

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

MIDWEST INDUSTRIAL SUPPLY, INC)	CASE NO: 5:08 CV 1374
)	
Plaintiff,)	JUDGE OLIVER
)	
vs.)	MAG. JUDGE BAUGHMAN
)	
SOILWORKS, LLC)	
)	
Defendant.)	

**PLAINTIFF’S SUR-REPLY IN FURTHER SUPPORT OF ITS OPPOSITION TO
DEFENDANT’S MOTION TO DISMISS, OR, IN THE ALTERNATIVE, MOTION TO
TRANSFER VENUE**

INTRODUCTION

Plaintiff Midwest Industrial Supply, Inc. (“Midwest”) submits this concise sur-reply to *Soilworks LLC’s Reply to Midwest’s Opposition to Soilworks LLC’s Motion to Dismiss, or, in the Alternative, Motion to Transfer Venue and Consolidate* (ECF Docket No. 16) (“Reply Brief”). In its reply, Defendant Soilworks LLC (“Soilworks”) asserts arguments not addressed in either its initial motion to dismiss or in Midwest’s initial opposition. In accordance with the law governing sur-reply briefs, Midwest limits its argument to those issues raised for the first time in Soilworks’ reply. *See Elliott Co. v. Liberty Mut. Ins. Co.*, 239 F.R.D. 479, 480 n. 1 (N.D. Ohio 2006) (granting leave to file a sur-reply to address issues raised for the first time in the reply); *Beckett v. Ford*, Slip Copy, No. 3:06 CV 1319, 2007 WL 2891122, *18 (N.D. Ohio Sept. 28, 2007) (same).

LAW AND ARGUMENT

A. Midwest’s Trademark Infringement Claim Does Not Constitute A Compulsory Counterclaim to Soilworks’ Claim for False Advertising in the Arizona Action.

In its initial brief, Soilworks argued that Midwest’s trademark infringement claim¹ in this action constituted a compulsory counterclaim to its claim for a declaration of patent noninfringement in the Arizona action and was, therefore, barred. (Motion to Dismiss, ECF Docket No. 6, at 7-9.) Apparently recognizing the spuriousness of this argument, Soilworks now asserts for the first time in its reply that its false advertising claim in the Arizona action renders Midwest’s claim in this action a compulsory counterclaim pursuant to Fed.R.Civ.P. 13(a). This new argument, however, is likewise meritless.

¹ In its complaint, Midwest also asserted related claims for violations of the Lanham Act, unjust enrichment, and unfair competition under Section 4165.02 *et seq.* of the Ohio Revised Code. (Complaint, ECF Docket No. 1.) The analysis presented in this sur-reply brief applies with equal force to those claims.

Rule 13(a) of the Federal Rules of Civil Procedure requires a party to assert as a counterclaim any claim that, at the time of its service, “arises out of the transaction or occurrence that is the subject matter of the opposing party’s claim” and “does not require adding another party over whom the court cannot acquire jurisdiction.” According to the Sixth Circuit, the counterclaim must arise out of the same transaction or occurrence and must be “logically related in such a way as to make the counterclaim compulsory.” *Maddox v. Kentucky Finance Co., Inc.*, 736 F.2d 380, 383 (6th Cir. 1984); *see also Stone v. Holzberger*, 807 F.Supp. 1325, 1348 (S.D.Ohio 1992). Under the logical relationship test, a court determines (1) “whether the issues of law and fact raised by the claims are largely the same,” and (2) “whether substantially the same evidence would support or refute both claims.” *Sanders v. First Nat’l Bank & Trust Co.*, 936 F.2d 273, 277 (6th Cir.1991); *Polymer Indus. Products Co. v. Bridgestone/Firestone, Inc.*, 211 F.R.D. 312, 317 (N.D.Ohio 2002).

