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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

SATA GmbH & CO. KG,)	Case No. CV 20-02131 DDP (JPRx)
)	
Plaintiff,)	
)	ORDER DENYING DEFENDANT'S MOTION
v.)	TO DISMISS
)	
CENTRAL PURCHASING LLC,)	[23, 30]
)	
Defendants.)	
)	

Presently before the court is Defendant Central Purchasing, LLC ("Harbor Freight")'s Motion to Dismiss. Having considered the positions of the parties and heard oral argument, the court denies the motion and adopts the following Order.

I. Background

Plaintiff SATA GmbH & Co. KG ("SATA") manufactures, among other things, paint spray guns. (Complaint ¶ 8.) SATA also owns a design patent, U.S. D552,213 ("the Patent") in an ornamental design for a paint spray gun. (Id. ¶ 25.) Harbor Freight also sells paint spray guns. (Id. ¶¶ 14, 16.)

In 1999, SATA brought suit against Harbor Freight, alleging trade dress infringement and associated claims related to Harbor Freight's sale of paint spray guns. (Id. ¶ 14.) In 2000, the

1 parties settled all claims and entered into a Settlement Agreement
2 ("the Agreement"). (Id.) Under the Agreement, Harbor Freight
3 agreed "that it shall make no reference to SATA, SATA trademarks,
4 or SATA products, in any advertisements, product descriptions, or
5 any other materials generated in connections with the sale or
6 promotion of [Harbor Freight] paint spray guns or parts therefore."
7 (Compl., Ex. A ¶ 14 ("Paragraph 14").) Nevertheless, SATA alleges,
8 Harbor Freight's advertisements mention SATA by name, in some cases
9 alongside images of SATA paint spray guns and in comparison to
10 Harbor Freight products. (Compl. ¶ 16, Ex. B.) SATA further
11 alleges that Harbor Freight's "Black Widow" paint spray guns
12 infringe upon the Patent.

13 Harbor Freight now moves to dismiss the two causes of action
14 in the Complaint: breach of contract and design patent
15 infringement.

16 **II. Legal Standard**

17 A complaint will survive a motion to dismiss when it
18 "contain[s] sufficient factual matter, accepted as true, to state a
19 claim to relief that is plausible on its face." Ashcroft v. Iqbal,
20 556 U.S. 662, 678 (2009) (quoting Bell Atl. Corp. v. Twombly, 550
21 U.S. 544, 570 (2007)). When considering a Rule 12(b)(6) motion, a
22 court must "accept as true all allegations of material fact and
23 must construe those facts in the light most favorable to the
24 plaintiff." Resnick v. Hayes, 213 F.3d 443, 447 (9th Cir. 2000).
25 Although a complaint need not include "detailed factual
26 allegations," it must offer "more than an unadorned,
27 the-defendant-unlawfully-harmed-me accusation." Iqbal, 556 U.S. at
28 678. Conclusory allegations or allegations that are no more than a

1 statement of a legal conclusion "are not entitled to the assumption
2 of truth." Id. at 679. In other words, a pleading that merely
3 offers "labels and conclusions," a "formulaic recitation of the
4 elements," or "naked assertions" will not be sufficient to state a
5 claim upon which relief can be granted. Id. at 678 (citations and
6 internal quotation marks omitted).

7 "When there are well-pleaded factual allegations, a court
8 should assume their veracity and then determine whether they
9 plausibly give rise to an entitlement of relief." Id. at 1950.
10 Plaintiffs must allege "plausible grounds to infer" that their
11 claims rise "above the speculative level." Twombly, 550 U.S. at
12 555-56. "Determining whether a complaint states a plausible claim
13 for relief" is "a context-specific task that requires the reviewing
14 court to draw on its judicial experience and common sense." Iqbal,
15 556 U.S. at 679.

