

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28



NO JS-6

UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

MERCADO LATINO, INC. dba	)	Case No. CV 13-01027 DDP (RNBx)
CONTINENTAL CANDLE COMPANY,	)	
	)	
Plaintiff,	)	<b>ORDER GRANTING DEFENDANT'S MOTION</b>
	)	<b>TO DISMISS SECOND AMENDED</b>
v.	)	<b>COMPLAINT</b>
	)	
INDIO PRODUCTS, INC., a	)	
California corporation,	)	
	)	[Dkt. No.33]
Defendant.	)	
_____	)	

Presently before the court is Defendant Indio Products, Inc. ("Indio")'s Motion to Dismiss the Second Amended Complaint. Having considered the submissions of the parties and heard oral argument, the court grants the motion and adopts the following order.

**I. Background**

Indio and Plaintiff Mercado Latino, Inc. ("Mercado") both sell devotional prayer candles bearing images of saints and other religious figures. (Second Amended Complaint ("SAC") ¶¶ 7, 12, 23.) Mercado's "Sanctuary Series" candles are clear containers bearing a label depicting a religious icon within a "bullet" shape

1 in the style of a stained glass window, surrounded by a patterned  
2 border of colorful, geometric shapes. (SAC ¶). Mercado obtained  
3 copyrights on "the original and distinctive artwork shown on  
4 Sanctuary Series candles." (FAC ¶¶ 12-14.) Mercado also  
5 trademarked the name "Sanctuary Series" and a design consisting of  
6 three circles within a window. (SAC ¶¶ 20-21.) Mercado allegedly  
7 owns trade dress featuring a combination of a clear container of  
8 certain dimensions filled with a single color wax, a two-sided  
9 "opaque die-cut label" with a bullet-shaped, black bordered  
10 silhouette featuring various shapes, atop of which is placed an  
11 image of a religious figure and a depiction of a scroll with the  
12 figure's name. (SAC ¶ 12.)

#### 13 B. Procedural History

14 In its First Amended Complaint, Mercado alleged that Defendant  
15 Indio copied Mercado's copyrights and passed off inferior Indio  
16 candles as Mercado products. (FAC ¶¶ 29-31.) The FAC further  
17 alleged that Indio infringed upon Mercado's Sanctuary Series trade  
18 dress and trademarks. Mercado also alleged causes of action for  
19 federal unfair competition under 15 U.S.C. § 1125(a) and  
20 intentional interference with prospective economic advantage.

21 Indio moved to dismiss all claims. The court dismissed  
22 Mercado's copyright claim, with prejudice. (Order Granting Motion  
23 to Dismiss at 6.) Indio argued that Mercado's trade dress claim  
24 under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), should  
25 also be dismissed because it was premised upon the same facts as  
26 its copyright claim. As this court explained, Lanham Act trademark  
27 claims that overlap with copyright claims are preempted when the  
28

1 Copyright Act provides an adequate remedy. (Order at 8 (citing  
2 Dastar Corp. v. Twentieth Cent. Fox Corp., 539 U.S. 23, 34 (2003);  
3 Shaw v. Lindheim, 919 F.2d 1353, 1364-65 (9th Cir. 1990)).)

4 Mercado did not oppose Indio's preemption argument. Instead,  
5 Mercado asserted that Indio had engaged in wrongful conduct  
6 independent of its alleged copyright violations. As the court  
7 noted, however, Mercado made no such allegations in the First  
8 Amended Complaint. Rather, by way of declaration, Mercado  
9 contended that Indio was selling Mercado's Sanctuary Series candles  
10 in boxes labeled with Indio's name. At oral argument, Mercado  
11 confirmed that this purported repackaging was the purportedly  
12 independent basis for its trade dress claim. Because it appeared  
13 that Mercado would be able to amend its complaint to include  
14 factual allegations regarding this repackaging, the court dismissed  
15 Mercado's trade dress claim with leave to do so. (Mercado's trade  
16 dress claim is therefore dismissed, with leave to amend (Order at 8  
17 (emphasis added).) The court further explained that because  
18 Mercado's unfair competition, trademark, and interference with  
19 economic advantage claims were also predicated upon the new  
20 repackaging assertions, those claims were also dismissed with leave  
21 to amend. (Order at 9.)

22 Mercado then filed its Second Amended Complaint. Indio now  
23 moves to dismiss the SAC in its entirety.

## 24 **II. Legal Standard**

25 A complaint will survive a motion to dismiss when it contains  
26 "sufficient factual matter, accepted as true, to state a claim to  
27 relief that is plausible on its face." Ashcroft v. Iqbal, 556 U.S.  
28 662, 678 (2009) (quoting Bell Atl. Corp. v. Twombly, 550 U.S. 544,

1 570 (2007)). When considering a Rule 12(b)(6) motion, a court must  
2 "accept as true all allegations of material fact and must construe  
3 those facts in the light most favorable to the plaintiff." Resnick  
4 v. Hayes, 213 F.3d 443, 447 (9th Cir. 2000). Although a complaint  
5 need not include "detailed factual allegations," it must offer  
6 "more than an unadorned, the-defendant-unlawfully-harmed-me  
7 accusation." Iqbal, 556 U.S. at 678. Conclusory allegations or  
8 allegations that are no more than a statement of a legal conclusion  
9 "are not entitled to the assumption of truth." Id. at 679. In  
10 other words, a pleading that merely offers "labels and  
11 conclusions," a "formulaic recitation of the elements," or "naked  
12 assertions" will not be sufficient to state a claim upon which  
13 relief can be granted. Id. at 678 (citations and internal  
14 quotation marks omitted).

