established, a court need not bar the plaintiff’s suit. The application of the laches defense is discretionary, and courts are to “look at all the facts and circumstances of the case and weigh the equities of the parties.” *Clever Ideas, Inc. v. Citicorp Diners Club, Inc.*,

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<sup>2</sup> Both parties also mention the law of the case doctrine in footnotes to their *res judicata* arguments. [79, at 7 n.4; 84, at 3 n.2.] It is a basic tenant of the American adversarial process that “a ruling made in an earlier phase of litigation controls the later phases unless a good reason is shown to depart from it.” *Tice v. Am. Airlines, Inc.*, 373 F.3d 851, 853 (7th Cir. 2004). As the Court has already ruled, claims stemming from the Defendants’ marketing of the Catalyst Bed are separate and distinct from the Plaintiffs’ prior claims. [41, at 18–19.] The only issue with regard to the “law of the case” is whether the Second Amended Complaint revealed that Plaintiffs’ claims actually relate entirely to the previously dismissed claims. As explained, they do not.

2003 WL 21982141, at \*11 (N.D. Ill. Aug. 20, 2003) (citation and internal quotations marks omitted).

In its previous opinion, the Court declined to bar Plaintiffs' Catalyst Bed claims under the doctrine of laches based on the timeline before it. [41, at 25.] The Court stated, however, that Defendants were not precluded from raising an argument based on laches to an amended complaint. [*Id.*]

Defendants assert that by June 2011, Plaintiffs knew that Defendants sought to develop "a tiltable bed to compete with the Total Lift Bed, while allegedly continuing to market the Total Lift Bed as the 'Kreg Bed' and referring to [Plaintiffs'] intellectual property as 'our patented technology.'" [78, at 9.] However, even if the Plaintiffs knew or should have known that Defendants were developing a competing bed, they could not have known in 2011 that Defendants would use Plaintiffs' intellectual property to market that bed in 2014 and beyond. Defendants have not pointed to any allegations indicating that Plaintiffs knew, or should have known, that Defendants would use the TOTAL LIFT BED mark in connection with the marketing and sale of the Catalyst Bed. Even if Plaintiffs suspected such a plan, Plaintiffs' claims did not become cognizable until Defendants' actively began using Plaintiffs' marks in conjunction with the Catalyst Bed in commerce.

The Defendants' cited authority does not suggest otherwise. In *AARP v. 200 Kelsey Associates, LLC*, the defendants sought to use the plaintiff's mark to sell their own magazine. 2009 WL 47499, at \*1 (S.D.N.Y. Jan. 8, 2009). Unlike here, the parties had no prior relationship, and there was no suggestion that the defendant had any right to use the mark. Nonetheless, the defendants claimed that until they actually sold the magazine at issue, the plaintiffs did not have standing to bring their claim. *Id.* at \*2. The court rejected that notion, explaining that "trademark

infringement and related claims \* \* \* are not contingent on the actual sale of an infringing product.” *Id.* at \*10. Rather, the mark need only be used in commerce with the product in question. *Id.* at 11. Because the defendants in *AARP* were actively seeking licenses to publish a magazine with the infringing mark and had “conducted an extensive analysis of the publishing industry,” the court inferred that the defendants had used the mark in commerce. *Id.* at 11. The court therefore allowed the suit to proceed. *Id.*; see also *JGX, Inc. v. Handlery*, 2018 WL 984856, at \*4–5 (N.D. Cal. Feb. 20, 2018) (allowing a Lanham Act case to proceed in light of the plaintiff’s allegations that supported a reasonable inference that defendant’s use of plaintiff’s trademark to market a restaurant was imminent, notwithstanding the fact that the restaurant had not yet opened). Both *AARP* and *JGX* suggest that a plaintiff may sue when a defendant’s infringing use of the mark is imminent, not when the plaintiff has any reason whatsoever to believe an infringing use could occur at some uncertain time in the future.

