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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

PROFESSIONAL'S CHOICE
SPORTS MEDICINE PRODUCTS,
INC.

Plaintiff,

v.

EUROW & O'REILLY
CORPORATION d/b/a EQUINE
COMFORT PRODUCTS,

Defendant.

Case No.: 13cv1484 AJB (KSC)
ORDER DENYING DEFENDANT'S
MOTION TO DISMISS
[Doc. No. 14]

This matter comes before the Court on Defendant Eurow & O'Reilly Corporation d/b/a Equine Comfort Products' ("Defendant") Motion to Dismiss the First Amended Complaint ("FAC"). Plaintiff brought this action for declaratory judgment, trademark cancellation, trademark infringement under 15 U.S.C. § 1125(a)(2), and for unfair competition under California Business and Professions Code § 17200 *et seq.* (Doc. No. 13.) Defendant filed the Motion to Dismiss on December 30, 2013. (Doc. No. 14.) Plaintiff responded on January 23, 2014. (Doc. No. 16.) The Court finds the matter appropriate for determination on the briefs without oral arguments pursuant to Civil Local Rule 7.1.d.1. The hearing on the Motion, currently scheduled for February 20, 2014 is hereby VACATED. For the follow reasons, the Motion to Dismiss is DENIED.

1 **I. BACKGROUND**¹

2 This trademark action arises under the Lanham Act, 15 U.S.C. § 1051, seq. Plaintiff
3 is, and has been for over 25 years, a purveyor of specialty equine products. (Doc. No. 13 at
4 3.) Plaintiff states that it has used the AIR RIDE mark in conjunction with the sale of
5 equine saddle pads continuously since at least 1999. (*Id.*) Plaintiff has attempted, on
6 numerous occasions, to protect its marks by filing trademark applications with the United
7 States Patent and Trademark Office (“USPTO”): (1) in 1999 the ‘620 Application for AIR
8 RIDE SUSPENSION SYSTEM; (2) in 2003 the ‘777 Application for AIR RIDE; and (3)
9 also in 2003 the ‘639 Application for SMX AIR RIDE (collectively the “Air Ride
10 trademarks/marks”). (*Id.* at 4-5.) The ‘620 Application did not proceed to registration and
11 was abandoned in 2000. The USPTO refused registration for the ‘777 and ‘639 Application
12 due to a likelihood of confusion with a prior registration for AIRRIDE with Registration
13 Number 2,412,023 (the “023 Registration”) (registered to EQ, Inc. for hoof packing for
14 horses). (*Id.* at 5.) Plaintiff attempted to overcome the office action rejecting the ‘777 and
15 ‘639 Application, but was unsuccessful and thereafter also abandoned those Applications.
16 On September 15, 2007, the ‘023 Registration was cancelled by the USPTO due to the
17 owner’s failure to file a continued statement of use under Section 8 of the Act. (*Id.*)

18 Defendant is “one of the nation’s leading wholesalers of top quality products in its
19 field.” (*Id.* at 5.) Defendant manufactures products ranging from jewelry to automotive
20 detailing products. (*Id.*) Equine Comfort Products (“ECP”), a manufacturer of equine
21 products, was initially established around 2003 by Donna O’Reilly, one of Defendant’s
22 executives, and third party cofounder Martine Fennelly. In 2005, Fennelly parted ways
23 with O’Reilly and since that time, ECP has been operated as a division within Defendant’s
24 overall textile business. (*Id.* at 6-7.) According to Plaintiff, Fennelly was ECP’s product
25 designer and O’Reilly handled the manufacturing aspects of ECP. On May 13, 2011
26 Defendant caused to be filed with the USPTO a trademark applications for the Air Ride
27 marks: (1) Air Ride (registration no. 4,074,157), (2) ECP Air Ride (registration no.
28

¹ The following factual allegations are taken from Plaintiff’s FAC.

1 4,083,086), and (3) Air Ride by ECP (registration no. 4,207,097). Each matured to
2 registration. (*Id.* at 8.)