Here, Soilworks has failed to demonstrate that its claim for false advertising concerning statements made about Midwest’s patents and Midwest’s claim for trademark infringement concerning the Synthetic Organic Dust Control[®] mark satisfy the logical relationship test. First, a comparison of these claims demonstrates that they do not involve a common core of factual and legal issues. Soilworks’ false advertising claim under the Lanham Act allegedly arises from representations made by Midwest *concerning its patents* in a 2006 press release and in two identical letters sent to the president and sales manager of one of Soilworks’ distributors (Polar Supply Company). (Midwest’s Notice of Supplemental Authority, ECF Docket No. 15, Exhibit A at 3-4.) Midwest’s trademark infringement claim, on the other hand, arises from Soilworks’ nonconsensual use of the Synthetic Organic Dust Control[®] mark -- a mark not presently at issue in any manner in the Arizona action. (Complaint, ECF Docket No. 1.)

Moreover, the litigation concerning Soilworks' false advertising claim focuses on whether Midwest made false marketplace statements about its patents that deceived or had the tendency to deceive a substantial segment of its audience and whether, in doing so, Midwest acted in bad faith.² See *Newcal Industries, Inc. v. Ikon Office Solution*, 513 F.3d 1038, 1052 (9th Cir.2008); *Zenith Electronics Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1353 (Fed.Cir.1999). In contrast, the present litigation concerning Midwest's trademark infringement claim focuses on whether Midwest owns a valid, protectable trademark in the term "Synthetic Organic Dust Control," whether Soilworks used the Synthetic Organic Dust Control[®] mark in commerce and without Midwest's consent, and whether there was a likelihood of consumer confusion. See *Abercrombie & Fitch v. Fashion Shops of Kentucky, Inc.*, 363 F.Supp.2d 952, 957 (S.D.Ohio 2005); see also *Champions Golf Club, Inc. v. The Champions Golf Club, Inc.*, 78 F.3d 1111, 1116 (6th Cir.1996) (describing the eight factors analyzed in determining whether consumer confusion is likely).

Second, the two claims will not be supported or refuted by substantially the same evidence. Soilworks' claim for false advertising will involve the letters to Polar Supply

² In order to establish a claim for false advertising in the Ninth Circuit Court of Appeals, Soilworks must show:

"(1) [Midwest] made a false statement either about [Soilworks'] or its own product; (2) the statement was made in commercial advertisement or promotion; (3) the statement actually deceived or had the tendency to deceive a substantial segment of its audience; (4) the deception is material; (5) [Midwest] caused its false statement to enter interstate commerce; and (6) [Soilworks] has been or is likely to be injured as a result of the false statement, either by direct diversion of sales from itself to [Midwest], or by a lessening of goodwill associated with the [Soilworks'] product."

Newcal Industries, Inc., 513 F.3d at 1052 (citation omitted). Further, because Soilworks' false advertising claim arises out of Midwest's marketplace statements about its patents, Soilworks must satisfy the additional element of bad faith. See *Zenith Electronics Corp.*, 182 F.3d at 1353.

Company, the 2006 press release, the patents at issue, evidence concerning whether Midwest's statements were material and had a tendency to deceive, and, *inter alia*, evidence concerning whether Soilworks suffered a direct diversion of sales or a lessening of goodwill as a result of the alleged false statements. *See Newcal Industries, Inc.*, 513 F.3d at 1052. Conversely, Midwest's trademark infringement claim will involve evidence concerning, *inter alia*, the strength of Synthetic Organic Dust Control® mark, the relatedness of Midwest's and Soilworks' products, the similarity of their marks, the marketing channels used by both parties, the likely degree of purchaser care, and Soilworks' intent in selecting the Synthetic Organic Dust Control® mark. *See Daddy's Junky Music Stores, Inc. v. Big Daddy's Family Music Ctr.*, 109 F.3d 275, 280 (6th Cir.1997).