Defendants’ argument boils down to this: because Plaintiffs allegedly knew that Defendants were marketing the Total Lift Bed as the “Kreg Bed” and referring to Plaintiffs’ intellectual property as “our patented technology” in 2011, Plaintiffs knew or should have known that Defendants would seek to market the Catalyst Bed a few years later using Plaintiffs’ intellectual property. [78, at 9 (citing 71, ¶¶ 60–61, 63).] The Court declines to make such a leap. Simply because Plaintiffs suspected that Defendants were using their intellectual property in a bid to develop a competing product does not mean that they had to assume Defendants ever would succeed in bringing the product to market. Such a holding would require plaintiffs to rush into the courthouse every time they even suspect their rights may be in danger. Such a requirement could flood the courts with speculative and premature lawsuits. *Cf. Heard v. Sheahan*, 253 F.3d 316, 320 (7th Cir. 2001) (“We have enough [ ] suits without having to create incentives to bring multiple

suits arising out of the same course of events.”). Knowledge that another is trying to develop a competing product does not mean that an intellectual property violation is “imminent and impending.” In both *AARP* and *JGX* the defendants had taken concrete steps to actually use the marks at issue in commerce. Here by contrast, nothing suggests that Defendants used the TOTAL LIFT BED mark to market the Catalyst Bed until 2014.

Because Defendants have not pointed to any allegations that show Plaintiffs knew or should have known of any concrete steps taken by Defendants to use Plaintiffs’ intellectual property in connection with the Catalyst Bed prior to 2014, the Court again declines to conclude that laches bars Plaintiffs’ current claims as a matter of law. That said, should discovery show otherwise, Defendants may raise an argument based on laches in a motion for summary judgment.

### **3. Judicial Estoppel**

Finally, Defendants assert that all of Plaintiffs’ claims are barred by judicial estoppel because they contradict Plaintiffs’ position in the 2011 Lawsuit. Specifically, Defendants assert that Plaintiffs are reversing their position that Defendants’ “rights to lease, rent, sell, or otherwise use [the Total Lift Beds] as [Kreg] [sees] fit continued undiminished.” [78, at 10–11 (citing 2011 Lawsuit, Dkt. Entry 239, at 2, 7–8).] Plaintiffs respond that Defendants are confusing the issue. [79, at 11.] Plaintiffs did assert that Defendants would be free to advertise, sell, and rent the Total Lift Beds in their possession after the alleged breach at issue in the 2011 Lawsuit. [*Id.* at 11–12.] But, Plaintiffs argue, while Defendants were permitted to market the Total Lift Bed, they did not have permission to use Plaintiffs’ intellectual property to advertise the Catalyst Bed. [*Id.* at 12.] The two positions are not inconsistent according to Plaintiffs. [*Id.*]

Judicial estoppel precludes a party from abandoning positions after they have prevailed on them in earlier litigation. *Zedner v. United States*, 547 U.S. 489, 504 (2006). Three factors that

inform the decision about whether to apply judicial estoppel are (1) whether the later position is clearly inconsistent with the earlier position; (2) whether the party to be estopped succeeded in persuading the first court to accept its earlier position, “so that judicial acceptance of an inconsistent position in a later proceeding would create the perception that either the first or second court was misled;” and (3) whether the party seeking to assert an inconsistent position would derive an unfair advantage or impose an unfair detriment on the opposing party if not estopped. *In re Knight-Celotex, LLC*, 695 F.3d 714, 721 (7th Cir. 2012) (citation and internal quotation marks omitted).

Here, Plaintiffs’ current claims are not inconsistent with the position they took before this Court in the 2011 Lawsuit. In seeking to avoid liability for the Total Lift Beds that remained in Defendants’ custody after the purported breach at issue in the 2011 Lawsuit, Plaintiffs argued that Defendants could still use or dispose of the beds as they saw fit because their rights in the property were undiminished. But as the Court has already explained, at issue in this litigation is not whether the Defendants may advertise the Total Lift Bed, the question is whether Defendants used advertisements containing Plaintiffs’ intellectual property to sell their own competing Catalyst Bed. In essence, Plaintiffs allege that by advertising only the Total Lift Bed while simultaneously presenting the Catalyst Bed at tradeshow and conferences, Defendants sought to, and did, create confusion in the minds of consumers as to the origin of the Catalyst Bed. Plaintiffs may not complain about Defendants’ advertising the Total Lift Beds in their possession for the legitimate purpose of selling those beds, but they may challenge those advertisements if they were used, as Plaintiffs allege, to facilitate Defendants’ sales of the Catalyst Bed.