16 **III. Discussion**

17 A. Breach of Contract

18 Harbor Freight does not dispute that some of its
19 advertisements contain side-by-side comparisons of Harbor Freight
20 products and competitors' products, including SATA's spray guns.
21 (Motion at 3:5-11.) Harbor Freight contends, however, that any
22 provision in the Agreement barring such advertising is
23 unenforceable as contrary to public policy. (Mot. at 7:25-26.)

24 In California, a contract is unlawful and unenforceable if it
25 is "[c]ontrary to an express provision of law; [c]ontrary to the
26 policy of express law, though not expressly prohibited; or
27 [o]therwise contrary to good morals." Kashani v. Tsann Kuen China
28 Enter. Co., 118 Cal. App. 4th 531, 541 (2004) (quoting Cal. Civil

1 Code § 1667). Although not entirely clear, Harbor Freight appears
2 to argue that Paragraph 14 is contrary to the policy of express
3 law, particularly the Sherman Antitrust Act, 15 U.S.C. § 1, and the
4 FTC Act, 15 U.S.C. § 45(a) (1).

5 Section 1 of the Sherman Antitrust Act prohibits contracts,
6 combinations, and conspiracies that unreasonably restrain trade.¹
7 15 U.S.C. § 1; Brantley v. NBC Universal, Inc., 675 F.3d 1192, 1197
8 (9th Cir. 2012). Some restraints, typically horizontal agreements
9 between competitors, are unreasonable *per se*. Ohio v. Am. Express
10 Co., 138 S. Ct. 2274, 2284 (2018). All other restraints must be
11 analyzed under the “rule of reason.” Id.; Brantley, 675 F.3d at
12 1197. To state a Section 1 claim under the rule of reason, a
13 plaintiff must allege (1) an agreement, conspiracy, or combination
14 between two or more entities that (2) the entities intend to harm
15 or restrain trade and (3) actually injures competition with (4)
16 resulting “antitrust injury” to the plaintiff. Brantley, 675 F.3d
17 at 1197.; Auto. Sound Inc. v. Audiovox Elec. Corp., No. 12-762,
18 2012 WL 12892938, at *3 (C.D. Cal. Dec. 3, 2012).

19 Here, Harbor Freight’s opening brief does no more than assert
20 that Paragraph 14 violates antitrust law, with no citation to
21 authority or explanation how a voluntary agreement not to refer to
22 a competitor’s trademarks in advertising constitutes an illegal
23 restraint of trade, whether under the rule of reason or *per se*.
24 (Opp. at 8: 10-13.) In its reply, Harbor Freight asserts that

26 ¹ Federal cases interpreting the Sherman Act are also
27 applicable to claims under California’s Cartwright Act. See, e.g.
28 Pecover v. Elecs. Arts Inc., 633 F. Supp. 2d 976, 984 (N.D. Cal.
2009); Marin Cty. Bd. of Realtors, Inc. v. Palsson, 16 Cal. 3d 920,
925 (1976).

1 Paragraph 14 constitutes a *per se* unreasonable restraint of trade,
2 but cites no authority concerning an agreement not to conduct
3 comparative advertising. Instead, Harbor Freight relies upon
4 several out-of-context quotations from Sherman Act cases that are
5 simply inapt. See, e.g., Nat'l Soc. of Prof'l Engineers v. United
6 States, 435 U.S. 679 (1978) (discussing professional association's
7 ban on competitive bidding); Blackburn v. Sweeney, 53 F.3d 825, 828
8 (7th Cir. 1995) (discussing illegal agreement to allocate markets
9 through reciprocal bans on all advertising within certain
10 geographic areas). Nor does Harbor Freight so much as attempt to
11 show that Paragraph 14 constitutes an unreasonable restraint of
12 trade under the rule of reason. Harbor Freight has not, therefore,
13 demonstrated that Paragraph 14 violates the Sherman Act.