As is evident, these claims and, hence, lawsuits are not duplicative of each other, as they are not “materially on all fours[.]” *See Smith v. SEC*, 129 F.3d 356, 361 (6th Cir.1997)(citation omitted). Further, because of the disparity between the legal and factual issues and evidence involved in the two cases, judicial economy and efficiency would not be served by hearing the claims together. Thus, contrary to Soilworks' contentions, the mere fact that Midwest marketed certain of its products through the use of the Synthetic Organic Dust Control® mark does not render these two vastly different actions “logically related.” Accordingly, Soilworks has failed to establish that Midwest's claim for trademark infringement in this action constitutes a

compulsory counterclaim to its false advertising claim in the Arizona action under Fed.R.Civ.P. 13(a).³

B. Midwest Has Not Attempted to Circumvent the Arizona Court’s Order by Filing the Present Action Instead of Filing an Appeal in Arizona.

In its reply, Soilworks erroneously asserts that Midwest failed to address its argument that the Arizona Court’s denial of Midwest’s motion for leave to amend its pleadings⁴ rendered the doctrine of claim preclusion applicable, and, therefore, “the only avenue available to Midwest is to appeal that decision in the Original Action.” (Reply Brief, ECF Docket No. 16, at 11.) According to Soilworks, Midwest “appears to have conceded the point.” (*Id.* at 11-12.) Soilworks, however, overlooks the fact that, in its initial opposition, Midwest argued that claim preclusion did not apply at all because the Arizona Court had not rendered a final judgment on the merits. (Midwest’s Opposition to the Motion to Dismiss, ECF Docket No. 12, at 17-18.)

The cases upon which Soilworks relies do not compel a different conclusion. For example, in *Petromanagement Corp. v. Acme-Thomas Joint Venture*, 835 F.2d 1329, 1334-35 (10th Cir.1988), the Tenth Circuit recognized that a denial of leave to amend pleadings neither eliminates the possibility of claim preclusion as to the issues excluded as untimely, nor automatically renders the doctrine of claim preclusion applicable. According to the Court, where a party seeks leave to amend its pleadings to include an entirely separate claim in order to

³ Midwest’s counterclaim for trademark infringement in the Arizona case, now limited to its Soil-Sement[®] mark, similarly does not provide grounds for requiring Midwest to litigate its present trademark infringement claim in Arizona. The claims involve different trademarks and will require the presentation of different evidence to establish entitlement to relief, i.e., different trademark registrations and different evidence as to the eight likelihood-of-confusion factors.

⁴ Midwest actually filed a motion for order to include its Synthetic Organic Dust Control[®] mark based on notice pleading and, in the alternative, moved for leave to amend the pleadings in the Arizona case to include a permissive counterclaim for trademark infringement based on that mark.

expedite litigation, the denial of the motion should not preclude a subsequent legitimate action as to that claim. *Id.*

Similarly, in *Poe v. John Deere Co.*, 695 F.2d 1103, 1107 (8th Cir. 1982), another case cited by Soilworks, the Eighth Circuit did not conclude that the denial of leave to amend in the first action (“*Poe I*”) automatically gave rise to the application of claim preclusion in the second action (“*Poe II*”). Instead, the Court conducted a traditional analysis of claim preclusion and determined that, even though Ms. Poe raised different legal theories in *Poe II*, the two actions “emerge[d] from the same transaction and share[d] precisely the same nucleus of operative facts,” as “[t]he thrust of both cases [wa]s whether Ms. Poe was wrongfully discharged on April 21, 1977[.]” *Id.* at 1105-07. The Court additionally overruled Ms. Poe’s argument that the legal theories asserted in *Poe II* “were unavailable to her in *Poe I* because the District Court in *Poe I* denied leave to amend her complaint” on timeliness grounds. *Id.* at 1107;⁵ see also *Jet, Inc. v. Sewage Aeration Systems*, 223 F.3d 1360, 1364, 1366 (Fed.Cir.2000) (holding that “a prior trademark infringement action will not, by action of claim preclusion, bar the subsequent prosecution of a petition for cancellation of the defendant’s registered trademark,” because “the overall transactional facts are simply too distinct”).