3 Plaintiff alleges that Defendant procured these trademark registrations despite
4 knowledge of Plaintiff's superior rights to the AIR RIDE mark "in efforts to build a facade
5 of legitimacy around its bad-faith adoption of" the same mark. (*Id.* at 7.) Plaintiff alleges
6 that Fennelly and Plaintiff's own executives were "longstanding professional acquaintances,"
7 and that Fennelly had actual knowledge of Plaintiff, its products and its rights in
8 various trademarks by virtue of Plaintiff's presence and reputation in the equine industry.
9 (*Id.* at 6.) Plaintiff alleges that Defendant has continuously copied competitors' products
10 and manufactures lower-quality copies overseas. (*Id.* at 6-7) Plaintiff further alleges that
11 Defendant "employed the foregoing strategy in copying Plaintiff's products by intentionally
12 adopting a series of products bearing similar names."² (*Id.* at 7.) Moreover, Plaintiff alleges
13 that both Plaintiff's AIR RIDE saddle pads and Defendant's Air Ride saddle pads have
14 appeared in Dover Saddlery, a catalog of a mutual distributor, but that Plaintiff's appeared
15 first. (*Id.*) Defendant's review of Dover Saddlery revealed the existence of Plaintiff's AIR
16 RIDE saddle prior to their submission of the Air Ride trademark applications.

17 Plaintiff received a cease and desist letter from Defendant's counsel on March 25,
18 2013, demanding Plaintiff discontinue the use of AIR RIDE in connection with equine
19 products. (*Id.* at 9) The parties engaged in communications and discussion for a potential
20 settlement. However, discussions were unfruitful and Plaintiff, fearing a potential lawsuit
21 for trademark infringement, brought this action for declaratory relief. Plaintiff asserts itself
22 as the senior user and seeks to cancel Defendant's Air Ride trademarks.

23 Plaintiff's FAC asserts five causes of action: (1) declaratory judgment; (2)
24 cancellation of the "Air Ride" trademarks based on fraud on the USPTO under 15 U.S.C.
25 § 1064; (3) civil liability for false or fraudulent registration under 15 U.S.C. § 1120;(4)
26 trademark infringement under 15 U.S.C. § 1125(a)(1); and (5) unfair competition under
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28 ² Plaintiff cites two examples: Defendant's "Comfort Fleece" and Plaintiff's "COMFORT-FIT"
as well as Defendant's "Grip Tech" and Plaintiff's VENTECH. (Doc. No. 13 at 7.)

1 California Business and Professional Code 17200, *et seq.* (“UCL”). Defendant seeks
2 dismissal of the Second, Third, and Fifth causes of action on the basis that the FAC “did not
3 aver ‘clearly established trademark’ rights sufficient to transform defendant’s non-disclosure
4 into a fraudulent trademark application.” (Doc. No. 14 at 1.)

5 **II. LEGAL STANDARD GOVERNING MOTIONS TO DISMISS**

6 Federal Rule of Civil Procedure 8(a)(2) requires only “a short and plain statement of
7 the claim showing that the plaintiff is entitled to relief . . . [to] give the defendant fair notice
8 of what the . . . claim is and the grounds upon which it rests.” *See Bell Atlantic Corp. v.*
9 *Twombly*, 550 U.S. 544, 555 (2007). A court may dismiss a complaint under Federal Rule
10 of Civil Procedure 12(b)(6) when it does not contain enough facts to state a claim to relief
11 that is plausible on its face. *See id.* at 570. “A claim has facial plausibility when the
12 plaintiff pleads factual content that allows the court to draw the reasonable inference that
13 the defendant is liable for the misconduct alleged.” *Ashcroft v. Iqbal*, 556 U.S. 662, (2009).
14 “The plausibility standard is not akin to a ‘probability requirement,’ but it asks for more than
15 a sheer possibility that a defendant has acted unlawfully.” *Id.* (quoting *Twombly*, 550 U.S.
16 at 556.)

17 “While a complaint attacked by a Rule 12(b)(6) motion to dismiss does not need
18 detailed factual allegations, a plaintiff’s obligation to provide the ‘grounds’ of his
19 ‘entitle[ment] to relief’ requires more than labels and conclusions, and a formulaic recitation
20 of the elements of a cause of action will not do. Factual allegations must be enough to raise
21 a right to relief above the speculative level.” *Twombly*, 550 U.S. at 555 (citations and
22 parentheticals omitted). In considering a motion to dismiss, a court must accept all of the
23 plaintiff’s allegations as true and construe them in the light most favorable to the plaintiff.
24 *Erickson v. Pardus*, 551 U.S. 89, 93-94 (2007); *Vasquez v. Los Angeles County*, 487 F.3d
25 1246, 1249 (9th Cir.2007).

