

TABLE OF APPENDICES

Appendix A

Opinion, United States Court of Appeals for the Eighth Circuit, *Select Comfort Corporation; Select Comfort SC Corporation v. John Baxter; Dires, LLC, doing business as Personal Touch Beds and Personal Comfort Beds; Digi Craft Agency, LLC; Direct Commerce, LLC, doing business as Personal Touch Beds; Scott Stenzel; Craig Miller*, Nos. 19-1077, 19-1113, 19-1178 (May 11, 2021).....A-1

Appendix B

Judgment, United States Court of Appeals for the Eighth Circuit; *Select Comfort Corporation; Select Comfort SC Corporation v. John Baxter; Dires, LLC, doing business as Personal Touch Beds and Personal Comfort Beds; Digi Craft Agency, LLC; Direct Commerce, LLC, doing business as Personal Touch Beds; Scott Stenzel; Craig Miller*, Nos. 19-1077, 19-1113, 19-1178 (May 11, 2021).....A-31

Appendix C

Memorandum Opinion and Order, United States District Court District of Minnesota, *Select Comfort Corporation; Select Comfort SC Corporation v. John Baxter; Dires, LLC d/b/a Personal Touch Beds and Personal Comfort Beds; Digi Craft Agency, LLC; Direct Commerce, LLC d/b/a Personal Touch Beds; Scott Stenzel; and Craig Miller*, No. 12-cv-2899 (DWF/SER) (Jan. 13, 2016).....A-34

Appendix D

Order, United States Court of Appeals for the Eighth Circuit, *Select Comfort Corporation; Select Comfort SC Corporation v. John Baxter;*

<i>Dires, LLC, doing business as Personal Touch Beds and Personal Comfort Beds; Digi Craft Agency, LLC; Direct Commerce, LLC, doing business as Personal Touch Beds; Scott Stenzel; Craig Miller</i> , Nos. 19-1077, 19-1113, 19-1178 (May 11, 2021).....	A-80
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Appendix E

Memorandum Opinion and Order, United States District Court District of Minnesota, <i>Select Comfort Corporation; Select Comfort SC Corporation v. John Baxter; Dires, LLC d/b/a Personal Touch Beds and Personal Comfort Beds; Digi Craft Agency, LLC; Direct Commerce, LLC d/b/a Personal Touch Beds; Scott Stenzel; and Craig Miller</i> , No. 12-cv-2899 (DWF/SER).....	A-83
--	------

Appendix F

Relevant Constitutional and Statutory Provisions.....	A-125
U.S. Const. art. III, §§1-2.....	A-125
15 U.S.C § 1125(a), The Lanham Act.....	A-126

A-1

Appendix A

**UNITED STATES COURT OF APPEALS FOR
THE EIGHTH CIRCUIT**

No: 19-1077

Select Comfort Corporation; Select Comfort SC
Corporation
Plaintiffs – Appellants,
v.

John Baxter; Dires, LLC, doing business as Personal
Touch Beds and Personal Comfort Beds; Digi Craft
Agency, LLC; Direct Commerce, LLC, doing business
as Personal Touch Beds; Scott Stenzel; Craig Miller
Defendants – Appellees.

No: 19-1113

Select Comfort Corporation; Select Comfort SC
Corporation
Plaintiffs – Appellees,
v.

John Baxter
Defendant,
Dires, LLC, doing business as Personal Touch Beds
and Personal Comfort Beds
Defendant – Appellant.

Digi Craft Agency, LLC; Direct Commerce, LLC,
doing business as Personal Touch Beds
Defendants.
Scott Stenzel; Craig Miller
Defendants – Appellants.

No: 19-1178

Select Comfort Corporation; Select Comfort SC
Corporation
Plaintiffs – Appellees,
v.

John Baxter
Defendant – Appellant,
Dires, LLC, doing business as Personal Touch Beds
and Personal Comfort Beds; Digi Craft Agency, LLC;
Direct Commerce, LLC, doing business as Personal
Touch Beds; Scott Stenzel; Craig Miller
Defendants.

Submitted: May 13, 2020
Filed May 11, 2021
Rehearing and Rehearing En Banc
Denied June 16, 2021

Before: Lavenski R. Smith, Michael Joseph Melloy,
and Bobby E. Shepherd, Circuit Judges

OPINION

MELLOY, Circuit Judge:

Plaintiffs and Defendants sell competing adjustable air mattresses and related products. Plaintiffs' registered trademarks include "SLEEP NUMBER", "WHAT'S YOUR SLEEP NUMBER", "SELECT COMFORT", and "COMFORTAIRE". Plaintiffs allege Defendants used similar and identical marks in several different capacities online to sell competing products. Plaintiffs also allege Defendants compounded internet-related confusion by making fraudulent misrepresentations and failing to dispel confusion when consumers contacted Defendants' call centers. At summary judgment the district court rejected as a matter of law an infringement theory based on presale or initial-interest confusion. 4 J. McCarthy, *Trademarks and Unfair Competition*, § 23:6 (4th Ed. 2010) (hereinafter *McCarthy*) (initial-interest confusion is "confusion that creates initial customer interest, even though no actual sale is finally completed as a result of the confusion"). The case proceeded to a trial on trademark infringement and dilution claims and on unfair competition and false advertising claims. Consistent with the summary judgment ruling, the district court instructed the jury that infringement liability depended on a showing of a likelihood of confusion at the time of purchase. The trial resulted in a mixed verdict.

Both sides appeal. Plaintiffs raise nine issues. Defendants contest all nine issues, raise one additional issue in a cross- appeal, and raise a second issue in a "conditional cross-appeal." Because we conclude the district court erred by finding as a matter of law that the relevant consumers were

sophisticated and that a theory of initial-interest confusion could not apply, we reverse. As a result, certain issues fall away. Several additional issues remain, however, and we address them below.

I. Background

Plaintiffs are the owners of the heavily advertised Select Comfort and Sleep Number brands of adjustable air mattresses sold online, over the phone, and (primarily) through hundreds of company-owned stores nationwide. Defendant Dires, LLC, and its principals and predecessor or affiliated companies, actually made adjustable air beds at an earlier date. Defendants have evolved into an online retailer (“personalcomfortbed.com”) that utilizes internet advertising and a call-center-based sales model to sell their own brand of lower-priced adjustable air beds. The individual defendants are executives or owners of Dires or related companies, all of whom had input into marketing strategy and advertising design. Defendants are a distant second to Plaintiffs in adjustable-bed sales volume.

Plaintiffs and Defendants have somewhat of a shared history in that Defendant-Appellee Craig Miller had at one point (from 2006 to 2011) worked as a consultant for Plaintiffs. Also, Defendant-Appellees Baxter and Stenzel had worked for Plaintiff Comfortaire, another air bed company, and Plaintiff Select Comfort SC Corporation later purchased Comfortaire. In fact, Stenzel and Baxter developed their advertising and sales techniques when working for Comfortaire.

Plaintiffs' overall theory of the case alleges Defendants employed words or phrases identical or confusingly similar to Plaintiffs trademarks in various online advertising formats including: website urls; search inquiry paid terms; embedded links in third-party sites; and general use of identical or similar phrases in text advertisements or combined graphic- and-text advertisements that could be viewed by users or detected organically by search engines. According to Plaintiffs, Defendants used these means to divert customers to their own website and phone lines where Defendants (1) failed to dispel consumer confusion or made statements that caused further source confusion and (2) made false representations about their own products and Plaintiffs' products in order to promote their own products. In this way, Plaintiffs assert trademark infringement, trademark dilution, and false-advertising theories that rely upon common facts.

As relevant to claims on appeal, Plaintiffs asserted federal trademark infringement and dilution claims based on their registered trademarks, federal unfair competition and false advertising claims, and a state law deceptive trade practices claim. In a declaratory judgment counterclaim, Defendants argued Plaintiffs had no trademark rights in the unregistered phrase "NUMBER BED" because the phrase was either generic or merely descriptive but lacking secondary meaning. Defendants sought a summary judgment ruling on their "NUMBER BED" counterclaim and also argued the incontestable, registered trademark "SLEEP NUMBER" had become generic and was no longer protectable. Defendants also argued Plaintiffs could not maintain an infringement claim based on presale or initial-

interest confusion. Both parties sought summary judgment.

In summary judgment rulings, the district court found outstanding questions of fact as to whether “SLEEP NUMBER” had become generic and as to whether “NUMBER BED” had acquired secondary meaning and gained status as a protectable trademark. Regarding trademark infringement, the district court found generally that outstanding questions of fact precluded summary judgment. Regarding the specific question of trademark infringement in the form of initial-interest confusion, the district court first noted that Plaintiffs expressly disavowed any theory of trademark infringement that relied exclusively on Defendants' use of Plaintiffs' trademarks as paid search terms with search engine providers such as Google. Rather, Plaintiffs alleged infringement based on that use coupled with Defendants' several and varied other uses of similar and identical trademarks in multiple forms of online advertising. The district court then relied on our case, *Sensient Techs. Corp. v. SensoryEffects Flavor Co.*, 613 F.3d 754 (8th Cir. 2010), noting that the Eighth Circuit had neither expressly adopted nor rejected a theory of initial-interest confusion as a general matter, but had refused to apply the theory in a case where consumers were sophisticated.

The District Court next held as a matter of law that retail purchasers of mattresses were sophisticated consumers because mattresses are expensive. As a result, the District Court held as a matter of law that a claim alleging initial-interest confusion could not proceed and Plaintiffs would have

to show a likelihood of confusion at the time of purchase. The district court ruled as to several other issues, notably denying Plaintiffs' motion for summary judgment regarding a false advertising claim in which Plaintiffs argued that Defendants' Rule 30(b)(6) witness admitted the literal falsity of certain statements. The district court held that the statements, in context, were equivocal, presented a factual question, and did not support summary judgment.

At trial, Plaintiffs presented evidence which showed Defendants had used Plaintiffs' actual trademarks as paid search terms and as identical phrases in their own web-based advertising in text pages, combined text and graphical pages, as terms embedded in linked internet address urls, and in other fashions. Examples included website links that presented Plaintiffs' trademarks as identical phrases (e.g. personalcomfortbed.com/vSleepNumber or www.personalcomfortbed.com/cComfortaire). In addition, Defendants used phrases similar to Plaintiffs' trademarks, often with words broken up in a grammatically non-sensical fashion. Examples included the use of terms such as "Sleep 55% Off Number Beds" and "Comfort Air Beds on Sale" in online advertisements. Survey evidence demonstrated actual consumer confusion, although the parties disputed the relevancy and value of the survey evidence based on percentages of participants who were confused, whether the survey participants were actual or potential consumers, and how the questions were presented. Evidence also included instances of actual confusion, often from transcripts of call-center interactions, messages from customers, or messages from call-center employees. The

transcripts and recordings of call-center interactions appeared to show that Defendants' call-center employees at times attempted to promote confusion and at other times attempted to dispel confusion. Finally, evidence included statements from Defendants' principals in which they described confusion as between Plaintiffs' and Defendants' brands as a "good thing" and, in response to reports of confusion, indicated that their advertisements were "working."

At the end of the day, the district court submitted the case to the jury. Based on the summary judgment ruling, the district court instructed the jury that a likelihood of confusion must exist at the time of purchase to support a trademark infringement claim. The court also submitted fifteen alleged false advertising claims to the jury. Over Defendants' objection, the district court instructed the jury as to false advertising using an instruction that allowed a presumption as to the element of materiality if the jury concluded a statement was literally false.

The jury rejected the trademark infringement claims as to the registered trademarks based on the jury instruction that limited the possibility of a likelihood of confusion to the time of purchase. In addition, the jury found that Plaintiffs held no trademark rights in the phrase "NUMBER BED" and that Defendants' use of the phrase "NUMBER BED" was not unfair competition. Regarding dilution, the jury found the mark "SLEEP NUMBER" famous, indicating it was a strong and well-known mark, but the jury also found Defendants had not diluted the mark. Finally, the jury found for Plaintiffs on seven

of the false advertising claims and for Defendants on the remaining eight. The jury awarded a total of approximately \$160,000 in damages on the seven false advertising claims based on a wrongful benefit received by Defendants. The jury awarded no damages on the false advertising claims based on Plaintiffs' alleged lost profits. The district court denied several post-trial motions, and the parties appeal.

II. Discussion

A. Initial-Interest Confusion

The primary issue in this appeal is the availability of a theory of initial-interest confusion on the trademark infringement claim and the resulting limitation in the instruction requiring any likelihood of confusion to exist at the time of purchase. As noted, initial-interest confusion is “confusion that creates initial customer interest, even though no actual sale is finally completed as a result of the confusion.” 4 *McCarthy* § 23:6. Most circuits that have addressed the question “recognize the initial interest confusion theory as a form of likelihood of confusion which can trigger a finding of infringement.” *Id.* (collecting cases). In general, the theory of initial-interest confusion recognizes that a senior user's goodwill holds value at all times, not merely at the moment of purchase. The theory protects against the threat of a competitor “receiving a ‘free ride on the goodwill’ of [an] established mark.” *Checkpoint Systems, Inc. v. Check Point Software Technologies, Inc.*, 269 F.3d 270, 295 (3d Cir. 2001) (quoting *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 260 (2d Cir. 1987)). This free ride may result in the consumer falsely inferring an affiliation

between the junior and senior users, provide the junior user with an opportunity it otherwise would not have achieved, or deprive the senior user of an actual opportunity. *Id.* at 293–95. At least one circuit has “equated initial interest confusion to a ‘bait and switch scheme.’” *Id.* at 294 (quoting *Dorr-Oliver, Inc. v. Fluid Quip, Inc.*, 94 F.3d 376, 382 (7th Cir. 1996)).

In the present case, the parties dispute as a general matter whether a theory of initial-interest confusion is a viable theory of infringement in our circuit. They also dispute whether the relevant consumers—consumers investigating mattresses and online shoppers in general—are so sophisticated that the issue of consumer sophistication could properly be removed from the jury. To address these questions, it is necessary first to review more generally the test for confusion and what our Court has said about *when* confusion must exist.

The Lanham Act provides several forms of protection for commercial goodwill. Trademarks are protected against infringement, that is, the use of similar marks on similar or related products or services if such use creates a likelihood of confusion. 15 U.S.C. § 1125(a)(1)(A); *see also* 15 U.S.C. § 1114(1)(a). If a trademark is deemed “famous” it may be protected against dilution in the form of “tarnishing” or “blurring.” *Id.* § 1125(c)(2)(C) (the “tarnishing” of a famous mark is a general damaging of the goodwill associated with a mark due to a “similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark”); *id.* § 1125(c)(2)(B) (the “blurring” of a famous mark is the “impair[ment] [of] the distinctiveness of the famous mark” “arising from the

similarity between a mark or trade name and a famous mark”). The prohibition of dilution “protects the holder of a famous trademark from misappropriation of its investment in the mark” regardless of confusion. *Everest Capital Ltd. v. Everest Funds Mgmt.*, 393 F.3d 755, 762 (8th Cir. 2005). Finally, the Lanham Act also protects more generally against false advertising, false representations, and unfair competition. 15 U.S.C. § 1125(a) (1)(B).¹

To assess the likelihood of confusion as required for a showing of infringement, our circuit employs a list of nonexclusive factors for addressing a core inquiry: whether the relevant average consumers for a product or service are likely to be confused as to the source of a product or service or as to an affiliation between sources based on a defendant's use. *See Anheuser–Busch, Inc. v. Balducci Publ'ns*, 28 F.3d 769, 774 (8th Cir. 1994) (noting that protection extends “ ‘against use of [plaintiff's] mark on any product or service which would reasonably be thought by the buying public to come from the same source, or thought to be affiliated with, connected with, or sponsored by, the trademark owner’ ” (quoting *McCarthy* § 24.03 (3d. 1992) (alteration in original))). The factors we consider come from *SquirtCo v. Seven–Up Co.*, 628 F.2d 1086, 1091 (8th Cir. 1980), and include: (1) the strength of the owner's mark; (2) the similarity of the owner's mark

¹ The parties do not meaningfully challenge the judgment below as to the dilution claims and we do not vacate that portion of the judgment in which the jury rejected the dilution claim but held Plaintiffs' “SLEEP NUMBER” mark to be famous (strong, well-known, and heavily advertised).

and the alleged infringer's mark; (3) the degree to which the products compete with each other; (4) the alleged infringer's intent to “pass off” its goods as those of the trademark owner; (5) incidents of actual confusion; and (6) the type of product, its costs and conditions of purchase.

We have repeatedly emphasized that no one factor is controlling and different factors will carry more weight in different settings. *SquirtCo*, 628 F.2d at 1091 (“[R]esolution of this issue does not hinge on a single factor but requires a consideration of numerous factors to determine whether under all the circumstances there is a likelihood of confusion.”); *Lovely Skin, Inc. v. Ishtar Skin Care Prods., LLC*, 745 F.3d 877, 887 (8th Cir. 2014) (“[T]he relative weight of the factors depends on the facts of the individual case.” (quoting *First Nat. Bank in Sioux Falls v. First Nat. Bank, South Dakota*, 153 F.3d 885, 888 (8th Cir. 1998))); *Frosty Treats, Inc. v. Sony Comput. Ent. Am., Inc.*, 426 F.3d 1001, 1008 (8th Cir. 2005) (“factors do not operate in a mathematically precise formula” (citation omitted)). We have also noted that the factors are not truly independent—depending on the context, a strong showing as to one factor may serve to make a different factor more or less important. See *Kemp v. Bumble Bee Seafoods, Inc.*, 398 F.3d 1049, 1054 (8th Cir. 2005) (“[T]he factors are not entirely separable. For example, it is inappropriate to conduct a side- by-side comparison of the elements of two products' trade dress ... without reference to the senior mark's strength or the market conditions under which likely consumers would see the marks.”); see also *ConAgra, Inc. v. George A. Hormel & Co.*, 990 F.2d 368, 371 (8th Cir. 1993) (“[W]hen ‘products are closely related, less similarity in trademarks is

necessary to support a finding of infringement.’ ” (quoting *SquirtCo.*, 628 F.2d at 1091)). Ultimately, application of the factors is a highly fact-intensive inquiry both as to the assessment of the evidence concerning each factor and as to the overall synthesis of factors and the evidence.

This flexible, context-specific, and relative-rather-than-mechanical approach makes sense because the general function of the likelihood-of-confusion factors is to guide the finder of fact towards considerations generally thought to be material to the consuming public's understanding of product source or affiliation. Common sense is inherent in the factors, and the factors, properly applied, should try to capture a holistic view of the normal experiences for any given industry, product, or service. The consumer experience differs by products (buying a toothbrush vs. buying a car vs. professional buyers obtaining input goods for a factory), and the relative importance of any given factor is influenced greatly by how the other factors might apply. As a result, we review the likelihood of confusion determination as a finding of fact. See *Everest Capital*, 393 F.3d at 760.²

² On appeal, the parties frame the primary issues in dramatically different ways. Plaintiffs argue the district court erred in a summary judgment ruling and carried that error forward to the jury instructions, effectively limiting the theories presented to the jury. Plaintiffs characterize jury findings relating to these issues as tainted by underlying legal error and not meriting deference. Defendants argue Plaintiffs' appeal is better characterized as an instructional issue reviewed merely for abuse of discretion. Defendants also rely heavily on those portions of the jury verdict in their favor to argue that our review should be limited to the sufficiency of the evidence and that certain trial results are effectively shielded by the jury's interpretation of the evidence. Essentially, the parties dispute

Although our test for a likelihood of confusion is well-developed, some uncertainty remains as to *when* confusion must exist in order to support a trademark infringement claim. *Sensient*, 613 F.3d at 766. Although not addressing initial-interest confusion specifically, our Court has clearly established that claims of infringement are *not limited* solely to a likelihood of confusion at the time of purchase. See *Insty*Bit, Inc. v. Poly-Tech Indus.*, 95 F.3d 663, 671–72 (8th Cir. 1996). In *Insty*Bit*, our Court recognized that a 1962 amendment to the Lanham Act eliminated reference to “purchasers” when describing actionable confusion. *Id.* (quoting Pub. L. No. 87–772, 76 Stat. 769, 773 (1962)). We interpreted this statutory amendment as permitting claims for post-sale confusion among nonpurchasers—generally “consumers”—who witnessed a confusingly marked product. *Id.*³

the manner in which we must view the evidence when conducting our review. Because we ultimately conclude a summary judgment ruling and subsequent instructions erroneously limited the theories presented to the jury, our review of the evidence speaks largely to the question of harmless error or prejudice and not to the question of sufficiency. As such, we discuss the evidence generally in terms of what the parties presented to the jury rather than limiting our discussion to what the jury found. As a practical matter, the ability to determine the inferences the jury drew from the evidence is substantially clouded by (1) the interrelated nature of the infringement, dilution, and misrepresentation claims in this case, (2) the mixed verdict, and (3) our conclusion that summary judgment and instructional error occurred.