Based on the foregoing, the Arizona Court’s denial of Midwest’s motion for leave to amend its counterclaim to include its “Synthetic Organic Dust Control®” mark cannot bar the present action for trademark infringement without Soilworks establishing the traditional elements for claim preclusion. Claim preclusion has four elements:

⁵ The secondary sources upon which Soilworks relies likewise concern the situation where the two actions involve the same transaction or common operative facts and otherwise satisfy the test for claim preclusion. See 18 Wright, Miller & Cooper, Federal Practice and Procedure § 4412 (2008), cases cited in footnote 46; Restatement (Second) of Judgments § 25, Comment *b*.

(1) a final decision on the merits by a court of competent jurisdiction; (2) a subsequent action between the same parties or their privies; (3) an issue in the subsequent action which was litigated or which should have been litigated in the prior action; and (4) an identity of the causes of action.

Kane v. Magna Mixer Co., 71 F.3d 555, 560 (6th Cir.1995); *see also Jet, Inc.*, 223 F.3d at 1362.

Soilworks has not met its burden of demonstrating the applicability of claim preclusion under the facts of this case.

First, there has been no final judgment on the merits in the Arizona action. The denial of a motion for leave to amend based on the untimeliness of the request is not a final ruling on the merits. *See McCormick v. City of Lawrence*, 271 F.Supp.2d 1292, 1308 (D.Kan.2003). Further, the merits of the claims in the Arizona action have yet to be tried. Therefore, because there has not been a final judgment on the merits, claim preclusion does not apply to Midwest's trademark infringement claim in this case.

Second, Midwest's trademark infringement claim of its trademark Synthetic Organic Dust Control[®] does not involve the same operative facts as the claims in the Arizona action. Soilworks' claims in the Arizona action are for false advertising and a declaration of patent noninfringement. As discussed at length in its initial opposition as well as in the present brief, Midwest's claim for trademark infringement involves a vastly different array of transactional facts. *See Jet, Inc.*, 223 F.3d at 1366 (holding that a prior claim for trademark infringement does not preclude a subsequent claim for cancellation of the same trademark).

Finally, Soilworks' continuing infringement of Midwest's registered trademark prevents claim preclusion from barring this action. When a second action involves ongoing conduct that continues subsequent to the first action, claim preclusion cannot apply to bar a party from seeking protection of its rights. *See Storey v. Cello Holdings, L.L.C.*, 347 F.3d 370, 383-86 (2d Cir.2003); *Cellar Door Prods., Inc. of Michigan v. Kay*, 897 F.2d 1375, 1378 (6th Cir.1990); *Zip*

Dee, Inc. v. Dometic Corp., 886 F.Supp. 1427, 1430-35 (N.D.Ill.1995); *Williams v. Gillette Co.*, 887 F. Supp. 181, 183-84 (N.D.Ill.1995). Here, Soilworks has not ceased its infringement of Midwest's registered Synthetic Organic Dust Control® trademark; hence, every instance that Soilworks uses Midwest's mark in commerce constitutes another claim of trademark infringement. Midwest, therefore, cannot be precluded from bringing a trademark infringement claim for Soilworks' continuing infringement of its mark.

CONCLUSION

For the reasons articulated above, and in Midwest's initial opposition and Notice of Supplemental Authority (ECF Docket Nos. 12 & 15), Soilworks' Motion to Dismiss must be denied.

Respectfully Submitted,

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PAGE LIMIT CERTIFICATION

Pursuant to L.R. 7.1(f), the undersigned counsel hereby certifies that this case was assigned by the Court to the Standard Track and that this Memorandum complies with the page limit requirements set out in the local rule.

/s/ John M. Skeriotis
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CERTIFICATE OF SERVICE

I hereby certify that a copy of this PLAINTIFF'S SUR-REPLY IN FURTHER SUPPORT OF ITS OPPOSITION TO DEFENDANT'S MOTION TO DISMISS, OR, IN THE ALTERNATIVE, MOTION TO TRANSFER VENUE is being filed electronically, on this 4th day of September, 2008. Notice of this filing will be sent by operation of the Court's electronic filing system to all parties indicated on the electronic filing receipt. All other parties will be served by regular U.S. Mail. Parties may access this filing through the Court's system.

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