26 Rule 9(b) requires that “[i]n all averments of fraud or mistake, the circumstances
27 constituting fraud or mistake shall be stated with particularity.” Fed. R. Civ. P. 9(b); *see*
28 *Leatherman v. Tarrant Cty. Narcotics Intelligence Unit*, 507 U.S. 163, 168, (1993). “Rule

1 9(b) serves three purposes: (1) to provide defendants with adequate notice to allow them to
2 defend the charge and deter plaintiffs from the filing of complaints ‘as a pretext for the
3 discovery of unknown wrongs’; (2) to protect those whose reputation would be harmed as
4 a result of being subject to fraud charges; and (3) to ‘prohibit [] plaintiff[s] from unilaterally
5 imposing upon the court, the parties and society enormous social and economic costs absent
6 some factual basis.’ [Citations omitted.]” *Kearns v. Ford Motor Co.*, 567 F.3d 1120, 1125
7 (9th Cir. 2009). “Averments of fraud must be accompanied by ‘the who, what, when, where,
8 and how’ of the misconduct charged.” *Vess v. Ciba-Geigy Corp. USA*, 317 F.3d 1097, 1106
9 (9th Cir. 2003).

10 **III. DISCUSSION**

11 Defendant’s Motion seeks dismissal of the FAC’s second, third, and fifth causes of
12 action on the basis that Plaintiff (1) has not established trademark rights sufficient to
13 transform Defendant’s non-disclosure into a fraudulent trademark application and (2) has
14 not alleged plausible grounds for scienter, an essential element in the three causes of action.³
15 (Doc. No. 14 at 1.) Plaintiff filed a Response in opposition on January 23, 2014. (Doc. No.
16 16.) Defendant filed a Reply in support on February 6, 2014. (Doc. No. 17.)

17 **A. Second Cause of Action: Cancellation Based on Fraudulent Representation**

18 A trademark can be cancelled under 15 U.S.C. § 1064(3) if, among other things, its
19 “registration was obtained fraudulently.” To seek cancellation, a plaintiff must prove (1)
20 a false representation; (2) regarding a material fact; (3) the registrant’s knowledge or belief
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22 ³ Defendant requests that this Court take judicial notice of several documents in support of their
23 motion to dismiss. “As a general rule, ‘a district court may not consider any material beyond the
24 pleadings in ruling on a Rule 12(b)(6) motion.’” *Lee v. City of Los Angeles*, 250 F.3d 668, 668 (9th Cir.
25 2001) (internal citation omitted). A court may, however, properly consider exhibits attached to the
26 complaint and documents whose contents are alleged in the complaint but attached, if their authenticity
27 is not questioned. *Id.* Additionally, a court may consider matters that are proper subjects of judicial
28 notice under Rule 201 of the Federal Rules of Evidence. *Id.*; see also *MGIC Indemnity Corp. v.*
Weisman, 803 F.2d 500, 504 (9th Cir. 1986). The court is “not required to accept as true conclusory
allegations which are contradicted by document referred to in the complaint.” *Steckman v. Hart Brewing*
Inc., 143 F.3d 1293, 1295 (9th Cir. 1998).

In considering the motion, the Court did not require use of these documents as their content was properly alleged in the FAC and was uncontradicted by any party nor the documents themselves.

1 that the representation is false, (4) the intent to induce reliance upon the misrepresentation;
2 (4) reasonable reliance thereon; and (6) damages proximately resulting from the reliance.
3 *Robi v. Five Platters, Inc.*, 918 F.2d 1439, 1444 (9th Cir. 1990). A plaintiff bears a “heavy”
4 burden to prove fraud. *Id.* at 1439.

5 Plaintiff alleges that Defendant made a fraudulent representation to the USPTO when
6 Defendant verified its ownership and entitlement to use the Air Ride marks despite having
7 knowledge of Plaintiff’s AIR RIDE saddle pads and Plaintiff’s superior rights in the AIR
8 RIDE mark. (Doc. No. 13 at 10-12.) Specifically, Plaintiff alleges Defendant represented
9 to the USPTO that “no one else . . . has the right to use the mark in commerce . . .” (*Id.* at
10 12.) Defendant argues that mere knowledge of another’s use of a mark is insufficient to
11 constitute fraud and there has never been a case cancelling a registrant’s mark on the
12 grounds that the registrant knew of or should have known of the plaintiff’s use of an
13 unregistered mark. (Doc. No. 14 at 8.) Furthermore, Defendant argues Plaintiff has failed
14 to allege “clearly established rights” to the marks. (Doc. No. 14 at 8-9.) Defendant’s
15 primary argument is that because Plaintiff’s trademark was not established by either (1)
16 court decree, (2) settlement agreement; or (3) trademark registration, Plaintiff cannot claim
17 any rights to the AIR RIDE mark sufficient to defeat Defendant’s registration. (*Id.* at 9.)

