

United States District Court
For the Northern District of California

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

KAM LEE YUEN TRADING CO., INC.,)	Case No. 10-0455 SC
a California corporation,)	
)	ORDER GRANTING DEFENDANT'S
Plaintiff,)	<u>MOTION TO DISMISS</u>
)	
v.)	
)	
HOCEAN, INC., a California)	
corporation,)	
)	
Defendant.)	
)	

I. INTRODUCTION

Plaintiff Kam Lee Yuen Trading Company, Inc. ("KLY") brought this action against Defendant Hocean, Inc. ("Hocean"), alleging violation of Section 43(a)(1) of the Lanham Act, 15 U.S.C. § 1125(a)(1), and three state-law causes of action. ECF No. 1 ("Compl.") ¶¶ 11-24. The sole basis for the subject matter jurisdiction of this Court is KLY's Section 43(a)(1) claim. Id. ¶ 3. Now Hocean brings a Motion to Dismiss this claim. ECF No. 11. This Motion is fully briefed. ECF Nos. 13, 14. Pursuant to Civil Local Rule 7-1(b), the Court finds the Motion suitable for determination without oral argument. For the reasons stated below, the Court GRANTS Hocean's Motion, dismissing the Section 43(a)(1) claim WITH PREJUDICE.

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1 **II. BACKGROUND**

2 KLY and Hocean are wholesalers specializing in Asian foods.
3 Compl. ¶¶ 1, 2. In 2009, Aik Cheong Neo ("Neo") brought an action
4 against KLY, Hocean, supermarket chain Welcome Market, Inc.
5 ("Welcome Market"), and nineteen other wholesalers, distributors,
6 and retailers. See Neo v. Marina Brothers, Inc., No. C-09-0739
7 (N.D. Cal. Feb 19, 2009). Neo, a citizen of Singapore, claimed he
8 owned intellectual property rights in the design and packaging of a
9 mushroom seasoning, including a trademark registered with the U.S.
10 Patent and Trademark Office. Id. Neo alleged that the defendants
11 had sold products that infringed these rights. Compl. ¶¶ 6-7.

12 Allegedly, Hocean sold KLY mushroom seasoning that infringed
13 on Neo's mark, which KLY sold to Welcome Market, which Welcome
14 Market then sold to supermarket customers. Id. ¶ 8. When Neo
15 brought his action, Welcome Market demanded that KLY reimburse it
16 for the market's cost of defending itself in the action,
17 threatening to terminate its ongoing relationship with KLY if it
18 did not. Id. ¶ 10. Because Welcome Market was KLY's largest
19 customer, KLY agreed. Id. Welcome Market hired Latham and Watkins
20 LLP and brought a counterclaim against Neo seeking termination of
21 Neo's trademark registration. Neo, No. C-09-0739, ECF No. 31
22 ("Welcome Market's Answer and Countercl."). Welcome Market claimed
23 that Neo's mark was invalid because it was functional and/or
24 generic. Id. Welcome Market also sought an award of attorneys'
25 fees from Neo under 15 U.S.C. § 1117(a), arguing that because Neo's
26 claims were "groundless and contrary to settled law," such an award
27 was appropriate. Id. ¶ 52.

28 Neo ultimately agreed to dismiss with prejudice the claims

1 against all defendants, and the case was terminated on December 31,
2 2009. See Neo, No. C-09-0739, ECF Nos. 93 ("Order and Stip.
3 Dismissal of Welcome Market"), 147 ("Order and Stip. Dismissal of
4 Hocean"). KLY subsequently reimbursed Welcome Market for \$153,000
5 in litigation expenses. Compl. ¶ 10.

6 KLY then brought the present action against Hocean to recover
7 the amount KLY had paid to Welcome Market. KLY does not claim to
8 possess any intellectual property rights in Neo's mushroom
9 seasoning packaging and design; rather, it claims that Hocean's
10 sale of the allegedly infringing product caused injury to KLY in
11 the form of its reimbursement to Welcome Market. Id. ¶¶ 5, 10.
12 KLY claims Hocean's mushroom seasoning had packaging and labeling
13 that infringed "and/or constituted false designation of origin of
14 [Neo's] mushroom seasoning," in violation of Section 43(a)(1) of
15 the Lanham Act. Id. ¶ 5.