14 With respect to the FTC Act, Harbor Freight relies upon the
15 FTC's decision in In the Matter of 1-800 Contacts, Inc., Trade Reg.
16 Rep. P 80586. There, various settlement agreements, as part of an
17 effort to prevent one party's advertisements from appearing in
18 response to a user's search for a competitor, required sellers of
19 contact lenses to refrain from using competitors' trademarks as
20 online advertising keywords. The Commission concluded, in a
21 lengthy decision following extensive factfinding, that the
22 advertising restrictions in the settlement agreement made it more
23 difficult for consumers to compare competing online sellers of
24 contact lenses, and constituted unfair competition for purposes of
25 the FTC Act.²

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28 ² Further, as Harbor Freight acknowledges, the FTC's decision
in 1-800 Contacts is presently on appeal to the Second Circuit.

1 FTC decisions, although not binding upon this Court, are
2 entitled to great weight, as "the Commission has accumulated
3 extensive experience and is therefore generally in a better
4 position than the courts to determine when a practice is deceptive
5 within the meaning of the FTCA."³ Simeon Mgmt. Corp. v. F. T. C.,
6 579 F.2d 1137, 1145 (9th Cir. 1978). Here, however, at this stage
7 of proceedings, and without the extensive expert testimony and
8 other evidence of the sort presented to the Commission in 1-800
9 Contacts, there is no basis upon which this Court could determine
10 that Paragraph 14 has anticompetitive effects similar to those
11 present in 1-800 Contacts.⁴

12 The court acknowledges that the FTC has encouraged the use of
13 some types of comparative advertising and recognized such
14 advertising as "a source of important information to consumers
15 [that] assists them in making rational purchase decisions." 16
16 C.F.R. § 14.15(c). The regulation, in its entirety, states:

17 (a) Introduction. The Commission's staff has conducted
18 an investigation of industry trade associations and the
19 advertising media regarding their comparative advertising
20 policies. In the course of this investigation, numerous
21 industry codes, statements of policy, interpretations and
22 standards were examined. Many of the industry codes and
standards contain language that could be interpreted as
discouraging the use of comparative advertising. This
Policy Statement enunciates the Commission's position that

23 ³ The Simeon Management court made this observation in the
24 context of a direct appeal of an FTC order. Simeon Mgmt. Corp.,
579 F.2d at 1140; see also 15 U.S.C. § 45(c), (d).

25 ⁴ Indeed, at this stage of proceedings, the agreements at
26 issue in 1-800 Contacts seem distinguishable from the Agreement
27 here. Although the latter limits the content of certain Harbor
28 Freight ads, the former appear, to some extent, to have operated to
keep the very existence of 1-800 Contacts' competitors hidden from
consumers, almost as if those competitors had been barred from
listing their services in the relevant section of a phone
directory's yellow pages.

1 industry self-regulation should not restrain the use by
2 advertisers of truthful comparative advertising.

3 (b) Policy Statement. The Federal Trade Commission has
4 determined that it would be of benefit to advertisers,
5 advertising agencies, broadcasters, and self-regulation
6 entities to restate its current policy concerning
7 comparative advertising. Commission policy in the area of
8 comparative advertising encourages the naming of, or
9 reference to competitors, but requires clarity, and, if
10 necessary, disclosure to avoid deception of the consumer.
11 Additionally, the use of truthful comparative advertising
12 should not be restrained by broadcasters or self-regulation
13 entities.

14 (c) The Commission has supported the use of brand
15 comparisons where the bases of comparison are clearly
16 identified. Comparative advertising, when truthful and
17 nondeceptive, is a source of important information to
18 consumers and assists them in making rational purchase
19 decisions. Comparative advertising encourages product
20 improvement and innovation, and can lead to lower prices in
21 the marketplace. For these reasons, the Commission will
22 continue to scrutinize carefully restraints upon its use.