18 A claim of fraud in a trademark application oath requires proof of four elements. *See*
19 *Hana Fin., Inc. v. Hana Bank*, 500 F. Supp. 2d 1228, 1234 (2007) (citing *Intellimedia Sports*
20 *Inc. v. Intellimedia Corp.*, 43 U.S.P.Q. 2d 1203, 1206 (Trademark Tr. & App. Bd. 1997).

21 [A] plaintiff claiming that the declaration or oath in the defendant’s application
22 for registration was executed fraudulently, in that there was another use of the
23 same or a confusingly similar mark at the time the oath was signed *must allege*
24 *particular facts* which, if proven would establish that: (1) there was in fact
25 another use of the same or a confusingly similar mark at the time the oath was
26 signed; (2) the other user had legal rights superior to the applicant’s; (3)
27 applicant knew that the other user had rights in the mark superior to appli-
28 cant’s, and either believed that a likelihood of confusion would result from
applicant’s use of its mark or had no reasonable basis for believing otherwise;
and that (4) applicant, in failing to disclose these facts to the Patent and
Trademark office, intended to procure a registration to which it was not
entitled.

Id. (emphasis in original).

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1 1. Plaintiff is Not Required to Show “Clearly Established Rights”

2 Defendant cites to *eCash Technologies, Inc. v. Guagliardo*, 210 F. Supp. 2d 1138,
3 1150 (C.D. Cal. 2001), to stand for the proposition that Plaintiff is unable to establish any
4 trademark rights whatsoever, simply because Plaintiff’s rights were not clearly established
5 by court decree, settlement, or a competing registration. The Court does not find *eCash* to
6 inform the case at bar. *eCash* involved two parties, each registrants of domain names that
7 were substantially alike. *Id.* at 1145. The defendant registered the domain name “ecash.co-
8 m” in July 1995. Subsequently, the plaintiff registered “eCash” as its own domain name and
9 registered the *mark* “eCash”. The plaintiff initiated an action against defendant alleging
10 trademark infringement and the defendant filed a counterclaim seeking to cancel the
11 plaintiff’s “eCash” mark based on fraud. *Id.* at 1148-49. The district court dismissed
12 defendant’s claim on the basis that the defendant failed to show its “clearly established
13 rights” in the “Ecash” mark *Id.* at 1151. The court noted that mere registration of a domain
14 name does not convey trademark rights in the same name as the domain name. *Id.* at 1150.
15 *eCash* in turn relies on the Seventh Circuit case of *Rosso and Mastracco, Inc. v. Giant Food*
16 *Inc.*, 720 F.2d 1263, 1266 (7th Cir. 1983), for the proposition that clearly established rights
17 are those conferred by a “court decree, by the terms of a settlement agreement, or by a
18 registration.” However, a reading of the Seventh Circuit’s opinion reveals that these are
19 merely three examples by which a *junior user* can show clearly established rights. *Id.*

20 Thus, while there is no general duty to investigate and report all other possible users
21 of an identical or confusingly similar mark, a senior user’s failure to acknowledge the
22 conflicting and clearly established rights of a *junior user* may constitute fraud. *Id.* (“[I]n
23 some instances a senior user would be making a false oath where he fails to acknowledge
24 conflicting rights of a junior user which are clearly established, for example, by a court
25 decree, by the terms of a settlement agreement, or by a registration.”). Defendant’s
26 contention is thus, misleading. In the instant case, the Court is not faced with a junior user
27 seeking cancellation of a senior user’s mark based on fraud. If this were the case, then the
28 Court would have to agree with Defendant and find that Plaintiff has not shown “clearly

1 established rights.” However, Plaintiff’s FAC alleges a “superior right” to the AIR RIDE
2 mark in relation to Defendant.

3 Accordingly, a trademark applicant needs to disclose to the USPTO those users it
4 knows to have superior *or* clearly established rights in the proposed mark. Defendant’s
5 trademark application oath may still constitute a fraud on the USPTO if: (1) Plaintiff used
6 the AIR RIDE mark at the time the oath was signed; (2) Plaintiff’s had legal rights superior
7 to the mark over Defendant’s; (3) Defendant knew of Plaintiff’s superior rights; and (4)
8 Defendant intended to procure a registration to which it is not entitled to. *See Hana*, 500
9 F. Supp. 2d at 1234. The Court now turns to whether Plaintiff has sufficiently stated a
10 claim, under Rule 9(b)’s requirements, for fraud based on the elements stated above.