³ Our Court stated: “Post-sale confusion” refers to the association consumers might make between the allegedly infringing item and the familiar product, thereby influencing their purchasing decisions. The Lanham Act’s protection of post-sale confusion stems from the 1962 amendment to § 32 of the Act, 15 U.S.C. § 1114(1), which provides remedies for the

Fourteen years later, however, our Court indicated that it was unclear as a general matter whether initial-interest or *presale* confusion was actionable. See *Sensient Tech.*, 613 F.3d at 766. There, over a dissent, our circuit identified the theory, but neither rejected nor adopted it for general application. Instead, we held that the theory did not apply on the facts of the case because the consumers at issue were sophisticated commercial purchasers of inputs for industrial food production who purchased goods with a high degree of care “after a collaborative process.” *Id.* at 769.

The general question of whether *presale*, initial-interest confusion is actionable, therefore, seemingly pits two opposing views of trademark law against one another. On the one hand, through our application and review of the likelihood of confusion factors, we recognize the varied landscape of commercial transactions and leave the jury to sort through the details. Our factors provide guidance but do not draw bright lines that might constrain the general test for confusion. Similarly, the Court in *Insty*Bit* refused to place firm constraints on the question of *when* confusion must exist. On the other hand, in *Sensient*, our Court acknowledged the possibility of cabining the likelihood-of-confusion test

infringement of [a] registered trademark. Pub. L. No. 87–772, 76 Stat. 769, 773 (1962). The 1962 amendment included confusion of nonpurchasers as well as direct purchasers by eliminating language in § 32 which had restricted the scope of trademark infringement to confusion of “purchasers as to the source of origin of such goods or services.” 76 Stat. at 773. Thus, an action for trademark infringement may be based on confusion of consumers other than direct purchasers, including observers of an allegedly infringing product in use by a direct purchaser.

to a particular moment in time, at least under certain circumstances.

We now address the issue left open in *Sensient* and hold that a theory of initial-interest confusion may apply in our circuit.⁴ We are, of course, bound by *Sensient*.⁵ But, when the particular conditions of *Sensient* are not present, i.e., when a jury question exists as to the issue of consumer sophistication, a plaintiff should not be barred from proving presale, initial-interest confusion. In reaching this conclusion we find the Lanham Act itself and amendments to its language as cited in *Insty*Bit* particularly compelling. Other courts addressing the question of initial-interest confusion have relied on this language. *Checkpoint*, 269 F.3d at 295 (noting that as originally enacted, “the Lanham Act only applied where the use of similar marks was ‘likely to cause confusion or mistake or to deceive purchasers as to the source of origin of such goods or services’ ” (quoting 1946 Lanham Act) (accord *Esercizio v. Roberts*, 944 F.2d 1235, 1244 (6th Cir. 1991))); *see generally*, 4 *McCarthy* § 23:7 (collecting cases) (noting that several courts have interpreted this amendment as expanding trademark protection beyond point-of-

⁴ In so holding, we make no comment as to the impact that such a showing might have on the availability of various remedies or any measurement of damages—entirely separate questions dependent on the proof in a given case.

⁵ Because *Sensient* did not address post-sale confusion, it is not inconsistent with *Insty*Bit* in a way that would preclude it from having precedential value. *See Mader v. United States*, 654 F.3d 794, 800 (8th Cir. 2011) (*en banc*) (“when faced with conflicting panel opinions, the earliest opinion must be followed as it should have controlled the subsequent panels that created the conflict.” (cleaned up)).

sale confusion to reach presale confusion (including initial- interest confusion) and post-sale confusion).

And, in general, adoption of the theory is consistent with the overall practice of recognizing the varied nature of commercial interactions and the importance of not cabining the jury's analysis of the likelihood of confusion factors. If we do not generally impose strict constraints on the jury's nuanced assessment of how or whether the consuming public might be confused, it would be odd to presume that all commercial interactions are alike or that, in all settings, trademarks are worthy of protection only in the few moments before the consummation of a transaction.

Of course, as per *Sensient*, the theory of initial-interest confusion cannot apply in our Circuit where the relevant average consumers are sophisticated at the level of the careful professional purchasers who were at issue in *Sensient*. In this regard, however, we find several comments by the dissent in *Sensient* compelling, and we note that a finding of customer sophistication typically will rest with the jury.

In reaching its conclusion, the Court in *Sensient* relied upon *Checkpoint Systems* for the proposition that “courts look to factors such as product relatedness and the level of care exercised by customers to determine whether initial interest confusion exists.” *Sensient*, 613 F.3d at 766. *Sensient* was an appeal from a grant of summary judgment, and on the summary judgment record, our Court indicated that the parties agreed the relevant consumers were sophisticated. The dissent in *Sensient* accurately noted, however, that in

Checkpoint Systems, the Third Circuit had been reviewing the issue after trial, not making a determination as to consumer sophistication as a matter of law (or making any likelihood of confusion determinations) at the summary judgment stage. *Id.* at 773 (Colloton, J, dissenting). The dissent described the theory of initial-interest confusion and emphasized that, even if customers are sophisticated, that fact alone should not automatically defeat the theory. In advocating for this no- blanket-rule point, the dissent cited a Second Circuit case involving professional buyers in a lawsuit between Mobil Oil and an entity that was marketing products under the name “Pegasus Petroleum.” The dissent noted that “[w]hether or not a sophisticated customer eventually would sort out the difference, the doctrine of initial interest confusion prevents an infringer from using another's mark to gain ‘crucial credibility during the *initial* phases of a deal.’ ” *Id.* at 773 (quoting *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 258 (2d Cir. 1987)). And, the dissent also emphasized that the Third Circuit in *Checkpoint* specifically disclaimed any categorical rule, stating instead that the “significance [of customer sophistication] will vary, and must be determined on a case-by-case basis.” *Sensient*, 613 F.3d at 773 (quoting *Checkpoint*, 269 F.3d at 297).

Regardless of the relative merits of the positions reflected in *Sensient*, our general adoption of the theory of initial-interest confusion forecloses summary judgment where a question of fact exists as to the level of consumer sophistication. Here, the parties dispute the issue of consumer sophistication both in reference to shopping for mattresses and shopping online. They also dispute whether consumer

sophistication should be measured at the “point of click” for an online shopper, at the point of sale upon final purchase, or at points in between. For the reasons previously discussed, we do not believe it is appropriate to cabin the analysis to any one point in time. And, in any event, authority is mixed as to whether mattress shoppers and online shoppers should be deemed careful, sophisticated consumers.

On the one hand, mattresses are relatively expensive among most consumers' purchases. *See Sleepmaster Prods. Co. v. Am. Auto-Felt Corp.*, 241 F.2d 738, 741 (C.C.P.A. 1957) (“[T]he average purchaser will exercise such care in the selection of a mattress as to minimize the possibility of confusion as to the origin of the goods.”). On the other hand, most people buy mattresses infrequently, so they enter the marketplace uneducated and susceptible to fast-talking sales people and brand confusion. *See Friedman v. Sealy, Inc.*, 274 F.2d 255, 261–62 (10th Cir. 1959) (“[S]ince a mattress or box spring requires an investment ..., the degree of care which a customer might be expected to exercise is somewhat greater than if he were buying 5-cent candies. [But] the construction of sleep equipment is not a matter of common knowledge and the consumer buys infrequently. He is thus forced to rely on his memory, more than his inspection, for the recall of names, guarantees, and endorsements. Under such circumstances, confusion can easily arise.”).

Authority is also mixed as to the level of sophistication web-based shoppers bring to the table and how this potentially separate question should influence the general assessment of sophistication. Compare *Coca-Cola Co. v. Purdy*, No. 02-1782

ADM/JGL, 2005 WL 212797, at *4 (D. Minn. Jan. 28, 2005) (“[T]he quick and effortless nature of ‘surfing’ the Internet makes it unlikely that consumers can avoid confusion through the exercise of due care.”) and *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199, 1209 (9th Cir. 2000) (“Navigating amongst web sites involves practically no effort whatsoever, and arguments that Web users exercise a great deal of care before clicking on hyperlinks are unconvincing.”) with *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1179 (9th Cir. 2010) (“[I]n the age of [the internet], reasonable, prudent and experienced internet consumers are accustomed to such exploration by trial and error. They skip from site to site, ready to hit the back button whenever they're not satisfied with a site's contents. They fully expect to find some sites that aren't what they imagine based on a glance at the domain name or search engine summary.”). *See also Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, 638 F.3d 1137, 1152 (9th Cir. 2011) (noting that although “‘there is generally a low degree of care exercised by Internet consumers’ ... the degree of care analysis cannot begin and end at the marketing channel. We still must consider the nature and cost of the goods, and whether ‘the products being sold are marketed primarily to expert buyers.’ ” (quoting *Brookfield Comm'ns, Inc. v. West Coast Ent. Corp.*, 174 F.3d 1036, 1060 (9th Cir. 1999))).

At the end of the day, this mix of authority regarding consumer confusion in the context of internet shopping and mattress purchases demonstrates well why a jury rather than a judge should assess the level of consumer sophistication. This point is particularly strong in a case which, like

the present case, enjoys a full record including highly detailed descriptions of Plaintiffs' and Defendants' customers' experience and ample evidence of (1) *actual confusion* including transcripts of potential customers who called Defendants' call centers and believed they were calling Plaintiffs, and (2) statements by Defendants' principals describing the actual confusion as evidence that their own advertising was working. *See Kemp*, 398 F.3d at 1058 (evidence of actual confusion, while not required, is strong evidence of a likelihood of confusion); *SquirtCo*, 628 F.2d at 1091 (“Likewise, actual confusion is not essential to a finding of trademark infringement, although it is positive proof of likelihood of confusion.”).

Against this backdrop, we conclude a jury question existed as to the issue of consumer sophistication and summary judgment on the theory of initial-interest confusion was error. For the same reasons, and based on *Insty*Bit*, we conclude that limiting the infringement instruction to require confusion at the time of purchase was error. Finally, given the strength of the Plaintiffs' evidence on the issue of confusion, we cannot conclude that the summary judgment and instructional errors were harmless. *See Fed. R. Civ. P. 61*. In so ruling, we make no comment as to how a finding of confusion at times other than the moment of purchase might affect the analysis of remedies and the determination of damages.

B. False Advertising

Plaintiffs moved for judgment as a matter of law on the false advertising claims as to certain statements for which Plaintiffs argued Defendant

Craig Miller admitted literal falsity. The district court denied the motion. On appeal, Plaintiffs renew their arguments. In addition, in the conditional cross appeal, Defendants acting as conditional cross appellants challenge the formulation of the jury instructions. Defendants argue the district court improperly shifted the burden of proof by applying an erroneous presumption as to the elements of the false advertising claims.

On de novo review, we find no error in the district court's denial of Plaintiffs' motion for judgment as a matter of law and submission of the issue of falsity to the jury. *Pittari v. Am. Eagle Airlines, Inc.*, 468 F.3d 1056, 1061 (8th Cir. 2006) (standard of review). The test for literal falsity is "rigorous," statements must be analyzed in their broader context, and there are any number of reasons why the jury might have chosen to discount Miller's testimony. *Buetow v. A.L.S. Enters., Inc.*, 650 F.3d 1178, 1185 (8th Cir. 2011) (reversing a summary ruling as to a finding of literal falsity). We agree with the district court's prudent choice to place the factually complex question in the hands of the jury.

Regarding the conditional cross appeal, Defendants ask the court to reverse and remand based on the false advertising jury instructions if the court "remands the case for any reason in Select Comfort's nine-issue appeal." Because we reverse and remand as to the infringement claim, we address the conditional cross appeal. *See Murphy v. FedEx Nat'l LTL, Inc.*, 618 F.3d 893, 901 (8th Cir. 2010) (addressing conditional cross appeal due to remand on other issues).

“We review a district court's formulation of jury instructions for an abuse of discretion and its interpretation of law de novo.” *United States v. Farah*, 899 F.3d 608, 614 (8th Cir. 2018). The instructions for the false advertising claim identified the elements as: (1) a false statement about Defendants, Defendants' products, Plaintiffs, or Plaintiffs' products in an advertisement; (2) such statement deceived or tended to deceive a substantial portion of its audience; (3) the statement was material in that it was likely to influence a purchasing decision; and (4) Plaintiffs were or are likely to be injured as a result. The instructions also provided, over Defendants' objection, that the jury could presume materiality (element 3) if the Defendants made: (1) a literally false statement; (2) a false statement relating to the inherent quality or characteristic of a product; or (3) a deliberately false or misleading statement that was comparative or implicated a competitor or its product.

In their opening brief as cross-appellants, Defendants do not take issue with the second or third “triggers” for the presumption. Rather, Defendants challenge the presumption of materiality based on the first trigger: a finding that a statement was literally false. By limiting their challenge, Defendants appear to recognize that the second two triggers are essentially definitions for materiality that describe types of statements reasonable persons would recognize as likely to influence a purchasing decision. In fact, other circuits have reached this conclusion in the context of false advertising claims. *See, e.g., Cashmere & Camel Hair Mfrs. Inst. v. Saks Fifth Ave.*, 284 F.3d 302, 312 n.10 (1st Cir. 2002) (labeling a statement as material because it was

related to an inherent quality or characteristic of the product); *Nat'l Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 855 (2d Cir. 1997) (stating that a requirement that a misrepresentation address an “inherent quality or characteristic of the product ... is essentially one of materiality, a term explicitly used in other circuits.” (cleaned up)).

A finding that a statement is literally false, in contrast, does not appear to suggest in any direct manner that the statement is material. A literally false statement could address any number of topics. As such, a finding of literal falsity, standing alone, does not necessarily make a statement more or less likely to influence a purchasing decision. Of course, depending on the nature of the falsehood and the topic it addresses, a jury might conclude a false statement is material. But the reasoning leading to such a conclusion depends on additional facts beyond mere falsity. In any event, an inference of a statement's materiality based merely upon its falsity is neither so clear nor direct that it might support a burden-shifting presumption in a plaintiff's favor.

In defense of the instruction, Plaintiffs (as cross-appellees) point to our case in *Porous Media Corp. v. Pall Corp.*, 110 F.3d 1329 (8th Cir. 1997). In *Porous Media*, we identified the elements of a claim for false advertising as:

(1) a misrepresentation as to “the nature, characteristics or qualities” of a defendant's products “alone or in comparison with” a plaintiff's products; (2) actual deception or a tendency to deceive “a substantial segment of their audience”; (3) materiality, meaning the misrepresentations were “likely to influence buying decisions”; (4) an

interstate commerce nexus; and (5) injury in the form of a “direct diversion of sales” or a “lessening of [plaintiff’s] goodwill.” *Id.* at 1332. We then approved a rebuttable presumption of *deception* (element 2) and *damages* (element 5) upon a showing that: (1) such a misrepresentation about products was made deliberately (with knowledge of its falsity); and (2) the statement was made “as an important part of its marketing efforts.” *Id.* at 1332–33.

Porous Media, standing alone, does not support the proposition that a jury may presume materiality. Rather, *Porous Media* involved presumptions under different circumstances and as to different elements. The court in *Porous Media* was not asked to address, and did not address, a question regarding a presumption of materiality. District courts in our circuit have examined *Porous Media* to assess the availability of presumptions as to different elements of a false-advertising claim and concluded *Porous Media* does not support an inference of materiality. See *3M Innovative Props. Co. v. Dupont Dow Elastomers, LLC*, 361 F. Supp. 2d 958, 971 (D. Minn. 2005) (“[T]he Eighth Circuit’s opinion in *Porous Media*, which upheld the use in a false advertising case of some presumptions upon proof of intentional conduct, referred only to the deception element and not to materiality.”); see also, *Aviva Sports, Inc. v. Fingerhut Direct Mrkt’g, Inc.*, 829 F. Supp. 2d 802, 813 (D. Minn. 2011) (“Even where literal falsity is established, materiality is not presumed.”). At least two circuit courts have reached the same conclusion. See *Johnson & Johnson Vision Care, Inc. v. 1–800 Contacts, Inc.*, 299 F.3d 1242, 1250 (11th Cir. 2002) (rejecting a presumption of materiality based on a finding of literal falsity and stating, “The materiality

requirement is based on the premise that not all deceptions affect consumer decisions.”); *Cashmere & Camel Hair Mfrs. Inst. v. Saks Fifth Ave.*, 284 F.3d 302, 312 n. 10 (1st Cir. 2002) (“[M]ateriality focuses on whether the false or misleading statement is likely to make a difference to purchasers. Thus, even when a statement is literally false or has been made with the intent to deceive, materiality must be demonstrated in order to show that the misrepresentation had some influence on consumers.” (citing *McCarthy* § 27:35 (4th ed. 2001))).

At least one circuit arguably disagrees and appears to permit an inference of materiality. See, e.g., *Pizza Hut, Inc. v. Papa John's Int'l, Inc.*, 227 F.3d 489, 497 (5th Cir. 2000) (citing *Am. Council of Cert'd Podiatric Phys. & Surgeons v. Am. Bd. of Podiatric Surgery, Inc.*, 185 F.3d 606, 614 (6th Cir.1999) and *Avila v. Rubin*, 84 F.3d 222, 227 (7th Cir.1996)). The Fifth Circuit's discussion of materiality, however, is not clear and does not provide an explanation as to why a finding of literal falsity implies materiality. Further, the cases from other circuits as cited in *Pizza Hut* do not clearly address a presumption of materiality. Rather, they appear to focus on the element of consumer deception. In fact, we agree with the Eleventh Circuit which noted that the Fifth Circuit appeared to “conflate[] the element of consumer deception with the element of materiality” thus “blurr[ing] the boundary between the two elements.” *Johnson & Johnson*, 299 F.3d at 1250–51 (criticizing the Fifth Circuit's approach in *Pizza Hut*, 227 F.3d at 497).

Ultimately, we conclude it was error to instruct the jury in a manner that shifted the burden of proof

on the materiality element based on a finding of literal falsity. And, based on the specific jury forms returned in this case, we do not find the error to be harmless as to those claims where Plaintiffs prevailed.⁶ Accordingly, we reverse and remand for a new trial on the seven false advertising claims on which Plaintiffs prevailed.

C. Other Issues

Several additional issues merit mention. First, after the close of discovery and after the summary judgment rulings, Defendants withdrew their counterclaim alleging that “SLEEP NUMBER” had become generic and had been abandoned. Defendants then moved to amend their pleadings to add a counterclaim alleging “SLEEP NUMBER” was void because it was generic *ab initio*, not merely that it had become generic over time as urged at summary judgment. The district court denied the motion to amend noting: the issue of whether a mark was void *ab initio* depended on evidence predating or at the time that Plaintiffs began using the mark; the parties had not made such evidence a focus of discovery; Defendants had not provided adequate notice that such a theory was being pursued in their counterclaim; discovery had specifically focused on a different period of time; and discovery had closed.

Defendants challenge this ruling on appeal as an abuse of discretion. Plaintiffs disagree and also argue

⁶ The only appeal taken on the eight claims the jury found for Defendants is on the issue of the directed verdict. As discussed above, we reject that appeal, and therefore the judgment as to those eight claims remains unaffected by this opinion.

an *ab initio* genericness defense is not available to attack a registered, incontestible mark. We need not address the legal question of which defenses the Lanham Act permits as against incontestible marks. Instead, we find no abuse of the district court's substantial discretion in refusing to permit amendment of the counterclaim after the close of discovery and on the eve of trial. *See Kozlov v. Ass'd Wholesale Grocers, Inc.*, 818 F.3d 380, 394–95 (8th Cir. 2016). Here, the proposed amendment would have required additional discovery even though the moving party had participated in discovery, without objection, in a manner that did not address the issue. *See Thompson-El v. Jones*, 876 F.2d 66, 67–68 (8th Cir. 1989).

Second, during trial, Plaintiffs objected to Defendants' expert's testimony when the expert's testimony regarding survey evidence strayed from commentary as to the survey results and instead purported to describe for the jury what is meant by “the essence of confusion.” According to Plaintiffs, this testimony amounted to impermissible expert testimony describing a legal standard. Because we are reversing as to the infringement claims, we need not address this question in depth. We merely note that an expert's testimony as to the structure and meaning of survey evidence or other factual matters generally should not usurp the court's role in defining the law for the jury. *See Peterson v. City of Plymouth*, 60 F.3d 469, 475 (8th Cir. 1995) (holding that it was an abuse of discretion to allow testimony that “was not a fact-based opinion, but a statement of legal conclusion” because the “legal conclusions were for the court to make”). Of course, slight deviations from this general rule are unlikely to result in harmful

error if identified and explained for the jury, but a factual expert should not opine as to meaning of a legal standard. Fed. R. Civ. P. 61.

Third, Plaintiffs also objected to the Defendants use of an exhibit at trial—an adjustable air bed that was not from the production years at issue in the case. The district court allowed the exhibit for the purpose of educating the jury generally as to the parties' products and the nature of adjustable air beds. We find no abuse of the district court's substantial discretion in admission of the demonstration bed. *Bradshaw v. FEE Transp. Servs.*, 715 F.3d 1104, 1108–09 (8th Cir. 2013) (visual aids permissible). Any infirmities as to the demonstration go to the weight rather than the admissibility of the evidence.