23 (1) Disparagement. Some industry codes which prohibit
24 practices such as "disparagement," "disparagement of
25 competitors," "improper disparagement," "unfairly
26 attaching," "discrediting," may operate as a restriction on
27 comparative advertising. The Commission has previously held
28 that disparaging advertising is permissible so long as it
is truthful and not deceptive. In *Carter Products, Inc.*, 60
F.T.C. 782, modified, 323 F.2d 523 (5th Cir. 1963), the
Commission narrowed an order recommended by the hearing
examiner which would have prohibited respondents from
disparaging competing products through the use of false or
misleading pictures, depictions, or demonstrations, "or
otherwise" disparaging such products. In explaining why it
eliminated "or otherwise" from the final order, the
Commission observed that the phrase would have prevented:
respondents from making truthful and non-deceptive
statements that a product has certain desirable properties
or qualities which a competing product or products do not
possess. Such a comparison may have the effect of
disparaging the competing product, but we know of no rule
of law which prevents a seller from honestly informing the
public of the advantages of its products as opposed to
those of competing products. 60 F.T.C. at 796.

Industry codes which restrain comparative advertising in
this manner are subject to challenge by the Federal Trade
Commission.

(2) Substantiation. On occasion, a higher standard of
substantiation by advertisers using comparative advertising
has been required by self-regulation entities. The
Commission evaluates comparative advertising in the same
manner as it evaluates all other advertising techniques.
The ultimate question is whether or not the advertising has
a tendency or capacity to be false or deceptive. This is a

1 factual issue to be determined on a case-by-case basis.
2 However, industry codes and interpretations that impose a
3 higher standard of substantiation for comparative claims
than for unilateral claims are inappropriate and should be
revised.

4 16 C.F.R. § 14.15

5 Notably, the regulation does not preclude prohibitions on
6 comparative advertising, or even suggest that all comparative
7 advertising is pro-competitive. Rather, the regulation emphasizes
8 the value of truthful, non-deceptive comparative advertising.
9 Where, however, a party engages in other types of comparative
10 advertising, or other allegedly wrongful or misleading conduct,
11 voluntary restrictions on subsequent advertising might be
12 beneficial, or at least innocuous. Furthermore, the regulation's
13 careful scrutinization of restraints on the use of comparative
14 advertising focuses not on specific agreements between direct
15 competitors, but rather on broadcasters and self-regulatory
16 entities. In other words, the regulation's emphasis on broad,
17 industry-wide codes of silence has little bearing on particularized
18 agreements between two competitors, such as the Agreement here.

19 For these reasons, and in the absence of any authority
20 supporting Harbor Freight's argument, this court cannot conclude
21 that, as a matter of law, Paragraph 14 violates the FTC Act, or any
22 public policy favoring comparative advertising.

23 B. Patent Infringement

24 "[A]" design patent, unlike a utility patent, limits
25 protection to the ornamental design of the article." Richardson v.
26 Stanley Works, Inc., 597 F.3d 1288, 1293 (Fed. Cir. 2010) In
27 determining whether an accused product infringes a patented design,
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1 courts apply the "ordinary observer" test, which asks whether "in
2 the eye of the ordinary observer, giving such attention as a
3 purchaser usually gives, two designs are substantially the same . .
4 ., inducing him to purchase one supposing it to be the other . .
5 .." Hall v. Bed Bath & Beyond, Inc., 705 F.3d 1357, 1362 (Fed.
6 Cir. 2013) (citing Gorham Co. v. White, 81 U.S. (14 Wall.) 511, 528
7 (1871)). "[I]nfringement of a design patent is based on the design
8 as a whole, not on any 'points of novelty.'" Id. (citing Egyptian
9 Goddess, Inc. v. Swisa, Inc., 543 F.3d 665 (Fed. Cir. 2008) (en
10 banc)). Differences must be "evaluated in the context of the
11 claimed design as a whole, and not in the context of separate
12 elements in isolation." Ethicon Endo-Surgery, Inc. v. Covidien,
13 Inc., 796 F.3d 1312, 1335 (Fed. Cir. 2015) (citing Richardson, 597
14 F.3d at 1295).