Because the issues in this case must be entirely divergent from those of the 2011 Lawsuit [see 41, at 8–18 (addressing Defendants’ claim splitting argument)], any position taken by the

Plaintiffs in that case should not relate to the claims in this suit. Because the remaining claims, and the non-stricken allegations, satisfy that test, judicial estoppel does not apply.

#### 4. Failure to State a Claim

In the alternative, Defendants argue that after striking the irrelevant matter in the complaint, Plaintiffs have still not plead with the specificity required by Rule 9(b) as to Counts II–III and Counts V–VII. Plaintiffs contend that they have. For the reasons that follow, the Court concludes that Count II and Counts V–VII may now proceed, but Count III may not.

“To satisfy the heightened pleading standard of Rule 9(b), the circumstances [of the alleged misrepresentation] must be pleaded in detail. The who, what, when, where and how: the first paragraph of any newspaper story.” *Blankenship v. Pushpin Holdings, LLC*, 2015 WL 5895416, at \*7 (N.D. Ill. Oct. 6, 2016) (internal quotation marks omitted; citing *DiLeo v. Ernst & Young*, 901 F.2d 624, 627 (7th Cir. 1990)). Rule 9(b) specifically requires alleging with particularity “the identity of the person making the misrepresentation, the time, place, and content of the misrepresentation, and the method by which the misrepresentation was communicated to the plaintiff.” *Id.* at \*5 (quoting *U.S. ex rel. Grenadyor v. Ukrainian Vill. Pharmacy, Inc.*, 772 F.3d 1102, 1106 (7th Cir. 2014)).

In its second memorandum opinion and order, the Court explained that Plaintiffs had alleged “the headline of the newspaper story, but not its ‘first paragraph.’” [67, at 19 (quoting *DiLeo*, 901 F.2d at 627 (7th Cir. 1990)).] Specifically, Plaintiffs had not pointed to “any specific marketing device (such as the exact brochure or website) in which Defendants ha[d] made particular misrepresentations about the Catalyst Bed in the two-and-a-half-year window between 2014 and 2016.” [*Id.*] Consequently, the Court gave Plaintiffs one last opportunity to amend the complaint to try to meet Rule 9(b)’s requirements. [*Id.*]

Defendants argue Plaintiffs' new allegations still do not meet Rule 9(b)'s requirements. First, Defendants assert that the Court must disregard all of Plaintiff's factual allegations stated on "information and belief" because they do not meet the Seventh Circuit's standard to plead fraud on information and belief. [79, at 12–13.] Without those allegations, Defendants argue, Plaintiffs' claims fail. [79, at 13–14.]

**a. Fraud on Information and Belief**

To plead fraud on information and belief, a plaintiff must (1) plead that the facts constituting the fraud are not accessible to the plaintiff and (2) plead facts that provide the grounds for his suspicions. *United States v. McMahon*, 2015 WL 115763, at \*5 (N.D. Ill. Jan. 5, 2015) (citing *Pirelli Armstrong Tire Corp. Retiree Med. Benefits Trust v. Walgreen Co.*, 631 F.3d 436, 443 (7th Cir. 2011)). The provided grounds "must make the allegations plausible, even as the courts remain sensitive to the information asymmetries that may prevent a plaintiff from offering more detail." *Id.* According to Defendants, Plaintiffs do not support the allegations put forward on information and belief with why the facts underlying those beliefs are inaccessible or plead reasonable grounds for those purported suspicions. [78, at 12.] Defendants specifically point to paragraphs 33, 70, 78, and 101–103 of the Second Amended Complaint. [*Id.*]<sup>3</sup>