Fourth, regarding jury instructions, Plaintiffs argue the district court misapplied the burden of proof on Defendant-Appellees' cross claim seeking a declaration that Plaintiffs held no trademark rights in “NUMBER BED”. In particular, Plaintiffs argue the district court erroneously placed the burden on Plaintiffs (as the cross-claim defendants) to prove that they possessed enforceable trademark rights in the phrase “NUMBER BED.” We reject Plaintiffs' argument. Although a declaratory judgment plaintiff in most contexts bears the burden of proof, declaratory judgment plays a somewhat different role in trademark and patent disputes. The filing of a declaratory judgment action in a trademark or patent suit may meaningfully affect venue, but the burden to prove the existence of enforceable intellectual property rights stays with the alleged owner of the rights, whether that party is the declaratory

judgment plaintiff or defendant. *See Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 571 U.S. 191, 194, 134 S.Ct. 843, 187 L.Ed.2d 703 (2014) (holding that, in a patent infringement declaratory judgment action filed by an alleged infringer, the defendant patent holder bears the burden of proving infringement); *see also, e.g., KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 117–18, 125 S.Ct. 542, 160 L.Ed.2d 440 (2004) (describing a trademark declaratory judgment defendant as the plaintiff in an analysis of burdens of proof concerning likelihood of confusion and fair use); *Cross Commerce Media, Inc. v. Collective, Inc.*, 841 F.3d 155, 166 (2d Cir. 2016) (purported rights owner, though declaratory judgment defendant, bears the burden of proving protected rights in a mark).

Other issues the parties raise on appeal amount to alleged trial errors we need not address in light of our remand.

III. Conclusion

We reverse and vacate the judgment as to the infringement and false advertising claims. We leave undisturbed those portions of the judgment dealing with the dilution claims and the alleged “NUMBER BED” trademark. We otherwise remand for further proceedings consistent with this opinion.

Appendix B

**UNITED STATES COURT OF APPEALS FOR
THE EIGHTH CIRCUIT**

No: 19-1077

Select Comfort Corporation; Select Comfort SC
Corporation
Plaintiffs – Appellants,
v.

John Baxter; Dires, LLC, doing business as Personal
Touch Beds and Personal Comfort Beds; Digi Craft
Agency, LLC; Direct Commerce, LLC, doing business
as Personal Touch Beds; Scott Stenzel; Craig Miller
Defendants – Appellees.

No: 19-1113

Select Comfort Corporation; Select Comfort SC
Corporation
Plaintiffs – Appellees,
v.

John Baxter
Defendant,
Dires, LLC, doing business as Personal Touch Beds
and Personal Comfort Beds
Defendant – Appellant.

Digi Craft Agency, LLC; Direct Commerce, LLC,
doing business as Personal Touch Beds
Defendants.
Scott Stenzel; Craig Miller
Defendants – Appellants.

No: 19-1178

Select Comfort Corporation; Select Comfort SC
Corporation
Plaintiffs – Appellees,
v.

John Baxter
Defendant – Appellant,
Dires, LLC, doing business as Personal Touch Beds
and Personal Comfort Beds; Digi Craft Agency, LLC;
Direct Commerce, LLC, doing business as Personal
Touch Beds; Scott Stenzel; Craig Miller
Defendants.

Appeal from U.S. District Court for the District of
Minnesota

(0:12-cv-02899-DWF)
(0:12-cv-02899-DWF)
(0:12-cv-02899-DWF)

JUDGMENT

Before SMITH, Chief Judge, MELLOY, and
SHEPHERD, Circuit Court Judges.

This appeal from the United States District Court was submitted on the record of the district court, briefs of the parties and was argued by counsel.

After consideration, it is hereby ordered and adjudged that the judgment of the district court in this cause is affirmed in part, reversed in part, and remanded to the district court for proceedings consistent with the opinion of this court.

May 11, 2021

Order Entered in Accordance with Opinion:
Clerk, U.S. Court of Appeals, Eighth Circuit.

/s/ Michael E. Gans

Appendix C

**UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA**

No: Civil 12-cv-2899 (DWF/SER)

Select Comfort Corporation; Select Comfort SC
Corporation,

Plaintiffs,

v.

John BAXTER; Dires, LLC d/b/a Personal Touch
Beds and Personal Comfort Beds; Digi Craft
Agency, LLC; Direct Commerce, LLC d/b/a
Personal Touch Beds; Scott Stenzel;
and Craig Miller,

Defendants.

Signed January 13, 2016

Synopsis

Background: Adjustable air bed manufacturer brought action against competitor, marketing companies, and individuals who prepared marketing asserting various unfair competition and trademark infringement claims under Lanham Act and state law. Defendants filed counterclaim seeking declaration that plaintiff did not have trademark rights in phrase “Number Bed.” Parties filed cross-

motions for summary judgment.

Holdings: The District Court, Donovan W. Frank, J., held that:

- fact issues remained as to appropriate classification of manufacturer's "Sleep Number" and "Number Bed" marks;
- summary judgment was not warranted on defendants' fair use defense;
- fact issues remained as to whether consumers were likely to be confused as to source of competitor's products;
- initial interest confusion doctrine did not apply;
- summary judgment was not warranted on manufacturer's Lanham Act false advertising claim;
- summary judgment was not warranted on manufacturer's Lanham Act trademark dilution claim; and
- competitor's purchase of manufacturer's trademarks as keywords for internet searches did not infringe manufacturer's trademark rights.

Motions granted in part and denied in part.

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Defendant Digi Craft Agency, LLC, pro se.

Defendant Direct Commerce, LLC, d/b/a Personal Touch Beds, pro se.

MEMORANDUM OPINION AND ORDER

DONOVAN W. FRANK, United States District Judge

INTRODUCTION

This matter is before the Court on a Motion for Summary Judgment brought by Defendant Dires, LLC (“Dires” or “Personal Comfort”), Craig Miller (“Miller”), and Scott Stenzel (“Stenzel”) (together, “Dires Defendants”) (Doc. No. 221); a Motion for Summary Judgment brought by Defendant John Baxter (“Baxter”) (Doc. No. 226); and a Motion for Partial Summary Judgment brought by Plaintiffs Select Comfort Corporation (“Select Comfort”) and Select Comfort SC Corporation (“Comfortaire”) (together, “Plaintiffs”) (Doc. No. 233). For the reasons set forth below, the Court grants in part and denies in part the motions.

BACKGROUND

Plaintiffs design, manufacture, and market adjustable air beds¹ and related products. (Doc. No. 239 (“Somers Aff.”) ¶ 2.) Select Comfort markets its products under the “Sleep Number” brand. (*Id.* ¶ 3.) Sleep Number products are sold in over 450 Sleep Number branded stores, online, and over the phone. (*Id.*) Select Comfort is the leading manufacturer of adjustable air beds with a market share over 90%. (Doc. No. 224 (“McCarthy Decl.”) ¶ 2, Ex. A (“Marino Report”) ¶ 15.) Select Comfort owns registered trademarks for “Sleep Number,” “Select Comfort,” and “What’s Your Sleep Number.” (Doc. No. 53 (Second Amend. Compl. (“SAC”)) ¶¶ 14-16, Exs. A-C.)

Comfortaire also markets and sells adjustable air beds, marketed under the “Comfortaire” mark. (Doc. No. 237 (“Karr Aff.”) ¶ 2.) Comfortaire is the second largest seller of adjustable air beds, and it sells its products through over 200 retailers, online, and over the phone. (*Id.*) Comfortaire owns the registered trademark for “Comfortaire.” (SAC ¶ 17, Ex. D.) Select SC Corporation acquired Comfortaire in January 2013 via a merger. (*Id.* ¶ 37.) Prior to the merger, Comfortaire sold a line of adjustable air beds that competed with Select SC Corporation’s products. Select SC Corporation sued Comfortaire for trademark infringement, and the parties eventually settled. (*Id.* ¶¶ 38-41.)

Direct Commerce, LLC (“Direct Commerce”) did business from approximately July 2011 to August 2012 and is now in forfeited status. (Doc. No. 236 (“Hansen Aff.”) ¶ 1, Ex. 1 at Answer 2.) Direct

¹ An adjustable air bed is one that may be made firmer or less firm by changing the number on a remote control.

Commerce was owned by Digi Craft Agency (“DCA”), whose members were Defendants Stenzel and Baxter, as well as Marc Barriger (who is not a defendant). (*Id.*; Hansen Aff. ¶ 3, Ex. 2 (“Stenzel Dep.”) at 26, 48-49; Hansen Aff. ¶ 4, Ex. 3 (“Baxter Dep.”) at 162-63; Hansen Aff. ¶ 5, Ex. 4 (“Barriger Dep.”) at 33.) Direct Commerce sold beds under the “Personal Touch” and “Personal Comfort” brands. (Stenzel Dep. at 138; Baxter Dep. at 30, 190.) Baxter and Stenzel were involved in advertising and website design at Direct Commerce. (Baxter Dep. at 13-14, 32; Stenzel Dep. at 51-53.) DCA dissolved in February 2013. (Hansen Aff. ¶ 1, Ex. 1 at Answer 2.) Defendants submit evidence that while Direct Commerce and Dires had some common employees, the two companies are separate corporate entities. (Doc. No. 225 (“Cernosky Decl.”) ¶ 3, Ex. 4 at Answer 2.)

Dires is a limited liability company that was formed by Sizewise Rentals, LLC (“Sizewise”), Stenzel, Miller, and Baxter. (*Id.*) Baxter is the former Director of Marketing for Dires and was in charge of internet marketing and advertising. (Hansen Aff. ¶ 2, Ex. 7 at Answer 5; Hansen Aff. ¶ 9, Ex. 8 (“Dires 30(b)(6) Dep.”) at 77-78; Hansen Aff. ¶ 7, Ex. 6 (“Baxter Dep. II”) at 15-16; Baxter Dep. at 22, 27, 190.) Baxter also trained salespersons. (*Id.*) Stenzel was the Director of Operations at Dires and is now the Director of Marketing and Advertising. (Hansen Aff. ¶ 2, Ex. 7 at Answer 5; Stenzel Dep. at 24-25.) Stenzel has responsibility over the website and advertising. (Baxter Dep. II at 15-16, 68; Hansen Aff. ¶ 2, Ex. 7 at Answer 5.) Miller is a managing member at Dires and since the filing of this lawsuit has had input into advertising. (Hansen Aff. ¶ 10, Ex. 9 (“Miller Dep.”) at 105-06, 166-70; Baxter Dep. II at 15-16.) Miller is

also the Chief Manufacturing Officer for Sizewize. (Miller Dep. at 30-33.)

Baxter was an employee of Comfortaire's parent company prior to the merger with Select SC Corporation, and was responsible for developing Comfortaire's online advertising. (Doc. No. 231 ("Zochert Aff.") ¶ 4, Ex. 3 ("Karr Dep.") at 65.) In July 1998, Baxter participated in and completed Google's AdWords training program. (Baxter Dep. at 44-47.)² Comfortaire used Select Comfort's trademarks as search terms in Google's AdWords program. (Baxter Dep. at 82-89.) Comfortaire also used "Number Bed" as a search term. (Karr Dep. at 199.) As a result, when a consumer entered a key word search, like "Sleep Number" or "Number Bed," Comfortaire's ads would appear in the "ads" section of the internet search results, next to Select Comfort's ads. (Cernosky Decl. ¶ 2, Ex. 8 ("Kent Report") ¶¶ 49-51.)³

Defendants market and sell beds online and over the phone. (Stenzel Dep. at 75.) None of the Defendants have been authorized retailers, distributors, or sellers of Sleep Number or Comfortaire. (Somers Aff. ¶ 4; Karr Aff. ¶ 3.)

² The AdWords program teaches participants about Google's advertising guidelines and methods to optimize advertising results. (Baxter Dep. at 44-47.) Google suggests that advertisers choose specific "keywords that are most relevant to your product or service ... to increase the chances that your ad is showing to people who are most interested in your product or service." See <https://support.google.com/adwords/answer/2497976>.

³ Whether other competitors' ads would appear would depend on the cost-per-click ("CPC") keywords that the competitors bid on and the prices competitors were willing to pay. (Kent Report ¶¶ 49-51.)

On November 16, 2012, Select Comfort sued Dires and Baxter. (Doc. No. 1.) On November 8, 2013, Select Comfort filed a Second Amended Complaint adding Comfortaire as a plaintiff and Miller, Stenzel, Direct Commerce, and DCA as defendants. (Doc. No. 53.)⁴ The following causes of action remain: (1) Federal Trademark Infringement (Count I); (2) Federal Unfair Competition (Count II); (3) Federal Dilution of Trademark (Count III); (4) False Advertising (Count IV); (5) Deceptive Trade Practices (Count V); and (6) Unjust Enrichment (Count IX.)⁵ (SAC.)

Defendants deny any unlawful or actionable conduct and assert three counterclaims. Relevant to the present motions, in Counterclaim I, Defendants seek a declaration that the phrase “Number Bed” is descriptive and is incapable of acquiring secondary meaning or functioning as a trademark. In Counterclaim II, Defendants also seek a declaration that the use of “Select Comfort,” “Sleep Number,” and “Comfortaire” as keywords does not infringe Plaintiffs’ trademark rights. In Counterclaim III, Defendants seek to cancel two of Select Comfort’s trademark registrations because the phrase “Sleep Number” is generic. In addition, Defendants assert several affirmative defenses, including unclean hands.

The parties have filed cross-motions for summary judgment. Plaintiffs seek summary judgment on their

⁴ Direct Commerce and DCA did not answer the Second Amended Complaint and are in default. (Doc. No. 82.)

⁵ Plaintiffs originally asserted ten causes of action, four of which have been dismissed. (Doc. No. 135.)

trademark infringement, unfair competition, and related state-law claims; on particular elements of its false advertising and related state-law claims; on Defendants' Counterclaims asserting that "Sleep Number" is generic and that "Number Bed" cannot function as a trademark; and on Defendants' "Number Bed" and unclean hands affirmative defenses. Baxter moves for summary judgment on Plaintiffs' trademark infringement and dilution claims, unjust enrichment claim, and any claim founded on successor liability, as well as summary judgment on Counterclaims I and II. The Dires Defendants move for summary judgment on all six of Plaintiffs' claims, as well as any possible claim that one or more of the Dires Defendants may be liable for the conduct of DCA and Direct Commerce. The Dires Defendants also move for summary judgment on Counterclaim I.

DISCUSSION

I. Legal Standard

Summary judgment is appropriate if the "movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(a). Courts must view the evidence and all reasonable inferences in the light most favorable to the nonmoving party. *Weitz Co. v. Lloyd's of London*, 574 F.3d 885, 892 (8th Cir.2009). However, "[s]ummary judgment procedure is properly regarded not as a disfavored procedural shortcut, but rather as an integral part of the Federal Rules as a whole, which are designed 'to secure the just, speedy and inexpensive determination of every action.' " *Celotex Corp. v. Catrett*, 477 U.S. 317, 327, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986) (quoting Fed.

R. Civ. P. 1).

The moving party bears the burden of showing that there is no genuine issue of material fact and that it is entitled to judgment as a matter of law. *Enter. Bank v. Magna Bank of Mo.*, 92 F.3d 743, 747 (8th Cir.1996). The nonmoving party must demonstrate the existence of specific facts in the record that create a genuine issue for trial. *Krenik v. Cty. of Le Sueur*, 47 F.3d 953, 957 (8th Cir.1995). A party opposing a properly supported motion for summary judgment “must set forth specific facts showing that there is a genuine issue for trial.” *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 256, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986).

II. Internet and Search Engine Keyword Advertising

Because much of this case involves internet and keyword based advertising as used in internet search engines, the Court will provide a brief summary of how this type of advertising works and the background of Defendants’ advertising to which Plaintiffs object.

A. General Overview

Online advertising consists of Pay-Per-Click (“PPC”), organic search, and display. (Doc. No. 238 (“O’Hanlon Aff.”) ¶ 4.) When a consumer performs a search engine inquiry on the internet, the search engine, such as Google, returns both “organic” results and paid advertising results. (Kent Report ¶¶ 18-24; *see also* J. Thomas McCarthy, McCarthy on Trademarks & Unfair Competition (“*McCarthy on Trademarks*”) § 25A:4 at 26-27 (4th ed. 2015).) PPC ads appear in

search engines in response to certain search terms—“keywords”—for which advertisers have bid to have their advertisements appear. (O’Hanlon Aff. ¶ 5; *see also McCarthy on Trademarks* § 25A:4 at 26; Kent Report ¶¶ 49-52.) These advertisements often appear at the top or on the right-hand side of the results page. (O’Hanlon Aff. ¶ 5.) On Google, the paid search results are labeled with “Ad” (highlighted in yellow), and the web address of the company sponsoring the advertisements is displayed under the ad text. (Kent Report ¶ 29.) Advertisers are charged for these ads only when a consumer clicks on the advertisement. (O’Hanlon Aff. ¶ 5.) The ads are displayed based on who purchased the keywords and on a “quality score” that rates the likely relevance to the consumer of the company’s ad and webpage linked to from the ad. (Cernosky Decl. ¶ 2, Ex. 9.) Using specific keywords that describe a company’s products or services will improve the success of the ad. (*Id.* ¶ 2, Ex. 10.) Google sells both generic words (such as “bed”), but also keywords that contain competitors’ trademarks, so that an ad will appear in the ad section of search results when a consumer searches for a competitor’s trademark. (Kent Report ¶¶ 51-54.)

Organic advertising consists of free listings generated by the search engine that it views as relevant for the keyword entered. (O’Hanlon Aff. ¶ 6.) Advertisers can engage in search engine optimization (“SEO”) efforts to try to increase their organic rating. (*Id.*) One SEO method involves implementing various attributes on a company’s own website, such as title tag lines for each webpage and by using certain words or phrases in meta information. (*Id.*) Search engines use this data to inform how a page will rank. (*Id.*) Another method is ensuring that third-party websites contain

links to the company's website. In general, more and higher-quality links pointing to a website will increase that website's rankings in organic results. This is referred to as "link-building" or "back-linking." (*Id.*) Display advertisements consist of banners placed on third-party websites. (*Id.* ¶ 7.) Advertisers pay publishers, ad exchanges, and/or ad networks to appear on particular websites. (*Id.*) Banner advertisements are clickable and look like signs or images. (*Id.*)

B. Defendants' Advertising

Personal Comfort relies almost entirely on keyword advertising and nearly 80% of its advertising budget goes towards PPC ads. (Cernosky Decl. ¶ 2, Ex. 6 at 160-61.) Personal Comfort buys keywords such as "Number Bed," "Select Comfort," and "Sleep Number." (Answer and Countercl. ¶¶ 55-56.) Plaintiffs do not object to Personal Comfort's use of Plaintiffs' marks as keywords for internet searches. Instead, Plaintiffs object to Personal Comfort's use of the keywords in conjunction with what they contend to be infringing advertisements.

When a consumer clicks on a Personal Comfort ad link, they are taken to Personal Comfort's website, on which Personal Comfort compares its products to Sleep Number products. A screen shot of the Personal Comfort website that their keyword ads link to appears in part as follows:

Personal Comfort®
An Air Adjustable Number Bed

Compare Us to Sleep Number Bed®

Final Closeout Sale - Ends August 17th

Call today for the best price
888-694-4088
OPEN 7 DAYS A WEEK - CONTACT US

Authorize.Net
SSL SECURED

Home Financing About Us Free Trial Warranty My Account Cart

***** 60% OFF FINAL CLOSEOUT SALE - TAKE UP TO \$200 OFF INSTANTLY - SALE ENDS 8/17! *****

PREFERRED OVER SLEEP NUMBER® BED FACTORY DIRECT SAVINGS

Classic Series
A2 Save \$199
A3 Save \$237
A4 Save \$483

Advanced Series
A5 Save \$411
A6 Save \$745

Elegance Series
Silver sLE Save \$1,952
A8 Save \$1,500
A10 Save \$1,988

Memory Foam Series
H9 Save \$700
H11 Save \$1,191

Specials
Online Edition Save \$1,590

Number Bed Parts

Flex Head Products
Flex Head Number Beds

Bed Bases
Adjustable Bed Bases
Foldable Bed Base

Compare
Top 10 Reasons to Buy
vs. Sleep Number®
All Personal Comfort Beds
Compare Adjustable Beds

Accessories
Protectors
Toppers
Pillows
Sheets

Try
120 Night Risk Free Trial
Apply for Financing
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Instant Comfort Controllers

FINAL CLOSEOUT SALE
★LOWEST PRICES OF THE YEAR★
48 Month Special Financing Available**
save up to 60%* today
60-30% OFF Select Models
120 Night Risk Free Trial
ENTER THE SALE
FedEx FREE SHIPPING
PILLOWS, NO TAX

STARTING AT \$449*

WATCH OUR TV AD

LIMITED TIME
FREE \$500
IN UPGRADES
3 SIDED Mattress Cover*
Extended Warranty
Medical Remote Settings
Completely Customizable
ADVANCED & ELEGANCE SERIES ONLY
888-694-4088
Hurry, Sale Ends Aug 17th

No Interest Financing
FOR 48 MONTHS**
LEARN MORE

Adjustable Specials
ORDER A SET & SAVE
LEARN MORE

Our Technology
WHAT'S YOUR
NUMBER?
2 Zone
NEVER SAG™
Technology

Ask About White Glove Delivery

The Sleep Number® Bed versus Personal Comfort® Bed Comparison.