16 Now Hocean moves to dismiss the case, arguing that KLY lacks
17 standing to bring its Lanham Act cause of action. Mot. at 6-8.
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19 **III. LEGAL STANDARD**

20 A motion to dismiss under Federal Rule of Civil Procedure
21 12(b)(6) "tests the legal sufficiency of a claim." Navarro v.
22 Block, 250 F.3d 729, 732 (9th Cir. 2001). Dismissal can be based
23 on the lack of a cognizable legal theory or the absence of
24 sufficient facts alleged under a cognizable legal theory.
25 Balistreri v. Pacifica Police Dep't, 901 F.2d 696, 699 (9th Cir.
26 1990). Allegations of material fact are taken as true and
27 construed in the light most favorable to the nonmoving party.
28 Cahill v. Liberty Mutual Ins. Co., 80 F.3d 336, 337-38 (9th Cir.

1 1996). "[T]he tenet that a court must accept as true all of the
2 allegations contained in a complaint is inapplicable to legal
3 conclusions. Threadbare recitals of the elements of a cause of
4 action, supported by mere conclusory statements, do not suffice."
5 Ashcroft v. Iqbal, 129 S.Ct. 1937, 1949 (2009) (citing Bell Atl.
6 Corp. v. Twombly, 550 U.S. 544, 555 (2007)). "When there are well-
7 pleaded factual allegations, a court should assume their veracity
8 and then determine whether they plausibly give rise to an
9 entitlement to relief." Iqbal, 129 S.Ct. at 1950. A motion to
10 dismiss should be granted if the plaintiff fails to proffer "enough
11 facts to . . . nudge[] their claims across the line from
12 conceivable to plausible." Twombly, 550 U.S. at 570.

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14 **IV. DISCUSSION**

15 Hocean argues that KLY's Section 43(a)(1) claim should be
16 dismissed because it is necessarily premised on Neo's infringement
17 cause of action against Hocean, which KLY lacks standing to bring.
18 Mot. at 6-9. Hocean also argues that Neo's infringement claims
19 were dismissed with prejudice through a stipulated order, and so no
20 one, including KLY, should be permitted to re-argue them here. Id.

21 "To establish standing to sue for trademark infringement under
22 the Lanham Act, a plaintiff must show that he or she is either (1)
23 the owner of a federal mark registration, (2) the owner of an
24 unregistered mark, or (3) a nonowner with a cognizable interest in
25 the allegedly infringed trademark." Halicki Films, LLC v.
26 Sanderson Sales and Mktg., 547 F.3d 1213, 1225 (9th Cir. 2008); see
27 15 U.S.C. § 1114(a). KLY does not claim to have any interest in

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1 Neo's mark. Therefore, KLY cannot bring a trademark infringement
2 action premised on Hocean's infringement of Neo's mark.

3 KLY admits that it lacks standing to bring a trademark
4 infringement action, but argues it has standing to bring the action
5 under Section 43(a)(1), which provides:

6 Any person who, on or in connection with any
7 goods or services, or any container for goods,
8 uses in commerce any word, term, name, symbol,
9 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--

10 (A) is likely to cause confusion, or to
11 cause mistake, or to deceive as to the
12 affiliation, connection, or association of
13 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

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

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

19 Despite the statute's broad language providing a cause of
20 action to "any person who believes that he or she is likely to be
21 damaged," each circuit court has placed prudential standing
22 limitations on Section 43(a)(1) to ensure the Lanham Act serves its
23 stated purpose: "to regulate commerce . . . [and] to protect
24 persons engaged in such commerce against unfair competition."
25 Halicki v. United Artists Commc'ns, Inc., 812 F.2d 1213, 1214 (9th
26 Cir. 1987). In the Ninth Circuit, Subsection (A) and (B) of
27 Section 43(a)(1) have separate standing requirements. For "false
28 association" claims under Subsection (A), the plaintiff must allege