Paragraph 33 of the Second Amended Complaint states, "Defendants previously marketed and, on information and belief, continue to market Plaintiffs' Total Lift Bed and or Kreg's [Catalyst] lift bed in bed in studies and trials by referring to Plaintiff's Total Lift Bed as the Kreg Total Lift Bed, the Kreg Bed, the Kreg Lift Bed, and/or the Kreg Tilt Bed." [71, ¶ 33.] Plaintiffs have pled no facts, however, that plausibly support the inference that Defendants have continued

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<sup>3</sup> Defendants also seek to "preserve" their argument—which this Court previously rejected—that Plaintiffs' claims against Defendant Poulos on "information and belief" are insufficient to support their claims against Poulos. [78, at 12 n.6.] Given the Court has already ruled on that issue, it will not address it again here.

to market the Catalyst Bed using materials that assert the Total Lift Bed is also Defendants' product since 2016. Thus, the Court will disregard this allegation as it relates to any ongoing conduct.

Paragraph 70 of the Second Amended Complaint alleges, "On information and belief, after May 25, 2016, Defendants Kreg and Poulos continued to show the Catalyst bed at tradeshow and conferences and continued to market and advertise Plaintiffs' Total Lift Bed while referring to Plaintiffs' Total Lift Bed and/or Plaintiffs' Patents as their bed and their patents, respectively." [70, ¶ 78.] The point is well taken that Plaintiffs' cannot "know every interaction that took place at every one of Defendants' tradeshow / conference booths" [79, at 14]; however, Plaintiffs have only alleged facts that show Defendants have been at tradeshow and conferences since May 25, 2016 [see 71, ¶ 84]. Plaintiffs do not point to a single allegation that supports the notion that Defendants have even had online advertisements for the Total Lift Bed since May 25, 2016. Thus, the Court will disregard this allegation.

Paragraph 78 of the Second Amended Complaint alleges, "On information and belief, from on or about 2014 through the present there are multiple email and verbal communications with customers and potential customers in which Defendant[s] [ ] attempted to provide one of Defendants [sic] Catalyst beds instead of a requested Total Lift Bed \* \* \*." [71, ¶ 78.] First, Plaintiffs point out that discovery closed in the 2011 Lawsuit before the Catalyst Bed was released in 2014. [2011 Lawsuit, Dkt. Nos. 51, 71, 87, 110.] Plaintiffs also highlight that the only reason they received the email at issue (discussed in detail below) is that the customer copied Plaintiffs on her emails to Defendants. The Court agrees that Plaintiffs have adequately pled why the facts are inaccessible. The question is whether they have adequately pled grounds that make those suspicions plausible.

To support their suspicions, Plaintiffs point to a January 2018 email in which an employee of Defendants said he would be “happy to help” in response to a hospital’s request for a Total Lift Bed. [71, ¶ 77.] Plaintiffs assert that in light of the fact that Defendants only carried two early versions of the Total Lift Bed, had removed all advertisements for the Total Lift Bed from their website, and had released the Catalyst Bed, the only logical conclusion is that Defendants were trying to pass the Catalyst Bed off as the same or related to the Total Lift Bed. [*Id.*] Defendants contend that such an inference is nonsensical. [84, at 9.] As explained above, however, Plaintiffs only need to plead grounds that make it plausible that such emails exist. The question is what the Court can plausibly infer from the email. While not exactly a smoking gun, the response of Defendants’ employee that he was “happy to help” a customer procure a product which Defendants no longer advertised plausibly suggests that he intended to provide Defendants’ bed rather than the Plaintiffs’. Consequently, the Court concludes that Plaintiffs’ allegations in Paragraph 78 are adequately supported to be pled on information and belief. The Court may therefore consider the allegations in its evaluation of Defendants’ Rule 12(b)(6) motion.