The future of the bedding industry, starts with the ability to personalize the comfort of your air mattress. The Personal Comfort® Bed's revolutionary hand control system, allows instant touch of a button comfort whenever you desire. High quality components, and state of the art technology make the Personal Comfort® Bed a consumer best buy.

The Personal Comfort® Bed has two distinct technologies. The 2-Zone adjustable mattress technology in addition offer the never sag guarantee. The only mattress today that offers such a promise. Our 2-Zone technology comes with an outstanding lifetime warranty to guarantee your investment for years to come. If you have never owned an adjustable air mattress, understand that studies show adjustable air beds last much longer than traditional innerspring mattress, plus the noticeable adjustment of your air mattress helps you toss and turn less. This air mattress aids in offering superior support to better alleviate back pain and back discomfort.

120 Night Risk Free Trial

During this introductory offer on the most advanced sleep system available we offer, instead of testing a mattress for 30 minutes in a store and making your selection try our adjustable air mattress for 120 nights in the comfort of your own home. If you are not satisfied we'll even pay the return shipping fee.

Free Fast Shipping

At always, Personal Comfort® Bed offers free FedEx shipping nationwide. Alaska and Hawaii have a \$20.00 additional shipping fee to ship to these locations. Shipping times take 7-10 business days once your order is placed. Adjustable bed base units may take an additional 10-14 days to be delivered, this depends on whether you also would like White Glove service. Once you place your order you will receive an email confirmation, along with email updates such as tracking information of your mattress and accessories.

Easy Financing**

Buying is easier than you think. 48 Month Financing Available.** Visit us in store or contact us by phone 888-694-4088 to apply today! **Subject to credit approval. Minimum Monthly Payments Available. See store or call for more details.

Owned by an FDA Registered Company

Personal Comfort® Bed is owned and operated by an FDA Registered & medical device manufacturing facility. We have set the benchmark of the mattress industry and ultimately developed the best sleep system you will ever need. Our U.S.A. based manufacturing facilities continue to develop innovative sleep products; everything from mattresses to bedding accessories designed to help give you the best night's sleep.

(Ceronisky Decl. ¶ 2, Ex. 1.) On this page, Personal Comfort's logo is displayed at the top of the page, beneath which smaller text reads "Compare Us to Sleep Number Bed®." (*Id.*) Below that, it says "PREFERRED OVER SLEEP NUMBER® BED." (*Id.*) On the menu on the left side of the page under the bold "Compare" heading, it reads "vs. Sleep

Number's®." (*Id.*) There is another bold heading that reads "The Sleep Number® Bed versus Personal Comfort® Bed Comparison." (*Id.*) And lower on the page (not depicted), there is another link to "Compare to Sleep Number®," and the following: "We invite you to do your homework and check out the competition." (*Id.* at 2.) At the very bottom of the webpage, the following disclaimer appears:

No affiliation exists between Personal Comfort® or Sleep Number Bed®. No product belonging to Select Comfort® or Sleep Number Bed® is sold on this site and any reference is for comparison purposes only. Select Comfort® and Sleep Number Bed® are registered trademarks of Select Comfort® Corporation you can visit them at www.sleepnumberbed.com (*Id.*)

In the record, there are numerous additional advertisements to which Plaintiffs object. For example, Plaintiffs submit evidence of Defendants' use of various "billboards" that appear in the resulting advertisements displayed in PPC advertising. These "billboards" include, for example: "**Sleep 55% Off Number Beds**"; "**Number Bed Sleep Sale 60% -Closeout Sale**"; "**Comfort Air Beds On Sale**"; "**50% Off Sleep Number Beds**"; "**50% Off Queen Number Beds... PersonalComfortBed.Com/SleepNumber**"; "**Select 55%Off Comfort Bed PersonalComfortBed.Com/SelectNumber.**" (Hansen Aff. ¶¶ 39-41, 49, 50, Exs. 38-40, 48, 49 (emphasis in original).)

In addition, Plaintiffs object to certain display/banner advertisements that Defendants place on third-party

A-47

websites, such as:



Personal Comfort
Enhance Your Sleep Experience

**NUMBER BED
CLOSEOUT
SALE**

37 18

**50% OFF
SAVE TODAY**

888-694-4088 FOR DETAILS

FREE SHIPPING, PILLOW, 60 NIGHT TRY, NO TAX

The advertisement features a smiling woman with dark hair, wearing a white strapless top, lying on a bed with white linens. The background is a light, neutral color. The text is arranged in a clear, hierarchical layout, with the brand name at the top, followed by the sale announcement in large, bold letters, and the discount and contact information at the bottom.



(Hansen Aff. ¶¶ 66-67, Exs. 65-66.)

Plaintiffs also argue that for SEO purposes, Defendants use Plaintiffs’ marks (in phrases such as “Sleep Number bed” and “Sleep Number Beds on sale”) in hyperlinks on third-party websites that when clicked on lead to Personal Comfort’s website. (Dires 30(b)(6) Dep. at 362; Hanson Aff. ¶ 60, Ex. 59 (“Kent Dep.”) at 74; Hanson Aff. ¶¶ 53-54, 56-58, Exs. 52-53, 55-56.)

Plaintiffs also object to Defendants’ use of Plaintiffs’ marks on the Personal Comfort website, including, for example, the use of “Sleep Number Bed” in the title tag of the Internet Explorer tab (Hanson Aff. ¶ 73; Barriger Dep. at 131-40; Kent Dep. at 57-58, 63-

64); the use of meta-tags on Defendants’ websites (i.e., Doc. No. 247 (“Hansen Aff. II”) ¶ 3, Ex. 156 (“50% OFF Sleep Number bed”)); and the use of “WHAT’S YOUR NUMBER?”

In addition, “Number Bed” appears in the Personal Comfort logo:



(Hansen Ex. ¶ 71, Ex. 70.)

Plaintiffs also take issue with Defendants’ use of a “lead generating” website, Mattress Quote. The Mattress Quote website was created by Baxter and Stenzel, and it allows consumers to obtain quotes on a number of brands, including Sleep Number and Comfortaire products. (Hansen Aff. ¶ 77, Ex. 74.) Despite being billed as an independent website, Plaintiffs submit evidence that when consumers select either Sleep Number or Comfortaire, they receive a quote from Defendants. (Hansen Aff. ¶¶ 78-81, Exs. 75-78.) Moreover, Plaintiffs submit evidence that, in responding to a direct inquiry from the Mattress Quote website, Defendants responded purporting to be “Sleep Number.” (*Id.* ¶ 78, Ex. 75.)

Finally, Plaintiffs have submitted evidence that when consumers visit Defendants’ website, call Defendants’ phone number, or participate in a “live chat,” Defendants have made allegedly false statements to the callers. (*See generally* Doc. No. 235 at 8-9.)

III. Protectability of the Relevant Marks

As an initial matter, the Court analyzes the parties' arguments with respect to the protectability of the relevant trademarks. Plaintiffs have trademark registrations for Sleep Number, Select Comfort, What's Your Sleep Number, and Comfortaire. These registrations are *prima facie* evidence of the validity of the marks. 15 U.S.C. § 1057(b). These marks are also incontestable. (SAC ¶¶ 14-17, Exs. A-D.) Incontestability provides conclusive evidence of the mark's validity, its registration, the registrant's ownership of the mark, and the registrant's exclusive right to use the mark in commerce. 15 U.S.C. § 1115(b). A defendant contesting an alleged incontestable mark must prove actual genericness, proof of descriptiveness is not enough. *Woodroast Sys., Inc. v. Rests. Unltd., Inc.*, 793 F.Supp. 906, 912 (8th Cir.1992). Plaintiffs also assert trademark rights in "Number Bed," an unregistered trademark. A party asserting unregistered trademark rights bears the burden of establishing those rights. *Ale House Mgmt., Inc. v. Raleigh Ale House Inc.*, 205 F.3d 137, 140 (4th Cir.2000).

A trademark answers the question, "Who are you?" (i.e., what is your source), while the name of a product answers, "What are you?" See *McCarthy on Trademarks* § 12:1. In trademark law, words are classified in the following categories, from the least protectable to the most: generic, descriptive, suggestive, and arbitrary. See *Frosty Treats, Inc. v. Sony Computer Entm't Am., Inc.*, 426 F.3d 1001, 1005 (8th Cir.2005). A generic term refers to the name for the nature of an article and is not entitled to trademark protection. *Id.*

Genericness can be demonstrated “from any competent source.” *In re Merrill Lynch, Pierce, Fenner, & Smith, Inc.*, 828 F.2d 1567, 1570 (Fed.Cir.1987). These sources may include a plaintiff’s generic use, competitors’ uses, third-party use in trademark registrations, and other publications. *See Nartron Corp. v. STMicroelecs., Inc.*, 305 F.3d 397, 406–07 (6th Cir.2002). If a mark is found to be generic, no amount of secondary meaning may resurrect it, and no party may be found to infringe it. *Retail Servs. Inc. v. Freebies Publ’g*, 364 F.3d 535, 547 (4th Cir.2004).

A mark is generic “when it has become the name of a product (e.g. ‘sandwich’ for meat between slices of bread) or a class of products.” *TE-TA-Ma Truth Found.—Family of URI, Inc. v. World Church of Creator*, 297 F.3d 662, 666 (7th Cir.2002). The test for genericness centers on public perception. *Anheuser-Busch Inc. v. Stroh Brewery Co.*, 750 F.2d 631, 638 (8th Cir.1984) (“What do the buyers understand by the word for whose use the parties are contending?” (citation omitted)). If the primary significance to consumers is a particular brand, then it is not generic. A consumer survey is the most definitive evidence of genericness, but absent such a survey, a court may consider indirect evidence, such as use by defendants, the trademark owner, or a third-party. *See McCarthy on Trademarks* § 12:14.⁶

⁶ Where the “proponent of trademark status itself uses the term as a generic name, [it] is strong evidence of genericness.” *McCarthy on Trademarks* § 12:13. “A kind of estoppel arise when the proponent of trademark use is proven to have itself used the term before the public as a generic name, yet now claims that the public perceives it as a trademark.” *Id.*

A term is descriptive if it conveys an “immediate idea of the ingredients, qualities or characteristics of the goods that it sells.” *Frosty Treats*, 426 F.3d at 1005 (determining that, at best, the mark “Frosty Treats” is descriptive because “Frosty Treats is in the business of selling frozen desserts ... [and] ‘Frosty Treats’ conveys an immediate idea of the qualities and characteristics of the goods that it sells”). Suggestive marks require imagination to reach a conclusion as to the product’s nature. *Id.* at 1005. Arbitrary marks are words, symbols, or pictures with common linguistic use but which, when used with the goods or services in issue, neither suggest nor describe any ingredient, quality, or characteristic of those goods or services. *See McCarthy on Trademarks* § 11.11.

In this action, Defendants contest the protectability of “Sleep Number” and “Number Bed.” The Court considers each in turn.

A. Sleep Number

In Counterclaim III, Defendants argue that they are entitled to a declaration that Sleep Number is generic when used in connection with Select Comfort’s adjustable air bed mattress products, and that the “Sleep Number” mark was abandoned through Select Comfort’s own course of conduct causing the mark to become generic. Defendants also seek the cancellation of the trademark registrations associated with “Sleep Number.”⁷

⁷ Plaintiffs have characterized Defendants’ counterclaim on genericness as one based on an abandonment theory, which Defendants must demonstrate via clear and convincing evidence. Defendants acknowledge that they have asserted

Defendants contend that Select Comfort has used “Sleep Number” generically for years, pointing to evidence that Select Comfort introduced the phrase “Sleep Number” as a desirable product feature, and has spent more than fourteen years and millions of dollars to educate the buying public about what a sleep number is, how someone determines his or her sleep number, and why the public should purchase a bed with a sleep number feature. Defendants submit that Plaintiffs used and advertised the term “Sleep Number” as a numerical firmness setting for years and, not until 2008, did Select Comfort begin using it as a brand (by adding the word “setting,” “bed,” or “store” to modify “sleep number”). Defendants also submit that a survey commissioned by Select Comfort in June 2012 establishes the genericness of the “Sleep Number” mark. (Doc. No. 255 (“Cernosky II Decl.”) ¶ 2, Ex. 58 (“Rappeport Survey”) at 9-10.) In addition, Defendants point to evidence that Select Comfort used the mark generically in public filings and marketing campaigns by, for example, describing the sleep number feature as a firmness setting and feature. Further, Defendants submit evidence that the public uses “Sleep Number” generically. (Cernosky Decl. II ¶ 2, Ex. 7 (“Widmaier Report”) at 105-25.)

Plaintiffs, on the other hand, contend that the “Sleep Number” mark is not generic as a matter of law and, therefore that they are entitled to summary judgment on this counterclaim. In support, Plaintiffs point to survey evidence that they claim definitively demonstrates that “Sleep Number” is a brand.

alternative theories in support of their counterclaim, but maintain that Sleep Number is generic *ab initio*.

(Hansen Aff. ¶ 156, Ex. 153 (“Poret Aff.”), Ex. A (“Poret Survey”) at 65.)⁸ In particular, in the Poret Survey, 83.5% responded that they view “Sleep Number” as a brand name. (*Id.*)⁹ Plaintiffs also submit evidence that secondary meaning studies have similarly shown that “Sleep Number” is a brand. (*Id.* at 67.) For example, a survey conducted by Robert Reitter indicated that 62% of consumers associate “Sleep Number” with the mattresses of one company. (*Id.*)

Plaintiffs also point out that Defendants did not produce a survey of their own to demonstrate that “Sleep Number” is generic, and they contend that Defendants’ own use of “Sleep Number” demonstrates that the mark is not generic. For example, Plaintiffs point to instances where Defendants use “Sleep Number” as a brand on its website homepage: “Compare Us to Sleep Number Bed®”; “The Sleep Number® Bed versus Personal Comfort® Bed Comparison.” In addition, Plaintiffs point to numerous incidents where Defendants identify “Sleep Number” as a brand in both internal and consumer communications and to evidence that instead of using “Sleep Number” to describe or identify their products, Defendants use alternative terms, such as “adjustable air beds.” Plaintiffs also contend that the corporate representative of Dires admitted that

⁸ Plaintiffs argue that they did not introduce a product that differed from an established class in a significant, functional characteristic (because the genus of adjustable air beds existed), but it merely introduced a brand name.

⁹ Defendants question the reliability of the Poret report, which was conducted in 2014, two years after the Rapoport Survey, which Defendants submit demonstrates the genericness of the phrase “Sleep Number.”

“Sleep Number” was a brand. Finally, Plaintiffs argue that any limited alleged misuse of the “Sleep Number” mark does not render the mark generic, evidenced by surveys demonstrating that consumers view “Sleep Number” as a brand.

The classification of a given mark is a factual issue. *Ford Motor Co. v. Summit Motor Prods., Inc.*, 930 F.2d 277, 292 n. 18 (3d Cir.1991). Here, the Court concludes that there are significant and material factual issues that preclude the Court from ruling on the appropriate classification of the “Sleep Number” mark on summary judgment. The jury will have to resolve the factual issues relevant to the classification of the marks to determine if “Sleep Number” is generic. In addition, to the extent it becomes necessary, the jury will have to weigh the evidence to determine if “Sleep Number” is descriptive or suggestive for purposes of determining the mark’s conceptual strength.

B. Number Bed

Defendants also assert a counterclaim seeking a declaration that Plaintiffs do not have trademark rights in the phrase “Number Bed.” Defendants and Plaintiffs both move for summary judgment on this counterclaim. In support of their counterclaim, Defendants assert that Plaintiffs have never used “Number Bed” as a trademark. In the alternative, Defendants claim the term is generic, or at best descriptive, and that Plaintiffs are unable to demonstrate secondary meaning. Plaintiffs, on the other hand, argue that “Number Bed” is suggestive, or in the alternative, descriptive with established secondary meaning.

There is no dispute that “Number Bed” is not a registered trademark. Therefore, Plaintiffs bear the burden of establishing their rights in “Number Bed.” As with the “Sleep Number” mark, the Court concludes that there are fact issues with respect to the correct classification of the “Number Bed” mark, and it is therefore within the province of the jury. In addition, should the jury determine that “Number Bed” is descriptive, the issue of secondary meaning will come into play. *Co-Rect Prods. v. Marvy! Advert. Photography, Inc.*, 780 F.2d 1324, 1330 (8th Cir.1985) (explaining that with respect to an unregistered descriptive mark, the user must show acquired secondary meaning).

“To establish secondary meaning, the user must show that the mark or symbol by long and exclusive use and advertising in the sale of the user’s goods has become so associated in the public mind with such goods that it serves to identify them and distinguish them from the goods of others.” *Id.* at 1330 (citations and quotation marks omitted). Secondary meaning is an association formed in the minds of the consumers between the mark and the source or origin of the product. *See Truck Equip. Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1219–20 (8th Cir.1976). The ultimate inquiry is whether in the consumer’s mind the mark denotes a “single thing coming from a single source.” *Sec. Ctr., Ltd. v. First Nat’l Sec. Ctrs.*, 750 F.2d 1295, 1301 (5th Cir.1985) (quotation marks omitted).

Plaintiffs argue that they have acquired trademark rights in “Number Bed” because it has acquired secondary meaning in the minds of consumers. In support, Plaintiffs point to the Butler Survey, which

Plaintiffs submit demonstrates that approximately half of all respondents believe “Number Bed” is associated with one company. (Hansen Aff. ¶ 157, Ex. 154 ¶ 2, Ex. A (“Butler Survey”) at 9, 12.) Plaintiffs argue that these results are persuasive evidence that “Number Bed” has secondary meaning, and thus trademark status. In addition, Plaintiffs submit evidence of the long-term use of the mark, extensive advertising, sales and number of consumers, established place in the market, and proof of actual copying, to demonstrate secondary meaning.

Defendants argue that, as a matter of law, Plaintiffs cannot establish secondary meaning. In particular, Defendants argue that the Butler Survey fails because it was conducted *after* Plaintiffs allege that Defendants began using the mark. Defendants further argue that Plaintiffs cannot establish secondary meaning because they have not used “Number Bed” by itself to promote their products.

The Court concludes that there are fact issues that preclude summary judgment on the issue of secondary meaning.

IV. Trademark Infringement

In Counts I and II, Plaintiffs assert claims for trademark infringement and unfair competition. Plaintiffs and Defendants both move for summary judgment on Plaintiffs’ trademark infringement claims. To establish a claim for trademark infringement, a plaintiff must show that it owns a valid protectable trademark and that a defendant’s unauthorized use of the trademark creates a likelihood of confusion. *Cnty. of Christ Copyright*

Corp. v. Devon Park Restoration Branch of Jesus Christ's Church, 634 F.3d 1005, 1009 (8th Cir.2011). Plaintiffs assert infringement of "Number Bed," "Sleep Number," "Select Comfort," "What's Your Sleep Number?" and "Comfortaire." As discussed above, the jury will decide whether the "Number Bed" and "Sleep Number" marks are protectable. Plaintiffs own the trademark registrations of the remaining asserted marks--"Select Comfort," "What's Your Sleep Number?" and "Comfortaire." These registrations are prima facie evidence of ownership of the marks. 15 U.S.C. § 1057(b).

A. Fair Use

Defendants argue that their use of Plaintiffs' marks constitutes fair use. The burden rests on the defendant to establish the applicability of the "fair use" defense. *See Dow Brands, L.P. v. Helene Curtis, Inc.*, 863 F.Supp. 963, 967 (D.Minn.1994). There are two types of "fair use" of a trademark: "classic fair use" and "nominative fair use." *See generally McCarthy on Trademarks* § 23.11. Both are types of legal, non-infringing use. *Id.* "Classic fair use" is a defense to infringement when a junior user argues that it is not using a phrase or word in a trademark sense, but only to describe the junior user's goods or services. *Id.* "Nominative fair use" is the use of another's trademark to identify the trademark owner's goods and services in order to "name" the real owner of the mark. *Id.*

Defendants argue that Personal Comfort's use of "Number Bed" is classic fair use, and therefore Defendants cannot infringe either "Sleep Number" or "Number Bed." To satisfy the fair use test,

Defendants must demonstrate that: (1) the use of Plaintiffs' marks is to indicate the category of goods Defendants sell, not the origin of the goods; (2) Plaintiffs' marks (i.e., "Number Bed") are descriptive of Defendants' products; and (3) the use of Plaintiffs' marks is in good faith only to describe its own goods to consumers. *See, e.g., Woodroast Sys., Inc.*, 793 F.Supp. at 913–14 (denying summary judgment on issue of fair use); *Dow Brands*, 863 F.Supp. at 969–70 (same; explaining intent must often be established through circumstantial evidence and an assessment of credibility). In the present action, material issues of fact exist with respect to Defendants' assertion that its advertisements constitute "classic fair use." In particular, the jury will have to weigh the evidence and decide whether Defendants' use of Plaintiffs' marks was made in good faith and only to describe its own products, or whether the use was intended to improperly infer a connection between Defendants' products and Plaintiffs' brand.