15 "When there are well-pleaded factual allegations, a court should  
16 assume their veracity and then determine whether they plausibly  
17 give rise to an entitlement of relief." Id. at 679. Plaintiffs  
18 must allege "plausible grounds to infer" that their claims rise  
19 "above the speculative level." Twombly, 550 U.S. at 555.

20 "Determining whether a complaint states a plausible claim for  
21 relief" is a "context-specific task that requires the reviewing  
22 court to draw on its judicial experience and common sense." Iqbal,  
23 556 U.S. at 679.

### 24 **III. Discussion**

#### 25 A. Scope of Trade Dress Amendments

26 Mercado's trade dress claim, as previously pled, was premised  
27 on the same facts as its copyright claim, and was therefore  
28 preempted. As explained above, Mercado did not oppose dismissal on

1 preemption grounds. The court granted Mercado leave to amend,  
2 however, because it claimed that it could allege facts regarding  
3 Indio's purported repackaging of Sanctuary Series candles in Indio  
4 boxes.

5 Unlike the First Amended Complaint, the Second Amended  
6 Complaint does include facts relating to repackaging. (SAC ¶¶ 29,  
7 32-41.) The Second Amended Complaint, however, also includes the  
8 same trade dress claims that this court previously dismissed as  
9 preempted. The only significant difference between these claims,  
10 as pled in the First and Second Amended Complaints, is that the SAC  
11 includes additional elements of Mercado's alleged trade dress,  
12 including a clear, cylindrical container and a "solid color wax."  
13 (SAC ¶ 12.) Indio argues that these amendments exceed the scope of  
14 the leave to amend. The court agrees.

15 At this stage, Mercado may only amend its complaint with  
16 Indio's leave or by leave of the court. Fed. R. Civ. P. 15(a)(2).  
17 This court granted Mercado leave to amend its non-copyright claims  
18 solely because Mercado identified an independent basis for its  
19 claims: repackaging. The SAC, however, pleads new facts wholly  
20 unrelated to the repackaging allegations. When a plaintiff exceeds  
21 specific authorization to cure certain deficiencies, courts will  
22 dismiss or strike the new, improper allegations. See, e.g. Benton  
23 v. Baker Hughes, No. CV 12-07735 MMM (MRWx), 2013 WL 3353636 at \*3  
24 (C.D. Cal. Jun. 30, 2013) (collecting cases). Accordingly, all  
25 allegations unrelated to Indio's repackaging of authentic Mercado  
26 candles are stricken from the SAC. It is not apparent to the  
27 court, nor does Mercado argue, that the newly alleged repackaging  
28

1 facts provide any basis for a trade dress claim. Count 1 is,  
2 therefore, dismissed with prejudice.

3  
4  
5 B. First Sale Doctrine

6 Indio argues that all four of Mercado's claims, insofar as  
7 they relate to Indio's alleged repackaging, are barred by the First  
8 Sale Doctrine.<sup>1</sup> "[T]rademark law is designed to prevent sellers  
9 from confusing or deceiving consumers about the origin or make of a  
10 product, which confusion ordinarily does not exist when a genuine  
11 article bearing a true mark is sold." NEC Electronics v. CAL  
12 Circuit Abco, 810 F.2d 1506, 1509 (9th Cir. 1987). Because the  
13 sale of a real product under a true mark would not deceive  
14 consumers, under the First Sale Doctrine, "resale by the first  
15 purchaser of the original article under the producer's trademark is  
16 generally neither trademark infringement nor unfair competition."  
17 Enesco Corp. v. Price/Costco, Inc., 146 F.3d 1083, 1085 (9th Cir.  
18 1998); Sebastian Int'l v. Longs Drug Stores Corp., 53 F.3d 1073,  
19 1076 (9th Cir. 1995) ("It is the essence of the 'first sale'  
20 doctrine that a purchaser who does no more than stock, display, and  
21 resell a producer's product under the producer's trademark violates  
22 no right conferred upon the producer by the Lanham Act.").

23 Here, the SAC alleges that Indio placed Mercado Sanctuary  
24 Series candles into boxes bearing Indio's name and sold the boxes.

25  
26 \_\_\_\_\_  
27 <sup>1</sup> Mercado's unfair competition claim is also based on Section  
28 43(a) of the Lanham Act. Mercado's intentional interference with  
economic advantage claim is based upon the alleged Lanham Act  
violations.