Finally, Paragraphs 101–103 contain allegations only pertinent to Plaintiffs’ claims for copyright infringement [see 78, at 25–27 (“Defendants’ Copyright Infringement”)], which the Court has already held are only subject to Rule 8’s pleading standards, [67, at 20–22]. Consequently, Plaintiffs need not plead that the facts at issue are under Defendants’ control or the grounds for their belief.

#### **b. Adequacy of the Current Complaint**

Finally, in light of the stricken material, Defendants maintain that Plaintiffs new allegations remain well below Rule 9(b)’s particularity threshold. In response, Plaintiffs point to the Second Amended Complaint’s allegations regarding “Specific Direct Correspondence With Potential

Customers,” “Specific Websites,” “Specific Brochures,” and “Specific Tradeshows/Conferences from 2014-2016,” in which Defendants purportedly made misrepresentations about the Catalyst Bed. [79, at 13 (citing 71, ¶¶ 77, 78; *id.*, ¶¶ 52, 54, 55, 60, 63, 79–83, 92; *id.*, ¶ 61; and *id.*, ¶¶ 71–75, respectively) (emphasis omitted).] These allegations, Plaintiffs argue, show Defendants’ misrepresentations include “(i) fraudulently filing for patent protection over features not invented by Defendants to assert that the Catalyst Bed was patent-protected; \* \* \* (iii) continuing to advertise (via website, brochure, and tradeshow) only the Total Lift Bed even after Defendants released the Catalyst Bed in 2014; and (iv) attempting to provide a Catalyst Bed in response to a potential customer’s request for a Total Lift Bed.” [79, at 13.]<sup>4</sup>

The Court first notes that the parties appear to agree that if Plaintiffs have adequately alleged facts to state a claim under either Lanham Act theory (Counts II and III), then they have stated a claim under the common law unfair competition (Count V) and Illinois state statute (Counts VI–VII) theories. Consequently, the Court will only review whether Plaintiffs have stated a claim for false designation and/or false advertising under the Lanham Act.

**i. False Designation**

To state a claim for false designation of origin under the Lanham Act, a plaintiff must allege that: (1) the defendant used a false designation of origin or false representation in connection with its goods; (2) the defendant caused those goods to enter interstate commerce; and (3) consumers are likely to be confused by the false representation. *Web Printing Controls Co., Inc. v. Oxy-Dry Corp.*, 906 F.2d 1202, 1204 (7th Cir.1990) (citing 15 U.S.C. § 1125(a)). To satisfy

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<sup>4</sup> As explained below, in light of the testimony from the 2011 Lawsuit, Plaintiffs have not pled facts to support the notion that Defendants’ have fraudulently advertised patent protected features, thus the Court has omitted (ii).

the third element, actual confusion is not necessary. Rather, a plaintiff need only show that there is a likelihood that consumers will be confused by the false representation. *Id.*

Defendants do not specify which elements they believe Plaintiffs have failed to plead to support their claim. Rather, they assert that Plaintiffs have still not met their burden because (1) Plaintiffs have still not alleged a single instance where Defendants represented to anyone that the Catalyst Bed was the same as the Total Lift Bed or was affiliated with Plaintiffs; and (2) Plaintiffs have not identified a single consumer or conference attendee who expressed any confusion, where it occurred, or the how they communicated that confusion. [78, at 13.] Specifically, Defendants deny that the January 2018 email exchange [78-1] demonstrates that Defendants intended to cause confusion or that the customer was confused. [78, at 13–14.] In light of these assertions, the Court will examine whether Plaintiffs have stated a claim as to the first and third elements.

*First Element* — False designation of origin claims take two basic forms, “passing off” and “reverse passing off.” *Web Printing Controls*, 906 F.2d at 1203 n.1. Plaintiffs’ allegations fall into the first category in which a defendant seeks to sell a good of its own creation under the name or mark of another.<sup>5</sup> *Id.* Using images of another’s product to sell or advertise one’s own is a classic example of such prohibited behavior. In *BlueStar Mgmt. v. The Annex Club, LLC*, for example, a court in this district found that allegations that the defendant had placed a photograph of plaintiff’s rooftop deck next to a link to the defendant’s own rooftop deck in an advertisement adequately plead facts under Rule 9(b) to support a claim of false designation. 2010 WL 2802213, at \*4 (N.D. Ill. July 12, 2010).