Defendants also argue that Personal Comfort's use of Plaintiffs' marks on its website is "nominative fair use." Three elements are required to satisfy the "nominative fair use" analysis: (1) the product or service in question must not be readily identifiable without use of the trademark; (2) only so much of the trademark may be used as is reasonably necessary to identify the product or service; and (3) the user must do nothing, in conjunction with the mark, to suggest sponsorship or endorsement by the trademark owner. *See New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 308–09 (9th Cir.1992.) Defendants argue that they engage in comparative advertising and that they use Plaintiffs' marks to distinguish Defendants' products from (as opposed to affiliate

with) Plaintiffs' products or brand. Again, the Court concludes that material issues of fact exist with respect to Defendants' assertion that its advertisements constitute "nominative fair use." In particular, the jury will have to weigh the evidence and decide whether Defendants' use meets the elements of "nominative fair use," or whether the use of Plaintiffs' marks suggests sponsorship or endorsement by Plaintiffs. Accordingly, summary judgment on this defense is denied.

B. Likelihood of Confusion

The Court now turns to whether either Defendants or Plaintiffs are entitled to summary judgment on the issue of likelihood of confusion. At issue are various advertisements and marketing tactics used by Defendants. For example, Plaintiffs object to Defendants' use of Plaintiffs' marks exactly or in similar permutations: (1) as keywords that lead to display advertisements (such as, "**Sleep 55% Off Number Beds**"; "**Number Bed Sleep Sale 60% - Closeout Sale**"; "**Comfort Air Beds On Sale**"); (2) in display/banner advertisements (such as "Number Bed Closeout Sale"); (3) for SEO purposes, by placing hyperlinks (such as "Sleep Number bed" and "Sleep Number Beds on sale") on third-party websites that, when clicked on, lead to Personal Comfort's website; and (4) on its own website. The parties disagree over whether the factors weigh in favor or against of a likelihood of confusion.

1. Initial Interest Confusion

As an initial matter, Plaintiffs argue that there is substantial evidence of both initial interest and point

of sale confusion. Under the Lanham Act, there are at least two distinct types of actionable customer confusion: (1) confusion existing at the time of purchase; and (2) initial interest confusion. Initial interest confusion is based on confusion that creates initial customer interest, even though no actual sale is finally completed as a result of the confusion. *See McCarthy on Trademarks* § 23:6.

The parties dispute whether initial interest confusion can be a basis for liability in the Eighth Circuit. Plaintiffs point out that the majority of circuits that have considered the issue have adopted initial interest confusion as a basis for liability. *Id.* § 23:6 at n.2 (collecting cases). However, in *Sensient Techs. Corp. v. Sensory Effects Flavor Co.*, 613 F.3d 754 (8th Cir.2010), the Eighth Circuit “decline[d] [plaintiff’s] invitation to adopt the ‘initial interest confusion’ doctrine *in this case*,” which involved flavor delivery systems that are sold to sophisticated consumers after a collaborative process. *Id.* at 766, 769 (emphasis added). In *Sensient*, the Eighth Circuit explained that “even if the doctrine applied generally in this circuit, it would not apply” where, “although the products are similar, ... the customers are sophisticated and exercise a relatively high degree of care in making their purchasing decisions.” *Id.* Plaintiffs submit that the Eighth Circuit Court of Appeals, in *Sensient*, acknowledged the doctrine but has not yet had the facts fitting it.

The Court notes that the Eighth Circuit in *Sensient* neither rejected nor adopted the initial interest confusion doctrine. Rather, it declined to formally adopt the doctrine because it would not apply to the facts of that case. Similarly, even if the initial

interest confusion doctrine is recognized in the Eighth Circuit after *Sensient*, this is not an appropriate case for its application. Not only are Personal Comfort and Select Comfort beds expensive (the average Select Comfort bed costs between \$1,600 and \$2,300) (*see* Marino Report ¶¶ 26, 53-54), they are specialty mattresses, and they are purchased online. These factors lead to the conclusion that consumers would exercise a high degree of care in purchasing such a mattress. *See, e.g., Lovely Skin, Inc. v. Ishtar Skin Care Prods., LLC*, 745 F.3d 877, 889 (8th Cir.2014) (applying the principle that consumer care when purchasing more expensive goods is higher; online cosmetics purchases averaging \$100); *Clam Corp. v. Innovative Outdoor Sols., Inc.*, Civ. No. 08–5895, 2008 WL 5244845, at *3 (D.Minn. Dec. 15, 2008) (finding that \$200-\$700 ice fishing shelters weigh against likelihood of confusion). Therefore, Plaintiffs’ trademark infringement claim will require Plaintiffs to establish a likelihood of actual confusion at the time of purchase.

2. Likelihood of Confusion Factors

In determining whether there is a likelihood of confusion, the court considers six factors: (1) the strength of the plaintiff’s mark; (2) the similarity between the plaintiff’s mark and the allegedly infringing mark; (3) the degree to which the allegedly infringing product competes with the plaintiff’s goods; (4) the alleged infringer’s intent to confuse the public; (5) the degree of care reasonably expected of potential customers (or the type of product, its cost, and conditions of purchase); and (6) evidence of actual confusion. *Sensient*, 613 F.3d at 763. “These factors do not operate in a mathematically precise formula;

rather, [the court] use[s] them at a summary judgment stage as a guide to determine whether a reasonable jury could find a likelihood of confusion.” *Frosty Treats*, 426 F.3d at 1008. No one factor controls. *Sensient*, 613 F.3d at 763.

a. Strength of Marks

“A strong and distinctive trademark is entitled to greater protection than a weak or commonplace one.” *Frosty Treats*, 426 F.3d at 1008. A trademark’s strength is measured by both the mark’s conceptual and commercial strength. *Lovely Skin, Inc.*, 745 F.3d at 888. Plaintiff asserts that each of its asserted trademarks is suggestive and thus inherently distinctive and entitled to protection. As discussed above with respect to the protectability of “Sleep Number” and “Number Bed,” the Court considered the issues surrounding the classification (and therefore, conceptual strength) of the “Sleep Number” and “Number Bed” marks. The Court concluded that appropriate classification of those marks is for the jury to decide. Similarly, the issue of the appropriate classification of the remaining asserted marks for purposes of evaluating their conceptual strength will be within the province of the jury.

A mark’s commercial value, or marketplace recognition, also factors into the strength of the mark analysis. In the likelihood of confusion context, commercial strength is based on the public recognition and renown of a mark as shown by the amount of advertising, sales volume, features and reviews in publications, and survey evidence. *See Lovely Skin, Inc.*, 745 F.3d at 888. Here, Plaintiffs have submitted evidence demonstrating the

commercial strength of its marks via continuous and long-term commercial use and extensive advertising and marketing. Because the jury will determine the conceptual strength of the marks, the jury will have to consider that strength along with the mark's commercial strength and determine how this factor weighs in the likelihood of confusion analysis.

b. Similarity of the Marks

The second step considers the similarity between the mark and Defendants' use of the marks and similar permutations. *Frosty Treats*, 426 F.3d at 1008. This analysis should not be completed in a vacuum; rather, the Court "must attempt to recreate the conditions in which buying decisions are made, and ... what a reasonable purchaser in market conditions would do." *Calvin Klein Cosmetics Corp. v. Lenox Labs.*, 815 F.2d 500, 504 (8th Cir.1987).

Here, there is significant evidence showing that Defendants use words and phrases that are the same or nearly the same as Plaintiffs' asserted marks. There is no dispute that Defendants use "Sleep Number," "Select Comfort," "Comfortaire," and "Number Bed" in their advertising, sometimes with minor variations. While the phrases themselves are not always identical to an asserted mark, the slight differences do not vary greatly from Plaintiffs' marks. Therefore, this factor weighs in favor of a likelihood of confusion.

c. Competitive proximity

With respect to the third factor, the Court considers the degree of competition between the companies' products. Confusion is more likely where the products

are closely related. *Sensient*, 613 F.3d at 766. Plaintiffs and Defendants both market and sell adjustable air mattresses via overlapping commercial channels, in particular, internet-based sales. However, there is also evidence in the record demonstrating that while nearly all of Defendants' sales occur on-line, the majority of Select Comfort's sales occur in physical stores. In addition, there is evidence of dissimilarities between the parties' channels of advertising. Because of these factual issues, it will be up to the jury to weigh the evidence and determine whether the factor of competitive proximity weighs in favor or against a finding of infringement.

d. Intent

The fourth factor analyzes whether the alleged infringer intended to pass off its goods as the trademark owner's goods. *Id.* at 766. Although proof of misleading intent is not required for success in an infringement claim, "the absence of such intent is a factor to be considered." *Id.*

Plaintiffs assert that there is voluminous and clear evidence of Defendants' intent to confuse. First, Plaintiffs point to evidence that they assert demonstrates that Baxter specifically articulated an intent to infringe and that Stenzel and Baxter discussed the creation of "Tricky Marketing." Plaintiffs also point to the numerous examples of grammatically awkward advertisements, such as "Number Bed Sleep Sale 60%" and "Sleep Sale 55% Off Number Bed," as evidence that Defendants intended to confuse consumers as to the affiliation of the brands.

Defendants dispute Plaintiffs' evidence of intent. For example, Defendants assert that certain testimony that Plaintiffs rely on was taken out of context. Defendants also submit that the challenged on-line advertisements are clearly labeled as "ads," are set apart from the organic search results in another part of the screen, and specifically display Defendants' websites below each ad. Defendants maintain that the ads contain comparative language and invite comparison shopping, which is permitted by the Lanham Act. Finally, Defendants argue that the awkward wording of their ads does not show an intent to confuse, but rather conforms to Google's AdWords Program.

The Court concludes that there are fact issues with respect to the issue of intent. It will be up to a jury to weigh the evidence and determine whether the issue of intent weighs in favor or against a finding of infringement.

e. Type of Product at Issue

In evaluating this factor, the Court considers the type of products at issue, the costs and conditions of purchase, and the degree of care that consumers are expected to exercise. *Id.* at 768. "In considering this factor, we must stand in the shoes of the ordinary purchaser, buying under the normally prevalent conditions of the market and giving the attention such purchasers usually give in buying that class of goods." *Id.* (quotation omitted). Where the products have a high price point, consumers are likely to exercise a greater degree of care in making purchases, thereby reducing the likelihood of confusion. *See Lovely Skin, Inc.*, 745 F.3d at 889.

As discussed above with respect to the discussion of initial interest confusion, the Court finds that this factor reduces the likelihood of confusion.

f. Evidence of Actual Confusion

Evidence of actual confusion may be presented in the form of testimony about incidents of confusion or survey evidence. *See Frosty Treats*, 426 F.3d at 1009.

Here, Plaintiffs contend that the record is replete with evidence of actual confusion, which includes Defendants' admissions of actual confusion, customer communications demonstrating actual confusion, and consumer survey evidence demonstrating customer confusion. Some specific examples include: (1) internal communications discussing customers who were confused; (2) customer communications expressing confusion over whether Defendants sell "Sleep Number" or "Comfortaire" products; and (3) surveys that Plaintiffs contend show high levels of confusion. With respect to the survey evidence, Plaintiffs rely on the Poret Survey, which shows that 23-35% of customers are confused as to the source of the use of "Number Bed" and "Comfort Air" in Defendants' ads. (Poret Survey at 35.)

Defendants take issue with Plaintiffs' evidence of actual confusion. First, Defendants contend that the vast majority of instances where consumers are confused involve post-sale communications. After accounting for the examples of post-sale confusion, Defendants contend that Plaintiffs have only a "handful" of examples of what could be point-of-sale confusion. Second, Defendants assert that Poret's likelihood of confusion survey is flawed in a manner

that greatly exaggerates that likelihood. Specifically, Defendants argue that the question in Poret's survey that produces the "vast majority" of positive responses did not test for *source* confusion. Without this allegedly faulty question, Defendants submit that Poret's survey showed very low net confusion rates. In addition, Defendants submit survey evidence that they contend demonstrates only 1.5% confusion regarding the source or affiliation of Defendants' ads. (Zochert Aff. ¶ 19, Ex. 19 ("Fong Survey")).

Because of the conflicting evidence, the Court concludes that a jury will have to weigh the evidence of actual confusion and related survey evidence to determine whether this factor weighs in favor or against a likelihood of confusion.

g. Weighing All Factors

In sum, there remain numerous material factual disputes relevant to the analysis of likelihood of confusion so as to require that the issue be submitted to a jury. While a likelihood of customer confusion could be the conclusion reached by a reasonable jury, that conclusion is not foregone. Therefore, neither Plaintiffs nor Defendants are entitled to summary judgment on Plaintiffs' trademark infringement claim.

V. False Advertising

In Count IV, Plaintiffs assert a claim for false advertising. Plaintiffs assert that they are entitled to summary judgment on certain elements of their false advertising claim: falsity, use in commerce, and materiality. In particular, Plaintiffs assert that they

have demonstrated, as a matter of law, that certain of Defendants' advertisements were "literally false," that some customers purchased beds from Defendants after hearing false statements, and that the statements factored into customers' decisions to buy Defendants' products. Defendants oppose Plaintiffs' motion, and the Dires Defendants move separately on this claim. The Dires Defendants argue that Plaintiffs have failed to establish standing to bring a false advertising claim, and even if they did establish standing, the false advertising claims fail as a matter of law.

As a threshold matter, the Court concludes that Plaintiffs have standing to assert this claim. In *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, — U.S. —, 134 S.Ct. 1377, 188 L.Ed.2d 392 (2014), the Supreme Court resolved a circuit split on the issue as to what is required for a plaintiff to have standing to sue for false advertising under the Lanham Act and held that a plaintiff must: (1) be within the "zone of interest" protected by the statute; and (2) show "proximate causation" between the plaintiff's injury and the alleged violation. *Id.* at 1390. In the false advertising context, a plaintiff must allege an injury to a "commercial interest in reputation or sales." *Id.* Here, Plaintiffs have submitted evidence that Defendants have made false statements to customers while comparing their products to Plaintiffs' products. Plaintiffs have also pointed to evidence that they contend shows that customers have purchased products from Defendants after hearing these false statements. The Court therefore holds that the harm alleged by Plaintiffs has a sufficiently close connection to the asserted false advertising to confer standing on Plaintiffs.

To establish a claim for false advertising, a plaintiff must establish the following: (1) a false statement of fact in a commercial advertisement about its own or another's product; (2) the statement actually deceived or has the tendency to deceive a substantial segment of its audience; (3) the deception is material (likely to influence the purchasing decision); (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 of the advertising. *United Indus. Corp. v. Clorox Co.*, 140 F.3d 1175, 1180 (8th Cir.1998); 15 U.S.C. § 1125(a)(1)(B) (prohibiting false statements in "commercial advertising and promotion").

The false statement necessary to establish a Lanham Act violation generally falls into one of two categories: (1) commercial claims that are literally false as a factual matter; and (2) claims that may be literally true or ambiguous but which implicitly convey a false impression, are misleading in context, or likely to deceive consumers. *United Indus. Corp.*, 140 F.3d at 1180. Claims might also fall into a third category, generally known as "puffery," which is "exaggerated advertising, blustering, and boasting upon which no reasonable buyer would rely and is not actionable." *Id.* (citation omitted). "Nonactionable puffery includes representations of product superiority that are vague or highly subjective." *Id.* However, false descriptions of specific or absolute characteristics of a product and specific, measurable claims of product superiority based on product testing are not puffery and are actionable. *See id.*

Plaintiffs point to evidence that when consumers visit

Defendants' Personal Comfort website, call Defendants' phone number, or engage in a "live chat," Defendants have made numerous false statements. These statements include: "Personal Comfort is 'Preferred 6 to 1' over Sleep Number"; "Personal Comfort designed Sleep Number's M-Series beds"; "Personal Comfort is FDA regulated"; "Personal Comfort offers FDA registered mattresses"; "Personal Comfort Bed has been making mattresses since the 1970s"; "In the 1990s Personal Comfort sold patents to Sleep Number and had a non-compete with them"; "Personal Comfort has been around for 12 years longer than Sleep Number"; "Personal Comfort beds are 'identical' to Sleep Number beds"; "Personal comfort is the only mattress in the industry with touch screen technology"; "The air chambers on Sleep Number beds are not replaceable"; "The foam on Sleep Number beds is not replaceable"; "The foam used in Personal Comfort beds is 'medical grade' "; "The air chambers used in Personal Comfort beds are 'medical grade.' " (*See generally* Doc. No. 235 at 8-9 and related citations.)

In their very brief analysis of their false advertising claim, Plaintiffs attempt to establish falsity as a matter of law based on excerpts of testimony of various witnesses regarding the truthfulness of certain statements. Defendants, however, contest the factual basis for the alleged falsity of some of the contested statements and, as to the remaining statements, submit that they are not literally false when explained in a broader context. Moreover, Defendants move separately on several asserted statements that they contend do not constitute commercial advertising or are puffery.

Here, there are numerous factual issues that preclude summary judgment for either party on Plaintiffs' false advertising claims. Instead, these factual issues must be resolved by a jury as to the elements of Plaintiffs' false advertising claim, and in particular with respect to the falsity element of the claim. Therefore, summary judgment is inappropriate.

VI. Trademark Dilution

In Count III, Plaintiffs assert a claim for trademark dilution. Defendants move for summary judgment on this claim on the grounds that the marks are not famous as a matter of law. Plaintiffs have since indicated that they do not intend to pursue dilution claims with respect to the "Select Comfort" and "Comfortaire" marks. Instead, Plaintiffs' dilution claim pertains only to the Sleep Number marks ("Sleep Number" and "What's Your Sleep Number?"). As to these marks, Plaintiffs claim that fact issues preclude summary judgment on their dilution claims.

To prevail on a dilution claim, a trademark owner must demonstrate that the use of a trademark is likely to cause dilution by blurring or by tarnishing a famous mark, regardless of the presence or absence of actual likely confusion, of competition, or of actual economic injury. 15 U.S.C. § 1125(c). "[A] mark is famous if it is widely recognized by the general consuming public of the United States as a designation of the source of the goods or services of the mark's owner." *Id.* § 1125(c)(2)(A).

The judicial consensus is that "famous" is a rigorous standard. *Everest Capital Ltd. v. Everest Funds Mgmt., LLC*, 393 F.3d 755, 763 (8th Cir.2005).

“Dilution is a cause of action invented and reserved for a select class of marks—those marks with such powerful consumer associations that even non-competing uses can impinge their value.” *Id.* (citing *Avery Dennison Corp. v. Sumpton*, 189 F.3d 868, 875 (9th Cir.1999).) Courts may consider eight non-exclusive factors in determining whether a mark is famous, including: (1) duration, extent, and geographical reach of advertising and publicity; (2) amount, volume, and geographical extent of sales; (3) extent of actual recognition; and (4) registration on the principal register. *See McCarthy on Trademarks* § 24:106.

Plaintiff has submitted the following evidence in support of its dilution claim. First, Plaintiffs submit that they have spent over \$150 million in 2014 and over \$1 billion since 2010 in marketing, advertising, and promoting their Sleep Number products. (Somers Aff. ¶ 5.) These efforts include advertising in many mediums, including online advertisements, radio and television spots, newspaper and magazine advertisements, and direct mail. (*Id.* ¶ 6 & Ex. 1.) In addition, Plaintiffs submit evidence of heavy publicity of the “Sleep Number” brand, including rankings in industry magazines, positive reviews in Consumer Reports, celebrity endorsements, and numerous mentions in magazines, newspapers, online, television programs, and comics. (*Id.* ¶ 9 & Exs. 3-4.) In addition, Plaintiffs submit evidence of numerous pop-culture references about “Sleep Number” beds. (*Id.* ¶ 9 & Ex. 4.) Plaintiffs assert that they have achieved over \$10 billion in sales since 2010. (*Id.* ¶ 5.) Plaintiffs also submit survey evidence that they assert demonstrates fame, and in particular that in 2012, “Sleep Number” achieved 21% unaided brand

awareness and 75% total awareness. (Hansen Aff. ¶ 112, Ex. 109.)

Defendants dispute that Plaintiffs' Sleep Number marks are famous, focusing primarily on Plaintiffs' survey evidence. Defendants submit that in order to qualify as famous, a survey should reveal brand recognition in the range of 75%. Defendants also contend that the survey reveals that brand awareness for the "Sleep Number" mark achieved under 20% awareness from 2001 to 2011, and reached a high point of 21% in 2012. Defendants also argue that in the face of undisputed direct evidence that the *unaided* recognition of the "Sleep Number" mark hovered around 12-13% from 2007-2009, indirect evidence of famousness does not create a fact issue as to the marks' famousness.