15 Generally, a patent plaintiff need only plead, in addition to
16 basic information such as the name of the defendant and the patent
17 owned by the plaintiff, "the means by which the defendant allegedly
18 infringes" and "the sections of the patent law invoked." Hall, 705
19 F.3d at 1362. Infringement itself is a question of fact. Catalina
20 Lighting, Inc. v. Lamps Plus, Inc., 295 F.3d 1277, 1287 (Fed. Cir.
21 2002); see also Richardson, 597 F.3d at 1295; OddzOn Products, Inc.
22 v. Just Toys, Inc., 122 F.3d 1396, 1405 (Fed. Cir. 1997).

23 Nevertheless, "[i]n some instances, the claimed design and the
24 accused design will be sufficiently distinct that it will be clear
25 without more that the patentee has not met its burden of proving
26 the two designs would appear 'substantially the same' to the
27 ordinary observer." Egyptian Goddess, 543 F.3d at 678. Thus, at
28 the pleading stage, dismissal for lack of infringement is only

1 appropriate if "the claimed design and accused product are so
2 plainly dissimilar that it is implausible that an ordinary observer
3 would confuse them." Enerlites, Inc. v. Century Prod. Inc., No.
4 SACV18839JVSKEsx, 2018 WL 4859947, at *3 (C.D. Cal. Aug. 13, 2018)
5 (collecting cases).

6 Harbor Freight relies heavily upon Egyptian Goddess to argue
7 that the claimed and accused designs here are not substantially
8 similar. Harbor Freight's argument focuses on the fact that the
9 test for infringement is applied "through the eyes of an observer
10 familiar with the prior art." Egyptian Goddess, 543 F.3d at 677.
11 Indeed, an "ordinary observer" analysis "will benefit from a
12 comparison of the claimed and accused designs with the prior art .
13 . ." Id. at 678. Such a comparison, however, is only necessary
14 and applicable "[i]n [] instances[] when the claimed and accused
15 designs are not plainly dissimilar." Id. (emphasis added). In
16 other words, "the 'ordinary observer' test involves a two tiered
17 approach. The threshold question is whether, without review of the
18 prior art, the claimed and accused designs are sufficiently
19 similar[.] [][I]f so, the next level entail[s] a comparison to the
20 prior art." Performance Designed Prod. LLC v. Mad Catz, Inc., No.
21 16CV629-GPC(RBB), 2016 WL 3552063, at *2 (S.D. Cal. June 29, 2016).
22 Here, Harbor Freight conflates these two tiers, arguing that a
23 comparison of the claimed design to the prior art reveals that the
24 claimed and accused designs are dissimilar. This is not the proper
25 analysis. See Ethicon, 796 F.3d at 1337 ("C]omparing the claimed
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1 and accused designs with the prior art is beneficial only when the
2 claimed and accused designs are not plainly dissimilar.”).⁵

3 Looking solely at the accused and claimed designs, this Court
4 cannot conclude, nor does Harbor Freight argue, that the two
5 designs are plainly dissimilar. Dismissal at the pleading stage
6 is, therefore, not appropriate.⁶

7 **IV. Conclusion**

8 For the reasons stated above, Harbor Freight’s Motion to
9 Dismiss is DENIED.

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14 IT IS SO ORDERED.



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17 Dated: March 12, 2021

18 DEAN D. PREGERSON
19 United States District Judge

20 _____
21 ⁵ The Ethicon court, like the district court, found a lack of
22 substantial similarity on summary judgment, after claim
construction. Ethicon, 796 F.3d at 1335.

23 ⁶ Although the Performance Digital Products court did dismiss
24 at the pleading stage, it (1) recognized that such dismissal was
25 “not necessarily common,” and (2) only conducted a comparative
26 prior art analysis in the alternative, after having already
27 concluded that the two designs at issue were plainly dissimilar.
28 Performance Designed Prod., 2016 WL 3552063, at *5-7 (quoting MSA
Products, Inc. v. Nifty Home Products, Inc., No. 11cv5261 (WJM),
2012 WL 2132464, *3-4 (D.N.J. June 12, 2012)). The latter
determination clearly supported dismissal at the pleading stage.
Egyptian Goddess, 543 F.3d at 678; Enerlites, 2018 WL 4859947, at
*3.