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<sup>5</sup> While Plaintiffs maintain throughout the Second Amended Complaint that Defendants sought to appropriate the TOTAL LIFT BED mark as their own—which would constitute a reverse passing off claim—those allegations have been set aside for the reasons already explained. The only remaining issue is whether Defendants sought to use the TOTAL LIFT BED mark and other related intellectual property to sell the Catalyst Bed, which is a classic passing off claim.

Here, Plaintiffs similarly allege that Defendants displayed the Catalyst Bed at specific tradeshow in May 2014; September 2015, April 2015, and April 2016. [71, ¶¶ 71-75.] From at least January 2014 to May 25, 2016, Defendants did not advertise the Catalyst Bed on their website; rather, the website advertised the Total Lift Bed alone. [*Id.* ¶ 60.] Similarly, Defendants distributed a brochure at those conferences and tradeshow that included only the Total Lift Bed. [*Id.* at 61.] Importantly, the Defendants' did not show Plaintiffs' Total Lift Bed at any of the tradeshow at which the Catalyst Bed was displayed. [*Id.* ¶¶ 71-75.] Based on these specific allegations, the Court may plausibly infer under Rule 9(b) that Defendants sought to convince customers that the Catalyst Bed on display at their booth was somehow connected to or affiliated with Plaintiffs' Total Lift Bed. Thus, the Court concludes Plaintiffs have adequately pled facts with particularity to support the first element of a false designation claim.

*Third Element* — As explained above, Plaintiffs do not have to plead facts that show actual confusion. Pleading that consumers are likely to be confused is sufficient to meet the third element of a false designation claim. *Web Printing Controls Co., Inc.*, 906 F.2d at 1204. Thus, Defendants' assertion that Plaintiffs have not identified a single consumer or conference attendee who expressed any confusion, where it occurred, or the how they communicated that confusion is immaterial. Moreover, the Court concludes that Plaintiffs' allegations regarding the January 18 email [78-1] do plead facts that show at least one individual was confused by Defendants' advertising practices. The fact that an individual thought she could procure a Total Lift Bed from the Defendants—even though Defendants had pulled the Total Lift Bed from their website in 2016 and had only advertised the Catalyst Bed—plausibly supports an inference that Defendants' marketing practices were likely to cause confusion, especially in light of the allegation that attendees of at least one tradeshow stated that the Catalyst Bed appeared to be a copy of the Total

Lift Bed. [71, ¶ 71.] The Court therefore concludes that Plaintiffs have pled facts with particularity to meet the third element of a false designation claim under the Lanham Act. Plaintiffs have now stated a claim under Count II.

**ii. False Advertising**

To state a claim for false advertising under the Lanham Act, a plaintiff must allege that: (1) the defendant made a false statement of fact about its own or another's product in a commercial advertisement; (2) the statement deceived or has the tendency to deceive a substantial portion of its audience; (3) the deception is likely to influence consumers' purchasing decisions; (4) the defendant caused its false statement to enter interstate commerce; and (5) the plaintiff has been or is likely to be injured as a result. *Hot Wax, Inc. v. Turtle Wax, Inc.*, 191 F.3d 813, 819 (7th Cir.1999) (citing 15 U.S.C. § 1125(a)).

Again, Defendants have not specified which elements they believe Plaintiffs have failed to plead with particularity to support their claim. Rather, Defendants assert (1) Plaintiffs have still not alleged a single instance where Defendants represented to anyone that the Catalyst Bed was the same as the Total Lift Bed or was affiliated with Plaintiffs and (2) Plaintiffs have not identified a single consumer or conference attendee who expressed any confusion, where it occurred, or how they communicated that confusion. [78, at 13.] Specifically, Defendants' dispute that the alleged representations about the Catalyst Bed's features suggest Defendants attempted to mislead anyone. [78, at 13–14.] Based on those arguments, the Court will examine whether Plaintiffs have stated a claim as to the first and fifth elements.