The Court concludes that there are material fact issues that preclude summary judgment on Plaintiffs' dilution claim. While the parties dispute the relevance of the various items of survey evidence, and whether the awareness of the "Sleep Number" mark is high enough to demonstrate famousness, the jury must weigh the competing evidence, including the indirect evidence that could support the marks' fame, and determine if the marks are famous. Therefore, Plaintiffs' trademark dilution claim will be resolved at trial.

VII. Unjust Enrichment

In Count IX, Plaintiffs assert a claim for unjust enrichment. To prevail on a claim of unjust enrichment, a plaintiff must show that a defendant knowingly received something of value that it was not

entitled to, and that it would be unjust for the defendant to keep those benefits. *Guinness Import Co. v. Mark VII Distribs., Inc.*, 153 F.3d 607, 613 (8th Cir.1998). However, unjust enrichment is an equitable remedy, and “[a] party may not have equitable relief where there is an adequate remedy at law available.” *United States v. Bame*, 721 F.3d 1025, 1030 (8th Cir.2013) (citing *ServiceMaster of St. Cloud v. GAB Bus. Servs., Inc.*, 544 N.W.2d 302, 305 (Minn.1996)).

Here, Defendants argue summarily that Plaintiffs may not seek equitable relief because there is an adequate remedy at law under the Lanham Act. Plaintiffs contend that their unjust enrichment claim is not duplicative of a Lanham Act claim, but offer no further explanation as to why their unjust enrichment claim is not duplicative of other claims. Because it appears that Plaintiffs have an adequate remedy at law, the Court grants Defendants’ motion for summary judgment as to Plaintiffs’ unjust enrichment claim.

VIII. Minnesota Deceptive Trade Practices Act (“MDTPA”)

Defendants assert that Plaintiffs’ MDTPA claim is coextensive with the Lanham Act claims for trademark infringement, unfair competition, and false advertising. Plaintiffs assert that the claims under the Lanham Act and MDTPA are not wholly coextensive and that the MDTPA provides a more liberal standard for awarding attorney fees than the Lanham Act. Plaintiffs therefore assert that the MDTPA claim may lie separately for the purpose of calculating damages. The Court agrees with

Plaintiffs. Therefore, summary judgment is not appropriate on this claim.

IX. Counterclaim II

In Counterclaim II, Defendants seek a declaration that the purchase of Plaintiffs' trademarks as keywords does not infringe Plaintiffs' trademark rights. Baxter moves for summary judgment on this claim, arguing that Plaintiffs have acknowledged that the purchase of competitive trademarks as keywords by itself does not constitute infringement or unfair competition. Baxter points out that Plaintiffs themselves purchase competitive trademarks as keywords. Baxter asserts, therefore, that they are entitled to summary judgment on this declaratory request. Plaintiffs counter that there is no actual controversy on this issue because they have never contended that Defendants' mere purchase of competitor trademarks is wrongful. What Plaintiffs do contend is that Defendants' purchase of the keywords in conjunction with the resulting advertisements is wrongful.

The Court agrees that there is no controversy as Plaintiffs do not claim that the purchase of competitor trademarks as keywords alone is wrongful. Thus, Plaintiffs are entitled to summary judgment on Counterclaim II.

X. Unclean Hands

Defendants assert a defense of unclean hands. In particular, Defendants submit that Plaintiffs have purchased its competitors' keywords while suing Defendants for the same. Defendants assert that given the fact that Plaintiffs allege that Defendants'

purchase of Plaintiffs' keywords was wrongful, Defendants are entitled to assert an unclean hands defense based on Plaintiffs' same conduct. As explained above, Plaintiffs do not claim keyword purchasing alone is wrongful. Thus, there is no basis for Defendants' unclean hands defense on these grounds. Therefore, Plaintiffs' motion for summary judgment on Defendants' unclean hands defense is granted to the extent that it is based on Plaintiffs' alleged purchase of competitors' keywords.

However, Defendants also base their unclean hands defense on the allegation that Plaintiffs have engaged in advertising that is similar to some of Defendants' advertising that Plaintiffs allege constitutes false advertising. To the extent that Defendants' unclean hands defense is based on such advertising, the Court denies Plaintiffs' motion.

XI. Individual & Successor Liability

Plaintiffs seek to hold Baxter, Stenzel, and Miller personally liable for Direct Commerce's, DCA's, and Dires' conduct based on their participation in wrongful conduct. Defendants move for summary judgment, arguing that there is no basis for individual liability here.

Natural persons may be liable for trademark infringement. *Zerorez Franchising Sys., Inc. v. Distinctive Cleaning, Inc.*, 103 F.Supp.3d 1032, 1046 (D.Minn.2015) (citation omitted). "A corporate officer is personally liable for the corporation's trademark infringement if the officer participates in that infringement." *Id.* (citing *Microsoft Corp. v. Ion Techs. Corp.*, Civ. No. 01-1769, 2003 WL 21356084, at *5

(D.Minn. May 30, 2003)). In *Zerorez*, the Court found the corporate defendant's owner/manager personally liable for trademark infringement where there was evidence that she had written the Google AdWords content and actively participated in the infringement by managing the advertising budget. *Id.*

Plaintiffs point to evidence that Miller manages Dires' marketing and advertising budget, and after the initiation of the lawsuit, has reviewed advertising for approval. At Dires, Stenzel has participated in and had responsibility for certain forms of advertising and since March 2013, has been primarily in charge of the Personal Comfort website and advertising. Stenzel also consults with Miller regarding Dires' marketing and advertising budget. Also at Dires, Baxter designed the Personal Comfort website, developed advertising, and trained salespersons.

The Court concludes that there is sufficient evidence to submit the issue of individual liability to the jury. There are genuine issues of fact as to these individuals' involvement in the allegedly infringing activities and, therefore, whether they can be held personally liable. However, the Court grants Defendants' summary judgment as to Plaintiffs' claim of successor liability because Plaintiffs did not plead such a claim.

ORDER

Based on the files, record, and proceedings herein, **IT IS HEREBY ORDERED** that:

1. Plaintiffs' Motion for Partial Summary Judgment (Doc. No. [233]) is **GRANTED IN PART** and **DENIED IN PART** as follows:

a. Plaintiffs are entitled to summary judgment on Counterclaim II.

b. Plaintiffs are entitled to summary judgment on Defendants' unclean hands defense to the extent that it is based on Plaintiffs' alleged purchase of competitors' keywords.

c. Plaintiffs' motion is denied in all other respects.

2. Dires Defendants Motion for Summary Judgment (Doc. No. [221]) is **GRANTED IN PART** and **DENIED IN PART** as follows:

a. Dires Defendants are entitled to summary judgment on Plaintiff's unjust enrichment claim (Count IX).

b. Dires Defendants are entitled to summary judgment on Plaintiffs' claim of successor liability.

c. Dires Defendants' motion is denied in all other respects.

3. Baxter's Motion for Summary Judgment (Doc. No. [226]) is **GRANTED IN PART** and **DENIED IN PART** as follows:

a. Baxter is entitled to summary judgment on Plaintiff's unjust enrichment claim (Count IX).

b. Baxter is entitled to summary judgment on Plaintiffs' claim of successor liability.

c. Baxter's motion is denied in all other respects.

End of Document.

Appendix D

**UNITED STATES COURT OF APPEALS FOR
THE EIGHTH CIRCUIT**

No: 19-1077

Select Comfort Corporation; Select Comfort SC
Corporation
Plaintiffs – Appellants,
v.

John Baxter; Dires, LLC, doing business as Personal
Touch Beds and Personal Comfort Beds; Digi Craft
Agency, LLC; Direct Commerce, LLC, doing business
as Personal Touch Beds; Scott Stenzel; Craig Miller
Defendants – Appellees.

No: 19-1113

Select Comfort Corporation; Select Comfort SC
Corporation
Plaintiffs – Appellees,
v.

John Baxter
Defendant,
Dires, LLC, doing business as Personal Touch Beds
and Personal Comfort Beds
Defendant – Appellant.

Digi Craft Agency, LLC; Direct Commerce, LLC,
doing business as Personal Touch Beds
Defendants.
Scott Stenzel; Craig Miller
Defendants – Appellants.

No: 19-1178

Select Comfort Corporation; Select Comfort SC
Corporation
Plaintiffs – Appellees,
v.

John Baxter
Defendant – Appellant,
Dires, LLC, doing business as Personal Touch Beds
and Personal Comfort Beds; Digi Craft Agency, LLC;
Direct Commerce, LLC, doing business as Personal
Touch Beds; Scott Stenzel; Craig Miller
Defendants.

Appeal from U.S. District Court
for the District of Minnesota
(0:12-cv-02899-DWF)

ORDER

The petitions for rehearing en banc filed by Appellees/Cross Appellants Dires, LLC, Mr. Scott Stenzel, Mr. Craig Miller, and Mr. John Baxter are denied. The petitions for rehearing by the panel are

also denied.

Judge Benton and Judge Kelly did not participate in the consideration or decision of this matter.

June 16, 2021

Order Entered at the Direction of the Court:
Clerk, U.S. Court of Appeals, Eighth Circuit

s/ Michael E. Gans

Appendix E

**UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA**

No: Civil 12-cv-2899 (DWF/SER)

Select Comfort Corporation; Select Comfort SC
Corporation,

Plaintiffs,

v.

John BAXTER; Dires, LLC d/b/a Personal Touch
Beds and Personal Comfort Beds; Digi Craft
Agency, LLC; Direct Commerce, LLC d/b/a
Personal Touch Beds; Scott Stenzel;
and Craig Miller,

Defendants.

Signed 12/12/2018

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MEMORANDUM OPINION AND ORDER

DONOVAN W. FRANK, United States District Judge

INTRODUCTION

This matter is before the Court on numerous post-trial motions. These motions include Plaintiffs Select Comfort Corporation and Select Comfort SC Corporation's ("Select Comfort") Motion for Determination of Entitlement to Attorneys' Fees and Non-Taxable Expenses (Doc. No. 640), Motion for Renewed Judgment as a Matter of Law, to Amend the Verdict, and/or for a New Trial (Doc. No. 643), Motion to Increase the Damages Award (Doc. No. 654), and Motion for Permanent Injunction (Doc. No. 668); as well Defendants Dires, LLC, Craig Miller, Scott Stenzel, and John Baxter's Motion for Determination of Entitlement to Attorneys' Fees and Costs (Doc. No. 655) and Amended Renewed Motion for Judgment as a Matter of Law and For a New Trial (Doc. No. 644).¹

BACKGROUND

The factual and procedural background of this litigation is extensively set forth in prior orders and will not be repeated here. In summary, Select Comfort brought multiple claims against Defendants,

¹ Defendants' motions at Doc. Nos. 617 and 632 are moot in light of the present motions.

including claims for trademark infringement, trademark dilution, false advertising, unfair competition, and related state-law claims. After trial, the jury returned a verdict, making the following relevant findings:

Trademark Infringement: Defendants did not infringe Select Comfort's trademark rights in SLEEP NUMBER, WHAT'S YOUR SLEEP NUMBER?, SELECT COMFORT, or COMFORTAIRE. (Doc. No. 575 ("Special Verdict") at 2-3.)

Trademark Dilution: Select Comfort's SLEEP NUMBER mark is famous, but Defendants' advertising did not dilute the mark. (*Id.* at 6.)

Unfair Competition: Defendants' use of NUMBER BED did not constitute unfair competition. (*Id.* at 8.)

False Advertising: At trial, Select Comfort alleged Defendants made 14 false statements. The jury found in favor of Select Comfort on the following statements:²

1. Personal Touch is Preferred 6 to 1 Over Sleep Number;³
2. Personal Comfort, or we, sold patents to Sleep Number (or Sleep Number purchased patents from Personal Comfort, or us);
3. Sleep Number bed parts are not replaceable or changeable (e.g. Sleep Number bed chambers or

² The jury found in favor of Defendants (no liability) on the remaining statements.

³ This statement was made by DigiCraft Agency, LLC and/or Direct Commerce, LLC d/b/a Personal Touch Beds.

foam are not replaceable or changeable).

4. Sleep Number paid Personal Comfort not to compete or to manufacture mattresses.

5. Personal Comfort is FDA regulated/certified/approved or Personal Comfort sells FDA registered mattresses.

6. Personal Comfort is owned and operated by a FDA registered medical device manufacturing company.

7. Personal Comfort beds come with “no sales tax” or are “tax free.”

(*Id.* at 13-56.) The jury found that statements 1, 2, and 3 were made with an intent to deceive consumers. (*Id.* at 14, 24, 31.) The jury found that the remaining false statements were made with no intent to deceive customers.

Counterclaim: In considering Defendants’ Counterclaim, the jury determined that Select Comfort does *not* have trademark rights in NUMBER BED. (*Id.* at 66.)

Damages: The jury found that Select Comfort did not suffer lost profits as a result of Defendants’ conduct, but did find that Defendants obtained a wrongful benefit in the amount of \$155,721. (*Id.* at 65 (\$120,812 attributed to Dires and \$34,909 attributed to Direct Commerce).)

The matter is now before the Court on the parties’ post-trial motions.

DISCUSSION

I. Select Comfort's Renewed Motion for Judgment as a Matter of Law, to Amend the Verdict, and/or for a New Trial

Select Comfort moves for judgment as a matter of law, to alter or amend the verdict, and/or to grant a new trial. In support, Select Comfort argues that the Court committed several prejudicial errors. Defendants oppose the motion, arguing that the Court did not commit any legal error and, even if it did, any such error did not prejudice Select Comfort.

A. Legal Standards

A court may render judgment as a matter of law when “a party has been fully heard on an issue during a jury trial and the court finds that a reasonable jury would not have a legally sufficient evidentiary basis to find for that party on that issue.” Fed. R. Civ. P. 50(a). Under Rule 50, judgment as a matter of law is appropriate only if no reasonable jury could have returned a verdict for the nonmoving party. *Weber v. Strippit, Inc.*, 186 F.3d 907, 912 (8th Cir. 1999). In analyzing a Rule 50 motion, a court must consider the evidence in the light most favorable to the non-moving party, resolve all factual conflicts in the non-moving party's favor, and give the non-movant the benefit of all reasonable inferences. *Id.* “Judgment as a matter of law is proper when the record contains no proof beyond speculation to support the verdict.” *Heating & Air Specialists, Inc. v. Jones*, 180 F.3d 923, 932-33 (8th Cir. 1999). “A jury verdict will not be set aside unless there is a complete absence of probative facts to support a verdict.” *Walsh v. Nat'l Computer Sys., Inc.*, 332 F.3d 1150,

1158 (8th Cir. 2003) (quotation omitted).

Under Rule 59, a “court may, on motion, grant a new trial on all or some of the issues--and to any party ... after a jury trial, for any reason for which a new trial has heretofore been granted in an action at law in federal court.” Fed. R. Civ. P. 59(a). The standard for granting a new trial is whether the verdict is against “the great weight of the evidence.” *Butler v. French*, 83 F.3d 942, 944 (8th Cir. 1996). The Eighth Circuit explained that:

[A] trial court may not grant a new trial simply because the trial court would have found a verdict different from the one the jury found. This is certainly a necessary condition to granting a motion for new trial, but it is not a sufficient one. Rather, the trial court must believe, as we have already said, that the verdict was so contrary to the evidence as to amount to a miscarriage of justice.

Id. A new trial is also appropriate where legal errors at trial result in a miscarriage of justice. *Gray v. Bicknell*, 86 F.3d 1472, 1480-81 (8th Cir. 1996). Evidentiary errors warrant a new trial only when “the cumulative effect of the errors is to substantially influence the jury’s verdict.” *Williams v. City of Kan. City, Mo.*, 223 F.3d 749, 755 (8th Cir. 2000). A new trial also may be ordered if the Court erred in instructing the jury on the applicable law. *T.H.S. Northstar Assocs. v. W.R. Grace & Co.-Conn.*, 860 F. Supp. 640, 650 (D. Minn. 1994), *vacated on other grounds*, 66 F.3d 173 (8th Cir. 1995). The Court, however, has broad discretion in framing instructions and need not give every proposed instruction provided that the court adequately presents the law and the issues to the jury. *Fleming v. Harris*, 39 F.3d

905, 907 (8th Cir. 1994). Moreover, the instructions are to be considered in their entirety to determine whether, when read as a whole, the charge fairly and adequately submits the issues to the jury. *Id.* “A single erroneous instruction will not necessarily require reversal.” *Id.* The harmless error rule applies to jury instructions. *Laubach v. Otis Elevator Co.*, 37 F.3d 427, 429 (8th Cir. 1994).

“[D]istrict courts enjoy broad discretion in choosing whether to grant a new trial.” *Pulla v. Amoco Oil Co.*, 72 F.3d 648, 656 (8th Cir. 1995). A district court reviewing a motion for a new trial is “not free to reweigh the evidence and set aside the jury verdict merely because the jury could have drawn different inferences or conclusions or because [the court] feel[s] that other results are more reasonable.” *Fireman’s Fund Ins. Co. v. Aalco Wrecking Co., Inc.*, 466 F.2d 179, 186 (8th Cir. 1972) (citation omitted).

A motion to amend under Federal Rule of Civil Procedure 59(e) serves the “limited function of correcting manifest errors of law or fact or to present newly discovered evidence.” *United States v. Metro. St. Louis Sewer Dist.*, 440 F.3d 930, 933 (8th Cir. 2006) (internal quotation marks omitted). A Rule 59(e) motion is not a vehicle to introduce new evidence, tender new legal theories, or raise arguments that could have been offered or raised before the Court entered judgment. *Id.*

B. Trademark Infringement

Select Comfort argues that the Court made the following prejudicial errors that require amending the verdict or granting a new trial on its trademark infringement claims: (1) disallowing Select Comfort

from pursuing an initial interest claim; (2) applying the wrong standards and burdens under the Lanham Act in jury instructions; and (3) allowing Defendants' bed demonstration. In addition, Select Comfort argues that despite these errors, it offered overwhelming evidence that Defendants used Select Comfort's marks (or similar words/phrases) in a manner likely to cause customer confusion as to the source of sponsorship of the goods and, therefore, that the jury's verdict on the trademark infringement claims was contrary to this evidence.

1) Initial Interest Confusion Doctrine

Select Comfort first argues that the Court erred by not allowing it to pursue an initial interest claim. Select Comfort argues that it should have been allowed to pursue the theory that significant confusion at the initial point that consumers viewed on-line advertisements is all that was required to establish liability under the Lanham Act, and that it was error to instruct the jury that a showing of a likelihood of confusion at the time of purchase was required. Defendants argue that the Court's rulings on the initial interest doctrine were correct.

In its order granting in part and denying in part the parties' motions for summary judgment, the Court held that Select Comfort's trademark infringement claim requires a showing of a likelihood of confusion at the time of purchase. In so holding, the Court explained that in *Sensient Techs. Corp. v. SensoryEffects Flavor Co.*, 613 F.3d 754, 766 (8th Cir. 2010), the Eighth Circuit declined to formally adopt the "initial interest confusion" doctrine and explained that "even if the doctrine applied generally in this circuit, it would not apply" where, "although the

products are similar, ... the customers are sophisticated and exercise a relatively high degree of care in making their purchasing decisions.” *Id.* As explained previously, the initial interest doctrine would not apply to the facts of this case because the beds at issue were purchased on-line and are expensive, suggesting that consumers would exercise a high degree of care in making any such purchase. The Court discerns no error in its ruling on initial interest confusion. Importantly, the Court notes that it did not hold that initial interest confusion was irrelevant to the issue of whether there was a likelihood of confusion (or that the jury could not consider evidence of such confusion), but only that such confusion *alone* would not result in liability. Moreover, Select Comfort’s theory of liability in this case centers on the contention that Defendants capitalize on consumers being confused *initially* at the point-of-click on-line, thus diverting the consumers to Defendants’ website and then fostering that confusion and/or replacing it with false claims. Select Comfort was free to submit evidence of point-of-click confusion to support a showing of likelihood of confusion between the purchasing alternatives at the time of purchase. In addition, Select Comfort separately asserted false advertising claims, some of which were successful at trial.

2) Jury Instructions

Similarly, based on its arguments regarding the initial interest confusion doctrine, Select Comfort argues that the Court applied the wrong standards and burdens under the Lanham Act in its jury instructions. Specifically, Select Comfort argues that: the jury instructions improperly restricted the jury to

determining whether there was a likelihood of confusion at the time of purchase; without a definition of “time of purchase,” the jury understood that consumers must actually purchase Defendants’ products while confused; the Court should have instructed the jury that confusion occurring at other points in the sale and service process is relevant to whether confusion is likely to occur at the time of purchase; the Court should have indicated that actionable confusion includes confusion as to where consumers can purchase a product; and because Defendants’ survey expert indicated that the “essence” of confusion is source confusion, without a corrective instruction, the jury was left believing that actionable confusion is limited to source confusion. Further, with respect to the issue of abatement, Select Comfort argues that if at any point it showed a likelihood of confusion (including initial interest confusion), the burden shifted to Defendants to show by clear and convincing evidence that efforts to abate confusion were successful. Finally, Select Comfort contends that the Court erred by not instructing the jury on “actionable” confusion or providing a definition of “appreciable.”