1 (SAC ¶¶ 29, 32).<sup>2</sup> The SAC further alleges that both Indio and  
2 Mercado sell candles by the boxful, and that Indio is attempting to  
3 "pass off" its own products as Mercado candles. (SAC ¶¶ 33-34,  
4 36.) Exhibit G to the SAC consists of several images of twenty  
5 boxes "purchased 3/22/013 at Vernon Sales." (SAC Ex. G.) Each box  
6 contains twelve candles appearing to be Sanctuary Series candles.  
7 The boxes appear to be brown cardboard shipping boxes, bearing  
8 packing tape and large "Made in China" lettering. Id. Affixed to  
9 nineteen of the twenty boxes are white labels with black lettering  
10 reading "INDIO PRODUCTS INC," as well as "ITEM DESCRIP" and various  
11 written combinations of colors and religious figures (e.g. "ST  
12 MARTHA WHITE"). Id.

13 Mercado argues that the "material difference" exception to the  
14 First Sale Doctrine applies.<sup>3</sup> (Opp. at 17-19.) Also known as the  
15 "quality control" exception, this theory posits that when products  
16 are sold under a producer's trademark but are distributed in a  
17 manner that does not meet the trademark holder's quality control  
18 standards, there may be some hidden defect that tarnishes the mark.  
19 Enesco, 146 F.3d at 1087; SoftMan Prods. Co., LLC v. Adobe Sys.,  
20 Inc., 171 F. Supp. 2d 1075, 1092 (C.D. Cal. 2001). In such cases,  
21 the non-conforming product should not be considered genuine, and  
22

---

23 <sup>2</sup> The SAC somewhat imprecisely alleges that Indio placed  
24 "candles bearing Mercado's Sanctuary Series Trade Dress" in Indio  
25 boxes. (SAC ¶ 29.) The SAC appears, however, to refer to genuine  
26 Mercado products, rather than Indio products alleged to be similar  
27 in appearance. (SAC ¶¶ 29 ("Pictures of Mercado candles in Indio  
28 boxes . . . ."), 32 ("Defendants have sold Mercado candles . . .  
29 .").)

30 <sup>3</sup> At argument, the court specifically asked Mercado which, if  
31 any, of the exceptions to the First Sale Doctrine apply. Mercado  
32 identified and argued only the "material difference" exception.

1 the first sale doctrine will not apply. SoftMan, 171 F. Supp. 2d  
2 at 1092.

3 The only related allegation in the SAC is that "Defendants'  
4 conduct is likely to cause confusion, mistake and deception among  
5 the general purchasing public, and interfere with MERCADO'S ability  
6 to use its mark to indicate a single quality controlled source of  
7 goods and services." (SAC ¶ 52.) Beyond that, Mercado once again  
8 seeks to support its argument with facts not pled in the complaint.  
9 Plaintiff submits the declaration of Mercado Vice President Richard  
10 Rodriguez, who states that Mercado uses a patented device to ensure  
11 that its candles' wicks remain centered during shipping.  
12 (Rodriguez Decl. ¶¶ 3-11.) If the device is not used, lit candles  
13 may shatter or explode. (Id. ¶ 8.) The Mercado candles purchased  
14 from Vernon Sales in Indio boxes did not contain the wick-centering  
15 device. (Id. 17.)

16 Indio seems to suggest that absent an allegation of actual  
17 product malfunction, the "quality control" exception cannot apply.  
18 (Reply at 4.) As the Enesco court explained, however, "[c]ourts  
19 have recognized the quality control argument in trademark  
20 infringement cases where there is some defect (or potential defect)  
21 in the product itself that the customer would not be readily able  
22 to detect." Enesco, 146 F.3d at 1087 (emphasis added) (original  
23 emphasis, internal quotation, and citation omitted).

24 Thus, the facts alleged in the Rodriguez declaration might be  
25 sufficient to warrant invocation of the material difference, had  
26 they been alleged in the complaint. Without such factual support,  
27 however, Mercado's allegation that Indio's actions "interfere with  
28 MERCADO'S ability to use its mark to indicate a single quality




1 controlled source of goods and services" is nothing more than a  
2 conclusory assertion.<sup>4</sup> Mercado's trademark claim, as currently  
3 pled, thus does not fall within the "material alteration" or  
4 "quality control" exception to the First Sale Doctrine.

5 **IV. Conclusion**

6 For the reasons stated above, Defendant's Motion to Dismiss is  
7 GRANTED. Plaintiff's trade dress claim is dismissed with  
8 prejudice. In all other respects, Defendant's Motion to Dismiss is  
9 GRANTED, with limited leave to amend. Should Plaintiff desire to  
10 amend the SAC to include allegations relevant to the "quality  
11 control" exception to the First Sale Doctrine, it must do so within  
12 ten days of the date of this order.

13  
14  
15  
16  
17 IT IS SO ORDERED.

18  
19  
20 Dated: September 24, 2013

  
DEAN D. PREGERSON  
United States District Judge

21  
22  
23  
24  
25  
26 \_\_\_\_\_  
27 <sup>4</sup> Contrary to Indio's argument, the Rodriguez Declaration does  
28 not state that Mercado purchased all of Vernon Sales' inventory,  
and this action is not, therefore, moot. (Rodriguez Decl. ¶ 15  
("[O]ur representative observed a large quantity of other Sanctuary  
Series candles offered for sale in Indio's 12 pack boxes."))