*First Element* — The Court agrees with Defendants that the allegations regarding Defendants' representations about the Catalyst Bed's features do not plead fraud with particularity under Rule 9(b). As Defendants highlight, Poulos testified that the Catalyst Bed did not have a

scale in the foot support, not that the bed didn't have scales at all. [78, at 14 (citing 2001 Lawsuit, Dkt. Nos. 281–82.).] Additionally, Poulos testified that Defendants' dealers had come up with a process that made having a footboard scale unnecessary. [79-1, at 123:24–124:7.]<sup>6</sup> Thus, the Court concludes that Plaintiffs' allegations that Defendants' made fraudulent representations regarding a “weight bearing control system” are implausible. Similarly, Plaintiffs have not pled any facts to show that the Defendants' product does not have a “movable foot support” or the other “Patented Features” that Defendants' bed allegedly has. [71, ¶¶ 87–89.] In short, the Court concludes that Plaintiffs have not alleged facts with particularity that show Defendants have fraudulently represented that their beds contain Plaintiffs' patented features. According to Plaintiffs' allegations, and the prior testimony, it appears Defendants' advertisements are entirely consistent with Poulos's previous testimony. A website or brochure that advertises a product with features protected by the patents of another does not constitute fraud, though it may be evidence of a patent violation.

Plaintiffs have still not pled with particularity anything to suggest that Defendants' advertisements were materially false. As previously explained, Plaintiffs' allegations regarding Defendants' claims about their ownership of the TOTAL LIFT BED mark have been stricken, and the allegations regarding Defendants' false statements about the patent protected features of their Catalyst Bed are contradicted by the testimony at trial in the 2011 Lawsuit.<sup>7</sup> Plaintiffs have not

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<sup>6</sup> The Court may take judicial notice of prior trial testimony in related cases. *Green v. Warden, U.S. Penitentiary*, 699 F.2d 364, 369 (7th Cir.1983) (“Among these matters of which a court may take judicial notice are its own court documents and records.”) (citing *Bryant v. Carleson*, 444 F.2d 353, 357 (9th Cir.), certiorari denied, 404 U.S. 967 (1971)). Moreover, Plaintiffs attached the relevant section of the trial testimony in question to their own response [79]. [See 79-1.]

<sup>7</sup> Plaintiffs' response appears to insinuate that Defendants no longer have any Total Lift Beds to sell. [79, at 13 n.12.] Those allegations are not in the complaint, however, nor do Plaintiffs cite a section of the trial transcript in which those statements were allegedly made. The Court cannot consider facts that lie outside the complaint and are not judicially noticeable.

pointed to any other allegations that support a claim that Defendants made a false statement of fact about the Catalyst Bed or the Total Lift Bed in a commercial advertisement. Consequently, the Plaintiffs have not stated a claim for false advertising under the Lanham Act.

Although Count III will be dismissed, Plaintiffs' Second Amended Complaint provides allegations regarding the use of specific marketing devices in circumstances that plausibly show that Defendants represented that the Catalyst Bed was affiliated with, or the same as, the Total Lift Bed. Consequently, Count II and Counts V–VII may now proceed.

#### **IV. Conclusion**

For the foregoing reasons, Defendants' motion [77] is granted in part and denied in part. The Court grants Defendants' motion to strike in part: portions of paragraphs 29, 51, 60, 122, 131, 159, 167, and 180 (29(1) , 51(i), 60 (last sentence), 122 (last clause), 131(i), 159(i), 167(i), 180(i)) are stricken from the Second Amended Complaint as they address claims this Court has previously dismissed. Furthermore, the Court grants Defendants' motion to dismiss Count III and denies Defendants' motion as to Count I, Count II, Count IV, Count V, Count VI, and Count VII. This case is set for further status hearing on April 10, 2019 at 9:30 a.m.

Dated: March 27, 2019



Robert M. Dow, Jr.  
United States District Judge