In relevant part, the Court offered the following instructions to the jury:

PLAINTIFFS’ CLAIM OF TRADEMARK INFRINGEMENT

Plaintiffs claim that Defendants’ advertising constitutes trademark infringement. Plaintiffs have the burden of proving infringement by a preponderance of the evidence.

The Lanham Act recognizes a cause of action for

infringement of a federally registered mark where use of a mark is likely to cause confusion, mistake, or deception. *To establish trademark infringement, the owner of a trademark must demonstrate that the defendant's alleged infringing was likely to cause confusion among consumers regarding the origin, sponsorship, affiliation or approval of the defendant's product.*

For their claims that Defendants infringed their trademarks, Plaintiffs must prove by a preponderance of the evidence that Defendants used Plaintiffs' trademarks or a similar word or phrase in connection with a product and that use is likely to cause confusion as to the origin, sponsorship, affiliation or approval of the product. The core element of trademark infringement is whether Defendants' use of a term creates a likelihood that the consuming public will be confused. Plaintiffs must prove that a likelihood of confusion is probable, not merely possible.

LIKELIHOOD OF CONFUSION FACTORS

In determining whether there is a likelihood of confusion at the time of purchase, you may consider the following six factors:

1. the strength of the trademark;
2. the similarity between Plaintiffs' trademark and the allegedly infringing term or terms;
3. the degree to which the allegedly infringing product competes with Plaintiff's products;
4. whether Defendants intended to confuse the public;

5. the degree of care reasonably expected of potential customers and the type of product, its cost, and conditions of purchase; and
6. evidence, if any, of actual confusion.

However, no one factor should control the outcome of your analysis. The factors guide the analysis, but the ultimate determination of whether confusion at the time of purchase is likely is not to be mechanically determined through rigid application of the factors. The ultimate inquiry always is whether, considering all of the circumstances, a likelihood exists that consumers, at the time they are purchasing Defendants' product, will be confused. The factors are useful only to the extent they answer the ultimate question. The question to be answered is whether an appreciable number of relevant consumers are likely to be confused.

Plaintiffs must prove a likelihood of confusion at the time of purchase. Your analysis of whether Plaintiffs have established likelihood of confusion at the time of purchase must occur in a context that recognizes how consumers encounter the products and how carefully consumers are likely to scrutinize the words at issue.

If you find by a preponderance of the evidence that Plaintiffs have proved a likelihood of confusion at the time of purchase, then and only then may you find Defendants liable for trademark infringement. You will then consider the question of damages under separate instructions. (Doc. No. 568 ("Jury Instructions") at 14-16 (emphasis added).)

The jury was not instructed that a showing of a

likelihood of confusion at the “time of purchase” required proof that customers actually purchased beds while confused. The instruction specifically stated that Select Comfort was required to prove *a likelihood of confusion* at the time of purchase. The Court did not preclude Select Comfort from offering evidence of confusion at any stage of interest up to the point of sale and arguing that any early confusion persisted. As explained above, the Court ruled that initial interest confusion, in this case, was not enough *alone* to prevail. Select Comfort was free to, and indeed did, argue that confusion at an earlier point of the process was relevant to whether consumers were likely to be confused at the time of purchase. Moreover, the record contains testimony at trial discussing different “points-of-sale,” including Defendants’ call centers and website. Further, because the Court determined that Select Comfort must demonstrate a likelihood of confusion at the time of purchase, an abatement instruction would have been inconsistent.

As to Select Comfort’s argument that the Court’s failure to issue an instruction stating that actionable confusion includes confusion as to where a consumer can purchase a product, the Court points to the following language of the jury instructions:

For their claims that Defendants infringed their trademarks, Plaintiffs must prove by a preponderance of the evidence that Defendants used Plaintiffs’ trademarks or a similar word or phrase in connection with a product and that use is likely to cause confusion *as to the origin, sponsorship, affiliation or approval of the product*. The core element of trademark infringement is

whether Defendants' use of a term creates a likelihood that the consuming public will be confused.

This is a correct statement of the law on confusion and does not limit "actionable confusion" to source confusion. Finally, the Court rejects Select Comfort's argument that the jury could not know the meaning of "appreciable" without a specific instruction.

For the above reasons, the Court discerns no errors in its instructions that would warrant the relief sought by Select Comfort. And if there was an error, there has been no showing that such an error was prejudicial, particularly when the instructions are read as a whole.

3) Bed Demonstration

During trial, the Court allowed Craig Miller, Manager of Dires, LLC, to put together 2017 models of a Personal Comfort A8 bed and a Sleep Number i8 bed for demonstrative purposes. Select Comfort contends that the Court erred in allowing the use of these demonstratives because the testimony was undisclosed in discovery, the testimony was the equivalent of expert testimony, and the bed models used were not the those at issue in this case, making Miller's testimony irrelevant, prejudicial, and inadmissible.

The Court disagrees. First, the Court has broad discretion to permit the use of demonstrative evidence at trial. Here, the use of the bed models was for demonstrative purposes only. The beds were not admitted into evidence and the jury did not have the opportunity to inspect them. Miller's testimony

regarding the bed models was lay, not expert, testimony. The Court indicated it would not allow expert testimony and Miller did not offer any ultimate opinions regarding the beds or their quality. In addition, the Court gave a limiting instruction both before the testimony and in the final instructions. Specifically, at trial, the Court instructed the jury as follows:

Before I begin I'm actually going to give you a short instruction that actually was part of my opening instructions. There's certain demonstrative exhibits in trials that may be shown to you in order to help explain the case. And demonstrative exhibits are used for your convenience and for the parties. In this case, even though these beds are not the actual beds—and the lawyers will discuss any similarities and differences—from the relevant timeframe, and they are not themselves evidence or proof of any facts. So if they do not correctly reflect the facts shown by evidence in the case, you should disregard these demonstrative exhibits and determine the facts from the underlying evidence. However, as a demonstrative exhibit they are used for convenience in order to help explain aspects of the case.

(Trial Tr. Vol. VII at 1719-20; *see also* Jury Instructions at 4.) Miller also testified that the demonstrative beds were 2017 models and, while recognizing that the relevant damages period in this case was September 2012 through December 2014, Miller also explained the differences between prior models and the 2017 model. This testimony provided background information that was helpful to the jury. The Court concludes that there was no error allowing Miller's testimony and the use of demonstratives.

4) Jury's Trademark Infringement Verdict

At the end of trial, the jury returned a verdict for Defendants on every one of Select Comfort's trademark infringement claims. Select Comfort argues that this verdict was contrary to the evidence because Select Comfort offered overwhelming evidence that Defendants used Select Comfort's marks—or similar words/phrases—in a manner likely to cause customer confusion as to the source or sponsorship of goods.

Specifically, Select Comfort argues that it presented significant evidence of: (1) actual customer confusion, including dozens of examples of confusion at the time customers purchased Defendants' products and consumer survey evidence that Defendants' use of Select Comfort's trademarks in their pay-per-click ads confused a significant percentage of customers; (2) Defendants' intent to confuse (thus raising an inference of likelihood of confusion); (3) similarity between the marks; (4) strength of their own marks; (5) direct competition between the parties' products; and (6) the degree of care used by customers (namely a lack of evidence that online bed shoppers utilize enhanced care when purchasing).

Defendants argue that the evidence offered at trial supported the jury's verdict on trademark infringement. In particular, Defendants submit that the evidence presented to the jury established that: (1) Select Comfort's marks are weak; (2) Defendants do not use Select Comfort's marks as they are registered, thus showing a lack of similarity; (3) there is a substantial difference between the selling channels of the parties; (4) there was a lack of evidence of intent to deceive; (5) Select Comfort failed

to show a likelihood of confusion at the time of purchase by a legally cognizable number of consumers; and (6) Select Comfort failed to show that they were damaged by Defendants' conduct. Defendants argue that the above evidence undercuts any likelihood of confusion.

Having carefully reviewed the record in this case, and considering the evidence in the light most favorable to Defendants, the Court concludes that Select Comfort is not entitled to judgment as a matter of law on the issue of trademark infringement. Instead, based on the evidence in the record, a reasonable jury could conclude that Select Comfort failed to demonstrate a likelihood of confusion. Indeed, the evidence at trial could have reasonably led the jury to conclude, among other things, that Select Comfort's trademarks are weak; that the selling channels used by the parties are substantially different—with Select Comfort selling their bed primarily in stores and using their website primarily to drive consumers to their stores, while Defendants sell exclusively online or over the phone; and that the evidence at trial failed to show a likelihood of confusion at the time of purchase by a legally cognizable number of consumers.

Based on the above, the Court concludes that there is a sufficient evidentiary basis for the jury's verdict on trademark infringement. Therefore, Select Comfort's motion for judgment as a matter of law is properly denied. Moreover, none of the alleged errors of law that Select Comfort argues occurred at trial warrant a new trial on the issue of trademark infringement. In addition, Select Comfort has failed to show that a new trial is required to avoid a miscarriage of justice.

Instead, the verdict is supported by substantial evidence, and Select Comfort's motion is respectfully denied.

C. Trademark Dilution

As to Select Comfort's trademark dilution claim, the jury found that the SLEEP NUMBER mark is famous, but that Defendants' advertising did not dilute the mark. (Special Verdict at 6.) Select Comfort moves to amend the verdict or for a new trial on its trademark dilution claim, arguing that the jury appropriately found the Sleep Number mark to be famous, but erred by finding no liability for dilution despite evidence of blurring and tarnishing. In addition, Select Comfort argues that the Court gave an inaccurate jury instruction that Defendants' counsel prejudicially referred to during closing argument.

The Court concludes that the jury's determinations that SLEEP NUMBER is famous and that Defendants did not dilute the mark are both supported by the evidence, and therefore the verdict is not against the "great weight of evidence" so as to amount to a miscarriage of justice. Accordingly, Select Comfort's motion for a new trial and to amend the verdict on the trademark dilution claim is denied.

Select Comfort also argues that the Court erred in a jury instruction that references "free-riding" and that Defendants prejudicially referred to the instruction during the closing statement. The portion of the jury instruction that Select Comfort refers to reads as follows:

Whether the user of the similar terms intended to

create an association with the famous trademark. Evidence of Defendants' intent could be probative of the fact that such an association exists. However, such evidence does not create a presumption or admission of actual association. There must also be injury to the famous trademark. Anti-dilution law does not prohibit free-riding.

(Jury Instructions at 40.) Importantly, the full text of the Jury Instructions on dilution, blurring, and tarnishing clearly places the burden on Select Comfort to establish "injury to the famous trademark." In addition, the Court fully instructed the jury on both "blurring" and "tarnishing." (*Id.* at 40, 41.) These instructions are proper. And as to Defendants' reference to "free-riding" at closing, the Court notes that Select Comfort did not object at the time and, therefore, has waived the objection. *See Vang v. Prataya*, Civ. No. 12-1847, 2017 WL 3732106, at *2 (D. Minn. Aug. 29, 2017). Even so, in light of the full instructions on dilution, there was no prejudice.

D. Defendants' Counterclaim

At trial, the jury also considered Defendants' counterclaim that NUMBER BED is generic or descriptive and not capable of functioning as a trademark. The jury determined that Select Comfort does not have trademark rights in NUMBER BED. (Special Verdict at 66.) Because the jury made this finding, it did not answer the questions of whether NUMBER BED was generic or descriptive, or whether the mark has secondary meaning. (*Id.*)

Select Comfort argues that the Court erred by failing to place the burden of proof on Defendants to establish that NUMBER BED is generic or

descriptive and by refusing to issue Select Comfort's requested jury instruction that trademark rights can be created through the public's use of a shorthand of a mark. In addition, Select Comfort argues that the jury's verdict on Defendants' counterclaim was contrary to the evidence because the evidence at trial confirmed that NUMBER BED is associated with a single source—Sleep Number. Specifically, Select Comfort points to the evidence of a secondary meaning survey demonstrating that nearly half of respondents associated NUMBER BED with a single company, that a substantial number of respondents identified that company as Sleep Number or Select Comfort, and that of those stating an opinion, 84% identified NUMBER BED as associated with a single company. Select Comfort also points to expert testimony explaining that the above results are indicative of secondary meaning. Select Comfort argues that the evidence at trial demonstrates that NUMBER BED is not a category and that the phrase did not exist until Select Comfort coined and heavily marketed Sleep Number. Select Comfort maintains that Defendants, their manufacturer, and customers refer to the category of products as "air beds," "adjustable air beds," or "air mattresses," and not "number beds." In light of the above, Select Comfort requests that the Court grant judgment as a matter of law, amend the verdict, or grant a new trial on Defendants' counterclaim.

Defendants argue that the jury instructions regarding their counterclaim correctly outlined the burden of proof and that the jury's verdict that Select Comfort does not have trademark rights in NUMBER BED was supported by the evidence at trial. Defendants cite to: evidence that Select Comfort

never sought to register “number bed”; testimony that Select Comfort did not use “number bed” standing alone to promote its products; and evidence that Select Comfort’s advertising agency did not monitor use of “number bed” for trademark violations. Defendants also cast doubt on Select Comfort’s secondary meaning survey, pointing out that: the survey showed that the majority of relevant consumers (52%) did not associate “number bed” with any one company; the survey participants who did associate the phrase with one company were not asked to identify that company; Select Comfort’s Vice President of Media testified that a different internal survey showed the number of people that recognized the phrase “number bed” was less than 1%. Moreover, Defendants point to evidence that many competitors of Select Comfort used the phrase “number bed” in commerce and advertisements.

The Court instructed the jury on “Obtaining a Trademark” as follows:

A person acquires the right to exclude others from using a trademark by being the first to use the trademark in the marketplace. Rights in a trademark are obtained through commercial use of the trademark. *In order to obtain rights in a trademark, the person must use the term, device, or symbol to identify the source or origin of their goods.*

(Jury Instructions at 12 (emphasis added).) Based on the jury’s determination that Select Comfort did not have any trademark rights in NUMBER BED, it never reached the issue of whether the mark was generic or descriptive. The Court discerns no error regarding its explanation of the acquisition of trademark rights. Defendants are correct in noting

that “use as a trademark is essential and is a gateway requirement ... [and i]f a designation is not used as a mark, then it cannot possibly achieve a secondary meaning and trademark status.” J. Thomas McCarthy, *McCarthy on Trademarks & Unfair Competition* § 3.4 (4th ed. 2015).)

Considering the evidence in the light most favorable to Defendants, and resolving any factual conflicts in their favor, the Court concludes that there was ample evidence to support a reasonable finding by the jury that Select Comfort has no trademark rights in NUMBER BED and the finding was not against the great weight of evidence. Accordingly, the Court respectfully denies Select Comfort’s motion as to the jury’s finding on Defendants’ counterclaim.

E. Select Comfort’s Unfair Competition Claim

The jury found in favor of Defendants on Select Comfort’s unfair competition claims regarding Defendants’ use of NUMBER BED. (Special Verdict at 8.) Select Comfort argues that it proved that Defendants’ use of NUMBER BED constitutes unfair competition because regardless of whether NUMBER BED is registered, or registerable, there was substantial evidence that the mark has acquired secondary meaning, consumers associated it with one source, and Defendants’ use causes customer confusion. Accordingly, Select Comfort maintains that it is entitled to an amended verdict in its favor on this claim or a new trial.

Defendants argue that Select Comfort’s unfair competition claim was properly rejected by the jury for the same reasons with respect to Defendants’ counterclaim above. The Court agrees. The jury’s

verdict on the unfair competition claims stands for the same reasons stated above with respect to Defendants' counterclaim, namely that there is sufficient evidence to support the jury's verdict that Select Comfort does not have trademark rights in NUMBER BED.

F. Select Comfort's False Advertising & MDTA Claims

To prevail on a claim under the false or deceptive advertising prong of the Lanham Act, a plaintiff must show:

(1) a false statement of fact by the defendant in a commercial advertisement about its own or another's product; (2) the statement actually deceived or has the tendency to deceive a substantial segment of its audience; (3) the deception is material, in that it is likely to influence the purchasing decision; (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 of the false statement, either by direct diversion of sales from itself to defendant or by a loss of goodwill associated with its products.

United Indus. Corp. v. Clorox Co., 140 F.3d 1175, 1180 (8th Cir. 1998). A false statement falls into two categories: "(1) commercial claims that are literally false as a factual matter; and (2) claims that may be literally true or ambiguous but which implicitly convey a false impression, are misleading in context, or likely to deceive consumers." *Id.* "The standard for proving literal falsity is rigorous" and "only an *unambiguous* message can be literally false." *Buetow v. A.L.S. Enters.*, 650 F.3d 1178, 1185 (8th Cir. 2011)

(citation omitted) (emphasis in original). A literal falsity argument fails when an advertisement can reasonably be understood as conveying different messages. *Id.* If a statement is literally false, no extrinsic evidence of consumer deception is required. *Time Warner Cable, Inc. v. DIRECTV, Inc.*, 497 F.3d 144, 158 (2d Cir. 2007). When a claim is not literally false, but misleading, proof that the advertising actually conveyed the implied message and deceived a significant portion of the recipients is critical, and the success of such a claim normally turns on consumer survey evidence. *United Indus. Corp.*, 140 F.3d at 1182-83.

Select Comfort asserts that certain aspects of the jury's verdict on the false advertising claims are contrary to the evidence. For example, as to the statements that the jury found no liability, Select Comfort argues there is evidence that the statements were literally false or that they were misleading.⁴ Specifically, Select Comfort asserts that Craig Miller, Manager of Dires, LLC, admitted that the statements are "false" or "literally false." These five statements are: (1) "Personal Comfort is Preferred 6 to 1 over Sleep Number" (the jury found that this statement was not disseminated in commercial advertising); (2) Personal Comfort was, or we were, involved in designing or developing Sleep Number beds; (3) Personal Comfort has, or we have, been in the business since the 1970's and/or longer than Sleep Number; (4) Personal Comfort beds are "medical grade"; and (5) Personal Comfort beds are Made in the USA. Select Comfort argues that because Miller

⁴ The same arguments and evidence pertain to Select Comfort's MDTPA claim.

admitted that the above five statements are literally false, the jury should have found as much and applied the presumptions that go along with such a finding.

In addition, Select Comfort takes issue with four additional statements for which the jury did not find liability. Select Comfort argues that: (1) the claim that “Personal Comfort is preferred over Sleep Number” is false because there is no substantiation for that claim; (2) it is false or misleading to say that Personal Comfort beds are an upgraded version of Sleep Number beds because they are, in fact, not a version of Sleep Number beds; (3) it is false or misleading to state or suggest that Defendants sell Number Beds because customers associate Number Bed with Sleep Number; and (4) the jury improperly determined that Defendants overcame the presumption of deception as to its claim that Personal Beds are “identical” to or the “same” as Sleep Number beds because Defendants did not offer actual evidence to overcome the presumption. Select Comfort argues that evidence at trial shows that Defendants made the above statements numerous times to customers over the phone, in e-mail, through live-chat, and on Defendants’ website; the statements are likely to deceive; the statements are material; and the statements are likely to injure Select Comfort. Based on these arguments, Select Comfort submits that the Court should grant its motion for judgment as a matter of law, or to amend the verdict—finding liability, including individual liability, and willfulness—or to grant its motion for a new trial.

Defendants oppose Select Comfort’s motion on the false advertising claims. First, Select Comfort

reiterates that false statements fall into one of two categories: (1) commercial statements or claims that are literally false; and (2) statements that may be literally true, but which implicitly convey a false impression, or are misleading in context or are likely to deceive consumers. In addition, Defendants reiterate that to establish falsity under the second category, a plaintiff must establish that the challenged statement actually deceived a significant portion of the recipients by reliable consumer survey evidence. Defendants argue that Select Comfort did not produce viable consumer survey evidence showing actual consumer deception and, therefore, that it must prove literal falsity. Defendants further submit that despite Miller's testimony on cross-examination, Select Comfort's literal falsity argument fails because the statements could be reasonably understood as conveying different messages. Moreover, Defendants submit that Select Comfort failed to establish that the statements actually deceived or tended to deceive a large segment of its audience. Defendants further argue that, even if Select Comfort had established literal falsity, they would still have to (and did not) demonstrate that the statements were material—that they were likely to influence buying decisions or that Select Comfort suffered any damages attributable to the allegedly false statements.

With respect to damages, Defendants submit that Select Comfort failed to offer evidence of causation (evidence to suggest that sales were made because of the statements or evidence that any consumers felt misled) or proof of economic or reputational injury flowing from any false statement (that the statements were material). Defendants submit that the evidence at trial supported the jury's verdict that

Defendants cause little, if any, damage to Select Comfort. Finally, Defendants submit that the Select Comfort failed to submit evidence to demonstrate that Defendants willfully intended to engage in false advertising.