11 2. The FAC Adequately Alleges that Plaintiff had Rights Superior to Defendant

12 The trademark application oath requires the applicant to verify he “believes himself
13 . . . to be the *owner* of the mark sought to be registered.” 15 U.S.C. § 1051(a) (emphasis
14 added). This leads to the distinction that one must disclose any knowledge of another’s
15 *rights* in the mark, not just mere use of the mark. Thus Defendant may have had the duty
16 to disclose if Plaintiff’s superior rights, i.e. ownership of the mark, were known to
17 Defendant at the time of its application.

18 In the instant case, Defendant enjoys the statutory presumption of ownership and
19 exclusive right to use the Air Ride marks. *See* 15 U.S.C. §§ 1057(b), 1115(a). However,
20 Plaintiff may rebut the presumption and demonstrate the superiority of its common law
21 rights and ownership based on continuous prior use in commerce. *See Sengoku Works*, 96
22 F.3d 1217, 1218 (9th Cir. 1996) (“It is axiomatic in trademark law that the standard test of
23 ownership is priority of use.”); *see also Blue Bell, Inc. v. Farah Manufacturing Co., Inc.*,
24 508 F.2d 1260, 1265 (5th Cir. 1975) (“The exclusive rights to a trademark belongs to one
25 who first uses it in connection with specified goods.”)

26 The Court reiterates that on a motion to dismiss, the Court must accept as true, all of
27 Plaintiff’s factual allegations and draw all reasonable inferences in favor of Plaintiff.
28 Plaintiff claims that since 1999, it has used the AIR RIDE mark in conjunction with the sale
of equine saddle pads. (Doc. No. 13 at 3.) In support, Plaintiff has provided with the Court

1 with nine examples of advertisements for Plaintiff's AIR RIDE branded pads with dates
2 ranging from 1999 to 2013. (See Doc. No. 13 at Exs. 1-9.) Plaintiff also claims that since
3 1999, it has realized international sales of its AIR RIDE saddles ranging from 3,500 to 6,000
4 units per year, with yearly domestic sales revenue from the AIR RIDE saddles between an
5 estimated \$1,000,000.00 to \$2,500,000.00. (*Id.* at 4.) Moreover, Plaintiff alleges to have
6 promoted the AIR RIDE saddle in equine media outlets, spent between \$100,000 and
7 \$300,000 on overall yearly advertising nationwide, and its saddles have appeared in the
8 catalogues of some of the equine industries largest distributors and retailers. (*Id.* at 4.) As
9 alleged, Plaintiff has shown "continuous use" prior to the 2011 and 2012 registration dates
10 of Defendant's Air Ride marks. See *Casual Corner Associates, Inc. v. Casual Stores of*
11 *Nevada, Inc.*, 493 F.2d 709, 712 (9th Cir. 1974) (noting "continuous use" is not the same
12 as a lack of abandonment, rather it is use without significant interruption, such as non-use
13 for one year).

14 Defendant puts forth an interesting argument that third party EQ Inc.'s then existing
15 federal '023 Registration prevented Plaintiff from establishing any trademark rights, even
16 rights as to Defendant.⁴ (Doc. No. 14 at 4, n.4.) Moreover, Defendant argues that Plaintiff
17 is litigating over an alleged act Plaintiff itself is guilty of, failure to disclose another's
18 superior rights in a trademark application.⁵ (*Id.*) Plaintiff counters that the '023 Registration
19 did not affect the accrual of its rights in AIR RIDE. Additionally, to determine whether the
20 '023 Registration barred Plaintiff's acquisition of rights would force the Court to make the
21 fact intensive inquiry of whether Plaintiff's AIR RIDE saddles infringed the '023
22 Registration. (Doc. No. 16 at 6-7.) The Court does not need to engage in such a convoluted
23 analysis to reject Defendant's contention.

24
25 ⁴ Defendant states that the FAC's allegations cannot create common law rights adverse to an
26 existing federal registration. Defendant then directs the Court to footnote 4 in which they argue even if
27 Plaintiff can qualify as a senior user, EQ Inc.'s federal registration would have frozen the scope of a
28 prior users claim. (Doc. No. 4 at 4) (citing *Wine Group, LLC v. L& R. Wine Co.*, 2012 U.S. Dist. LEXIS
128576).