1 a "commercial injury based upon the deceptive use of a trademark or
2 its equivalent to satisfy standing requirements," Jack Russell
3 Terrier Network of Northern Cal. v. American Kennel Club, 407 F.3d
4 1027, 1037 (9th Cir. 2005), and a "commercial interest in the
5 product wrongfully identified," Waits v. Frito-Lay, Inc., 978 F.2d
6 1093, 1109 (9th Cir. 1992). For "false advertising" claims under
7 Subsection (B), a plaintiff must also claim a "discernibly
8 competitive injury." Id.

9 In addition, courts have not permitted plaintiffs to bring
10 Section 43(a)(1) claims if they would indirectly eviscerate the
11 standing requirements of other causes of action. For example, in
12 PhotoMedex, Inc. v. Irwin, 601 F.3d 919, 926-27 (9th Cir. 2010) a
13 manufacturer of a dermatological laser brought a Lanham Act false
14 advertising cause of action against its competitor, claiming it
15 made misrepresentations that violated the Food, Drug, and Cosmetic
16 Act ("FDCA"). The Ninth Circuit held that the plaintiff lacked
17 standing to bring the Section 43(a)(1) claim because the plaintiff
18 lacked standing to argue the underlying FDCA violation, as the Food
19 and Drug Administration has exclusive authority to enforce FDCA
20 violations. Id. Similarly, in Sybersound Records, Inc. v. UAV
21 Corporation, the Ninth Circuit held that "a party lacking standing
22 to bring a copyright infringement suit under the Copyright Act, but
23 who complains of competitive injury, may [not] bring a Lanham Act
24 claim . . . whose successful prosecution would require the
25 litigation of the underlying infringement claim." 517 F.3d 1137,
26 1141 (9th Cir. 2008).

27 KLY argues that it satisfies the false association standing
28 requirements: it claims that its commercial injury is KLY's payment

1 of Welcome Market's litigation expenses in the Neo action, and
2 claims its past possessory interest in the allegedly infringing
3 product (which it purchased from Hocean and sold to Welcome Market)
4 is a sufficient commercial interest. Opp'n at 4. Hocean argues
5 that KLY should not be permitted to bring a false association claim
6 solely premised on trademark infringement when it admittedly lacks
7 standing to bring the underlying trademark infringement action.
8 Mot. at 3.

9 The Court is troubled by KLY's argument, because it would
10 eviscerate the standing limitations Congress established for
11 bringing a Lanham Act trademark infringement action. KLY has not
12 cited to case law that supports this conclusion. While KLY cites
13 Jack Russell Terrier and Waits, in neither of these cases did the
14 Ninth Circuit permit a plaintiff to bring a false association claim
15 premised on the infringement of a third party's mark. Jack Russell
16 Terrier involved a false advertising action, not a false
17 association action, and the Ninth Circuit found that the plaintiff
18 lacked standing because it lacked the requisite competitive injury.
19 407 F.3d at 1037. In Waits, the Ninth Circuit found that musician
20 Tom Waits had standing to bring a Section 43(a)(1) claim against
21 Frito-Lay for producing a radio advertisement that featured the
22 likeness of Waits' singing voice. 978 F.2d at 1108-10. Waits'
23 action was premised on the exploitation of his own mark -- his
24 distinctive "raspy, gravelly singing voice" -- not the mark of a
25 third party. Id. at 1097, 1108-10. KLY does not cite to a single
26 case, in the Ninth Circuit or elsewhere, in which a court permitted
27 a Section 43(a)(1) claim premised on the infringement of a third-
28 party mark.