The Court has carefully reviewed the record and the parties' respective arguments. Considering the evidence in the light most favorable to Defendants, and resolving any factual conflicts in their favor, the Court concludes that there was ample evidence to support the jury's reasonable findings on the false advertising claims. Accordingly, the jury's findings are not against the great weight of evidence. Therefore, the Court respectfully denies Select Comfort's motion as to the jury's findings on the false advertising claims.

G. Additional Alleged Errors

Select Comfort argues that the Court committed four additional prejudicial errors of law that justify the granting of its motions. These alleged errors include: (1) inappropriately allowing the admission of certain exhibits and testimony, including testimony on Select Comfort's search engine optimization ("SEO") efforts and keyword purchasing, Select Comfort's enforcement efforts, and complaints regarding Sleep Number beds; (2) refusing to allow Select Comfort's summary exhibits detailing confusion and false advertising into the jury deliberation room; (3) not sufficiently answering the jury's question regarding whether Defendants' use of NUMBER BED constituted false advertising because the Court did not explain that the jury could consider how Defendants' use NUMBER BED in the full context of

their ads; and (4) allowing Defendants' counsel to introduce websites, documents, and statements outside of the record, culminating in an improper closing argument.

The Court finds no merit to any of the above arguments. First, the Court noted that it would allow the parties to educate the jury on SEO as background information, but that it would also prohibit any characterization of such evidence as "unclean hands or misconduct." In addition, while evidence of other litigation was to be presumptively inadmissible, Select Comfort opened the door on this evidence. Second, the Court enjoys broad discretion in determining which exhibits to—or not to—allow into the jury deliberation room. Further, Select Comfort has not demonstrated any prejudice resulting from the exclusion of its summary exhibits. Third, the Court answered the jury's question regarding Defendants use of NUMBER BED as follows:

QUESTION:

P. 60 Q1:

Is Defendant's use of the phrase NUMBER BED in its advertising a false or misleading claim that Defendants sell Sleep Number beds?

Q: Is the phrase in question to be considered on its own, or in conjunction with other words? i.e., "Sleep 50% Off Number Bed."

ANSWER:

The phrase in question should be considered by you, the jury, based upon your evaluation of all of the evidence in the case, consistent with the Court's

jury instructions, including the jury instructions relating to False Advertising.

(Doc. No. 577.) The false advertising jury instructions, in turn, explained, among other things, that in considering what constitutes a “false statement” the jury should consider the context. (Jury Instructions at 44-45.) Fourth, Select Comfort did not object to any references to any improperly introduced websites, documents, or statements during Defendants’ closing. And the Court issued a curative instruction at trial with respect to a reference to testimony that was not introduced at trial. The Court concludes that none of the above constitutes prejudicial error.

II. Select Comfort’s Motion to Increase the Damages Award

Under the Lanham Act, a successful plaintiff may recover, “subject to the principles of equity” any damages sustained by the plaintiff, defendant’s profits, and the costs of the action. 15 U.S.C. § 1117(a). In addition, a court may “enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount.” *Id.* And if a court “find[s] that the amount of the recovery based on profits is either inadequate or excessive, the court may, in its discretion, enter judgment for such sum as the court shall find to be just, according to the circumstances of the case.” *Id.* Any such sum “shall constitute compensation and not a penalty.” *Id.*; see also *Metric & Multistandard Components Corp. v. Metric’s, Inc.*, 635 F.2d 710, 715 (8th Cir. 1980); *Wildlife Research Ctr., Inc. v. Robinson Outdoors, Inc.*, 409 F. Supp. 2d 1131, 1135 (D. Minn. 2005)

(explaining that the court has “broad discretion to award monetary relief ‘necessary to serve the interests of justice’”).

At trial, the jury considered Select Comfort’s trademark infringement, trademark dilution, false advertising, unfair competition and related state-law claims. Ultimately, the jury found in favor of Defendants on all claims except for a portion of Select Comfort’s false advertising and MDTPA claims. Specifically, Select Comfort prevailed on its false advertising claims against Defendants with respect to seven asserted false statements. The jury also determined that three of these statements were made “deliberately” and “with the intent to deceive consumers.”⁵ The jury then awarded Select Comfort \$155,721 in damages (\$120,812 attributable to Dires and \$34,909 attributable to Direct Commerce). (Special Verdict at 65.)

Select Comfort contends that that the jury’s award is inadequate and asks the Court to exercise its equitable power to increase the award. In support, Select Comfort argues the following points: (1) Defendants advertise using Select Comfort’s trademarks and similar words or phrases to trick customers and to divert them to their website; (2) Defendants knowingly engaged in rampant false advertising to convince customers (confused or not) to buy their products instead of Select Comfort’s; and (3)

⁵ Select Comfort also argues that Craig Miller admitted that a number of other statements on the Special Verdict were false, but that the jury “inexplicably” did not find liability for those statements. However, as discussed above, there was sufficient evidence for the jury to make those findings on Select Comfort’s false advertising claims.

Defendants' false statements deceived and influenced customers, causing them to buy Defendants' products. Further, Select Comfort asserts that the damage award must be based on Defendants' sales, rather than profits, because Defendants did not introduce evidence of costs. Select Comfort argues that the jury's damages award is only based on a small amount of sales and does not account for all of Defendants' profits, as required by the Lanham Act, subject to principles of equity. At a minimum, Select Comfort argues that the damages award must account for Defendants' profits on 4,228 beds sold.

Select Comfort also argues that the jury's damage award fails to account for all false statements in Defendants' sales calls during the entire damages period. Select Comfort submits that Defendants only produced records for eight months of Dires' phone calls, which represents only a snapshot of the sales calls involving false statements, yet the damages period for Dires covered 28 months and the damages period for Direct Commerce covered 12 months. In addition, Select Comfort argues that the damage award must include a calculation for false claims made through Defendants' websites, e-mail, and live chat.

Select Comfort encourages the Court to exercise its equitable and discretionary power to increase the damages award. Select Comfort emphasizes that in this case, the parties are direct competitors and that Defendants' advertising scheme is designed to target Select Comfort, trade off its goodwill and famous mark, and to convince customers to purchase Defendants' products instead of Select Comfort's. Moreover, to effect this scheme, Select Comfort

submits that Defendants engaged in illegal conduct and that the jury found that Defendants were liable for repeated use of seven false statements made to customers, three of which the jury determined were made “deliberately” and “with the intent to deceive.” Select Comfort submits that this scheme resulted in a windfall to Defendants and that Defendants gained an intangible benefit while Select Comfort suffered a reputational loss. Finally, Select Comfort argues that Defendants continue to make false statements in their advertising, demonstrating that the damages award was not a deterrent.

Defendants disagree and submit that substantial evidence supports the jury’s damages award. Such evidence includes, but is not limited to: testimony of the Vice President and Associate General Counsel for Select Comfort, Heather Somers, that Select Comfort was relying on their expert, Renee Marino, to demonstrate damages; Somers’ testimony that she could not recall the name of anyone who purchased a Personal Comfort bed as a result of any alleged false statement; Marino’s testimony that her opinions on damages were based on allegedly infringing advertisements and her explanation that she could not tie her opinions in any concrete way to damages arising from alleged false statements; testimony calling into question the foundation for certain information relied on by Marino in making her damages calculations; and evidence that other factors might have contributed to Select Comfort’s lost profits (such as alleged misconduct of other competitors, as well as separate strategic decisions by Select Comfort). Defendants also point to evidence that they submitted to demonstrate the lack of a causal link between Defendants’ conduct and Select

Comfort's alleged damages.

Here, Defendants argue that enhanced damages are not warranted because the jury found in favor of Defendants on the majority of Select Comfort's false advertising claims and because Select Comfort failed to prove a causal nexus between Defendants' alleged misconduct and Select Comfort's damages. As to the causal nexus, Defendants submit that Select Comfort offered a flawed damages theory devoid of credible evidence to demonstrate causation (that their business was harmed as a result of each of the false statements). Defendant also submits that the jury made most of its credibility determinations in favor of Defendants. Finally, Defendants argue that the jury's damages award adequately compensates Select Comfort.

The Court has carefully considered Select Comfort's motion and determines that there is sufficient evidence to support the jury's verdict. The jury based its decision on the evidence in the case and was properly permitted to make credibility determinations while weighing the evidence. The jury's damages award is reasonable and reasonably based on a fair reading of the evidence. The Court finds no reason to increase the award. The Court, therefore, respectfully denies Select Comfort's motion to increase the damages award.

III. Cross-Motions for Determination of Entitlement to Attorneys' Fees and Non-Taxable Expenses

Both Select Comfort and Defendants move for a determination of entitlement to attorneys' fees and

non-taxable expenses. In support of its motion, Select Comfort argues that it is the prevailing party on its Lanham Act and MDTPA claims. Select Comfort claims that it is entitled to attorneys' fees and costs under the Lanham Act because it established a Lanham Act violation and because this case is exceptional; and that it is entitled to the same under the MDTPA because it was the prevailing party and Defendants willfully engaged in a deceptive trade practice. More broadly, Select Comfort asserts that Defendants made false statements pervasively, deliberately, and willfully, and that Defendants' behavior is "beyond the pale" as they made numerous false statements about both their own product and Select Comfort's products.

Defendants, on the other hand, argue that they prevailed on Select Comfort's Lanham Act claims and, therefore, are the party entitled to an award of their attorneys' fees. Defendants submit that after protracted litigation, they defeated each of Select Comfort's central claims with a jury verdict in their favor on trademark infringement, trademark dilution, and unfair competition; that they incurred no liability for most of the asserted false statements; and that the jury awarded damages of less than 1% of what Select Comfort claimed and no lost profits as a result of Defendants' conduct. In addition, Defendants highlight that they prevailed on their counterclaim seeking declaratory judgment that Select Comfort has no rights in the phrase NUMBER BED. In sum, Defendants argue that Select Comfort's arguments in support of their motion run counter to the jury's verdict and reflect a failure to admit their defeat on the majority of claims in this case, plus a failure to acknowledge that the jury awarded only

nominal damages for the false advertising statements on which it prevailed.

The Lanham Act authorizes that a court “in exceptional cases may award reasonable attorney fees to the prevailing party.” 15 U.S.C. § 1117(a). An exceptional case within the meaning of the Lanham Act is one in which a party’s behavior went “beyond the pale” of acceptable conduct. *See Aromatique, Inc. v. Gold Seal, Inc.*, 28 F.3d 863, 877 (8th Cir. 1994). For example, a case may be exceptional when a case is groundless, unreasonable, vexatious, or pursued in bad faith. *Id.* (citation omitted); *see also Scott Fetzer Co. v. Williamson*, 101 F.3d 549, 556 (8th Cir. 1996). Or, a case may be exceptional when a defendant willfully engaged in a deceptive practice. *See Scott Fetzer Co.*, 101 F.3d at 556; *Metric & Multistandard Components Corp.*, 635 F.2d at 716 (citations omitted).

The Court first considers which side is the “prevailing party.” In doing so, the Court considers two factors: (1) whether the party “received at least some relief on the merits”; and (2) whether that relief materially altered the legal relationship between the parties “by modifying one party’s behavior in a way that ‘directly benefits’ the opposing party.” *SSL Servs., LLC v. Citrix Sys., Inc.*, 769 F.3d 1073, 1086 (Fed. Cir. 2014) (considering prevailing parties in a patent case). Here, both parties can claim to have prevailed on certain aspects of this case. For example, Select Comfort prevailed on its false advertising and MDTPA claims as they relate to seven false statements. However, Defendant prevailed on Select Comfort’s claims of trademark infringement, trademark dilution, unfair competition, as well as

Select Comfort's false advertising claims as they relate to the remaining asserted statements. The Court determines that because each party prevailed on certain claims, they are both prevailing parties in part. The Court further determines that each party should, therefore, bear responsibility for their own costs in this action. In addition, regardless of who prevailed, the Court concludes that this case is not exceptional and, therefore, will not award attorneys' fees to either party. Instead, each side will bear responsibility for their own attorneys' fees. The Court acknowledges that under the MDTPA, there is no requirement that a case be "exceptional" to award fees. Even so, principles of equity require that each party bear their own costs in this case.

IV. Select Comfort's Motion for an Injunction

Select Comfort moves for an injunction as a remedy for the false advertising claims it prevailed on at trial under the Lanham Act and the MDTPA. Both the Lanham Act and the MDTPA permit injunctive relief where there is an adequate remedy at law when an injunction will protect against continuing acts of false advertising. *See Wildlife Research Ctr. v. Robinson Outdoors, Inc.*, 409 F. Supp. 2d at 1138-39 (citing *Black Hills Jewelry Mfg. Co. v. Gold Rush, Inc.*, 633 F.2d 746, 753 n.7 (8th Cir. 1998).)

Here, the jury determined that Defendants are liable for several false statements, including statements that: (1) Defendants sell FDA registered mattresses; (2) their beds are tax-free; and (3) that Select Comfort's bed parts are not changeable or replaceable. Select Comfort asserts that the evidence introduced at trial established that Defendants' false

advertising was pervasive, deliberate and willful. Moreover, Select Comfort argues that the false advertising did not stop after the trial and that, without the Court's intervention, Defendants' behavior will continue. Specifically, Select Comfort argues that Defendants' website and social media accounts currently feature false statements related to the trial and its outcome. For example, in their opening brief, Select Comfort points to videos in which Defendants claim that "12 out of 12 jurors agreed" their A8 bed is superior to Sleep Numbers i8 bed and that "Jurors agreed we have the better bed!"

In its proposed order, Select Comfort seeks an injunction relating to the statements found by the jury to constitute false advertising. However, Select Comfort bases its motion on post-trial statements made by Defendants that were not at issue at trial.⁶ Thus, Select Comfort has not demonstrated the existence of a risk that Defendants will continue to make any of the statements that were determined to be false at trial. Indeed, Craig Miller affirmed that the false statements attributed to Defendants have been stopped and that Defendants will not make those statements in the future. (Doc. No. 660.) The Court respectfully denies Select Comfort's motion for an injunction.

⁶ In their reply, Select Comfort asserts that Defendants' website contains certain false statements in a comparison chart, such as that its bed is FDA approved, there are no sales taxes outside of Florida, and that its bed has interchangeable parts. Select Comfort argues that these statements are "eerily similar" to the statements found to be false at trial. However, because these statements were not raised in their moving papers, the Court does not consider them.

V. Defendant's Motion for a Judgment as a Matter of Law and for a New Trial

Defendants move for judgment as a matter of law and for a new trial with respect to the false advertising claims on which Select Comfort prevailed. In addition, Defendants move on the Court's denial of Defendants' request to offer evidence of the genericness of Select Comfort's trademarks, as well as Select Comfort's inability to establish: (1) a causal nexus between alleged misconduct and damages; (2) that the "Sleep Number" mark is famous; and (3) the willfulness of any alleged misconduct.

As an initial matter, Select Comfort argues that aside from the false advertising claims, Defendants' motion improperly seeks relief on specific issues or elements of claims which Defendants prevailed. These include the issues of fame on Select Comfort's trademark dilution claim, strength of the Sleep Number mark on Select Comfort's trademark infringement claim, and causation and willfulness on various claims. Defendants submit that they advised Select Comfort that they would be seeking to preserve their arguments as to these sub-issues. The Court recognizes Defendants' intention to preserve the legal questions regarding these issues and concludes that it is proper to do so. However, the Court respectfully denies Defendants' motion as to the issues of fame on Select Comfort's trademark dilution claim, strength of the Sleep Number mark on Select Comfort's trademark infringement claim, and causation and willfulness on various claims, while noting that the issues have been preserved for purposes of a future appeal. The Court considers the remainder of Defendants' motion below.

Defendants request that the Court enter judgment as a matter of law in their favor on the statements that the jury determined to be false (this constitutes all statements except the first statement related to Personal Touch bed). Defendants argue that, as a matter of law, these statements are ambiguous and therefore not literally false. In support, Defendants assert that each statement could be reasonably understood as conveying more than one message and that Craig Miller testified as to why he considers each statement to be true when taken in context. In addition, Defendants argue that Select Comfort failed to show that the challenged statements actually deceived or tended to deceive a large segment of its audience, pointing out that they failed to conduct surveys to make such a showing. Further, Defendants argue that Select Comfort failed to demonstrate that the statements were material, that they were injured by the statements, or that Defendants willfully engaged in false advertising.

Select Comfort argues that the Jury's Verdict with respect to these statements was correct. Select Comfort points to Miller's testimony as supporting literal falsity of five statements and argues that those statements have a single meaning to consumers. As to the remaining statement that Defendants contest (that Personal Comfort beds come with "no sales tax"), Select Comfort contends that other evidence proves that it is false or misleading, including an acknowledgement by a Dires employee and the fact that nearly every state requires consumers to pay tax on online purchases where the retailer does not collect it. In addition, Select Comfort argues that it offered evidence to show that the statements were

disseminated, deceptive, material, and likely to cause harm.

After careful consideration, the Court concludes that a reasonable jury could have found in favor of Select Comfort on its false advertising claims with respect to the statements for which the jury found liability. In particular, there was sufficient evidence that could lead a reasonable jury to conclude that the statements were false or misleading, sufficiently disseminated, deceptive, material, and likely to cause harm. Thus, the Court respectfully denies the Defendants' motion insofar as it seeks renewed judgment or a new trial on the jury's finding of liability on these statements.

Defendants also argue that the jury instructions and Special Verdict Form included legal errors with respect to Select Comfort's false advertising claims. Specifically, Defendants assert that the Court erroneously endorsed a presumption as to materiality with a showing of literal falsity. Select Comfort argues, however, that the jury instruction and verdict form correctly stated the law as to the presumption of materiality under the circumstances of the case. In particular, Select Comfort points out that such a presumption is appropriate where, as here, a defendant makes a literally false statement of fact or deliberately made misleading statements in a comparative advertisement. The Court agrees and finds no error.

VI. Bill of Costs

The parties also both separately filed a Bill of Costs seeking taxable costs and expenses. (Doc. Nos. 674,

676.) Both filings are based on the parties' respective arguments that they are prevailing parties. Under Rule 54(d) of the Federal Rules of Civil Procedure, costs, other than attorney fees, may be awarded to the prevailing party. The Court has "substantial discretion" in awarding such costs. *Lockridge v. Per Mar Sec. & Research Co.*, Civ. No. 12-2894, 2015 WL 1000689, at *1 (D. Minn. March 5, 2015). As discussed above, both parties prevailed in part at trial, and the Court concludes that each side should bear their own costs.

ORDER

Based on the foregoing, and all the files, records, and proceedings herein, **IT IS HEREBY ORDERED** that:

1. Defendants' Motion for Judgment as a Matter of Law and for a New Trial (Doc. No. [617]) is **DENIED**.
2. Defendants' Joint Motion to Attorney Fees (Doc. No. [632]) is **DENIED**.
3. Select Comfort's Motion for Determination of Entitlement to Attorneys' Fees and Non-Taxable Expenses (Doc. No. [640]) is **DENIED**.
4. Select Comfort's Motion to Renewed Judgment as a Matter of Law, to Amend the Verdict, and/or for a New Trial (Doc. No. [643]) is **DENIED**.
5. Defendants' Motion for Judgment as a Matter of Law and for a New Trial (Doc. No. [644]) is **DENIED**.

6. Select Comfort's Motion to Increase Damages Award (Doc. No. [654]) is **DENIED**.

7. Defendants' Motion for Entitlement to Attorney Fees and Costs (Doc. No. [655]) is **DENIED**.

8. Select Comfort's Motion for Permanent Injunction (Doc. No. [668]) is **DENIED**.

9. No costs shall be taxed and each side shall bear their own costs in this case. (Doc. Nos. [674], [676].)

**LET JUDGMENT BE ENTERED
ACCORDINGLY.**

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Appendix F

**RELEVANT CONSTITUTIONAL AND
STATUTORY PROVISIONS**

U.S. Const. art. III, §§1-2

Section 1

The judicial Power of the United States, shall be vested in one supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish. The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behaviour, and shall, at stated Times, receive for their Services, a Compensation, which shall not be diminished during their Continuance in Office.

Section 2

The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority;—to all Cases affecting Ambassadors, other public Ministers and Consuls;—to all Cases of admiralty and maritime Jurisdiction;—to Controversies to which the United States shall be a Party;—to Controversies between two or more States;—between a State and Citizens of another State,—between Citizens of different States,—between Citizens of the same State claiming Lands under Grants of different States, and between a State, or the Citizens thereof, and foreign States, Citizens or Subjects.

In all Cases affecting Ambassadors, other public Ministers and Consuls, and those in which a State shall be Party, the supreme Court shall have original Jurisdiction. In all the other Cases before mentioned,

the supreme Court shall have appellate Jurisdiction, both as to Law and Fact, with such Exceptions, and under such Regulations as the Congress shall make.

The Trial of all Crimes, except in Cases of Impeachment, shall be by Jury; and such Trial shall be held in the State where the said Crimes shall have been committed; but when not committed within any State, the Trial shall be at such Place or Places as the Congress may by Law have directed.

15 U.S.C. § 1125(a), The Lanham Act

(a) Civil action

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

A-127

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.