1 While Sybersound involved a Section 43(a)(1) claim premised on
2 third-party copyright infringement rather than third-party
3 trademark infringement, 517 F.3d at 1141, the Court finds it to be
4 instructive. In that case, plaintiff and defendants were
5 competitors that produced and sold karaoke records to distributors.
6 Id. Plaintiff claimed that defendants produced karaoke records
7 without purchasing the necessary licenses from copyright holders.
8 Id. This, argued plaintiff, put plaintiff at an economic
9 disadvantage, because it could not compete on price with
10 defendants. Id. The Ninth Circuit held that because plaintiff did
11 not have standing to sue for the copyright infringement claim, it
12 lacked standing to bring a Lanham Act claim predicated on the
13 copyright infringement. Id. at 1144. It wrote: "Construing the
14 Lanham Act to cover misrepresentations about copyright licensing
15 status . . . would allow competitors engaged in the distribution of
16 copyrightable materials to litigate the underlying copyright
17 infringement when they have no standing to do so." Id.

18 Such is the case here. While KLY may have standing to bring a
19 Section 43(a)(1) false association claim against Hocean, it cannot
20 bring one solely premised on Hocean's alleged infringement of Neo's
21 mark. If, for example, Hocean had injured KLY by selling it
22 product that falsely indicated a particular geographic region as
23 its origin, KLY would have standing to bring a Section 43(a)(1)
24 false association claim. However, this claim would be wholly
25 unrelated to the only injury KLY claims in the present action --
26 payment of Welcome Market's Neo litigation expenses. This alleged
27 injury cannot be severed from the underlying trademark infringement
28 action: to prove Hocean's conduct caused KLY's injury, KLY must

1 prove Neo's case. This requires proof that Hocean infringed Neo's
2 mark, and would ultimately and necessarily lead to a dispute over
3 the validity of Neo's mark, the strength of Neo's mark, and the
4 likelihood of confusion between Hocean's product and Neo's product.
5 KLY clearly does not have standing to bring the underlying
6 trademark infringement action, and Section 43(a) should not provide
7 a back door to bring such a claim.

8 The Court's conclusion would be the same if the law of another
9 circuit applied. The Third, Fifth, and Eleventh Circuits use the
10 five-factor standing test the U.S. Supreme Court established for
11 Clayton Act antitrust actions in determining standing for Section
12 43(a) actions. See Conte Bros. Automotive, Inc. v. Quaker State-
13 Slick 50, Inc., 165 F.3d 221, 225-27 (3rd Cir. 1998), Procter &
14 Gamble Co. v. Amway Corp., 242 F.3d 539, 562-63 (5th Cir. 2001),
15 Phoenix of Broward, Inc. v. McDonald's Corp., 489 F.3d 1156, 1167
16 (11th Cir. 2007). The first factor asks whether plaintiff's injury
17 is "the type that Congress sought to redress in providing a private
18 remedy for violations of the Lanham Act." Phoenix of Broward, 489
19 F.3d at 1167-68. A competitive injury caused by the action of a
20 direct competitor will not necessarily satisfy this factor; the
21 injury must be the sort of injury the Lanham Act is designed to
22 remedy, such as loss of sales or increased promotional costs.
23 Natural Answers, Inc. v. SmithKlineBeecham Corp., 529 F.3d 1325,
24 1332-33 (11th Cir. 2008). KLY's injury is not of this sort; this
25 is not a dispute between two competitors in which one party's
26 competitive behavior caused the other to lose sales or increase
27 promotional costs. This is a dispute between a buyer and seller
28 over the quality of a good; as such, it is wholly redressable

1 through state commercial law, and there is no need for a separate
2 remedy under the Lanham Act.

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4 **V. CONCLUSION**

5 For the foregoing reasons, the Court DISMISSES Plaintiff Kam
6 Lee Yuen Trading Co., Inc.'s cause of action under 15 U.S.C. §
7 1125(a)(1) against Defendant Hocean, Inc. WITH PREJUDICE. The
8 remaining causes of action are dismissed WITHOUT PREJUDICE, as the
9 Court declines to exercise supplemental jurisdiction over such
10 state-law claims.

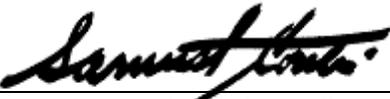
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12 IT IS SO ORDERED.

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14 Dated: August 9, 2010

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UNITED STATES DISTRICT JUDGE

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