⁵ Defendant appears to imply that Plaintiff is guilty of "unclean hands." However, as Defendant
fails to assert that Plaintiff's claims are barred by the doctrine of unclean hands, the Court will not
address the applicability of the doctrine to the case at bar.

1 Essentially, Defendant attempts to assert a *jus tertii* defense, i.e., when a defendant
2 raises the right of a third party. 6 McCarthy on Trademarks § 31:157 (“In a trademark
3 infringement suit, a claim by defendant that a third party has rights in the mark superior to
4 plaintiff is in effect, a *jus tertii* defense . . . *jus tertii* in the trademark context arises when
5 defendant alleges that plaintiff has no ‘title’ because plaintiff itself is an infringer of a third
6 party with rights allegedly superior to plaintiff.”); *see also Lahoti v. Vericheck, Inc.*, 708 F.
7 Supp. 2d 1150, 1166 (W.D. Wa. 2010).

8 Defendant’s argument fails. Modern courts and the Trademark board have rejected
9 the *just tertii* defense. *Lahoti*, 708 F. Supp. 2d at 1166; *see also Comm. For Idaho’s High*
10 *Desert, Inc. v. Yost*, 92 F.3d 814, 820 (9th Cir. 1996) (“[A] third party’s prior use of a
11 trademark is not a defense in an infringement action.”). The *jus tertii* defense is disfavored
12 as it asks a court to resolve the rights of a third party not present in the current litigation.
13 Courts should not adjudicate the rights of a party who, for one reason or another, chose not
14 to assert them. Moreover, the instant case involves trademark rights with respect to the two
15 litigating parties, therefore, whether Plaintiff’s rights are “superior to the world is
16 irrelevant.” McCarthy on Trademark, § 31:158 (analogizing the law of property and
17 trademark). As alleged, Plaintiffs have sufficiently alleged superior rights in the AIR RIDE
18 mark based on its prior continuous use of the mark in commerce.

19 3. Knowledge of Falsity and Scienter

20 “Because the trademark application oath is phrased in terms of a subjective belief, it
21 is extremely difficult to prove fraud so long as the signer has an honestly held, good faith
22 belief that it is the senior right holder. *Hana Fin., Inc. v. Hana Bank*, 500 F. Supp. 2d. 1228,
23 1235 (C.D. Cal. 2007) (internal quotations and citations omitted.) Moreover, Rule 9(b)
24 requires more than conclusory allegations that the defendant “knew” about a plaintiff’s
25 superior rights. However, the requirement for pleading scienter is less rigorous than that
26 which applies to allegations regarding the “circumstances that constitute fraud” because
27 “malice, intent, knowledge, and other condition of mind of a person may be averred
28 generally.” Fed. R. Civ. P. 9(b). Nonetheless, nothing in the Federal Rules of Civil
Procedure relieves a plaintiff of the obligation to “set forth facts from which an inference

1 of scienter could be drawn.” *Cooper v. Pickett*, 137 F.3d 616, 628 (9th Cir.1997) (quoting
2 GlenFed, 42 F.3d at 1546).

3 With regards to a fraudulent statement in a trademark application, the plaintiff must
4 plead particular facts which, if proven, would establish that, as of the application filing date,
5 the defendant believed that the plaintiff had superior or clearly established rights and that
6 a likelihood of confusion would result from the applicant’s use of its marks. Alternatively,
7 the plaintiff must plead particular facts (e.g., substantial identity between the parties’ marks
8 and goods or services . . .), which if proven, would establish that, at the time the application
9 was filed, defendant had no reasonable basis for its averred belief that no other person had
10 the right to use the same or a confusingly similar mark on or in connection with the goods
11 or services identified in the application. *Intellimedia Sports Inc., v. Intellimedia Corp.*, 43
12 U.S.P.Q. 2d 1203, 1997 WL 398344, *4 (Trademark Tr. and App. Bd., 1997).

13 Plaintiff makes five factual allegations by which they attempt to show Defendant’s
14 knowledge of Plaintiff’s superior rights to the AIR RIDE mark: (1) Defendant’s trademark
15 clearance search which revealed Plaintiff’s attempts to procure federal registration; (2) the
16 competitor relationship between the two parties in a field where Plaintiff has enjoyed
17 “decades of commercial success;” (3) Defendant’s knowledge of Plaintiff and its marks by
18 a co-founder’s understanding of the same; (4) Defendant’s adoption of other product names
19 imitating Plaintiff’s; and (5) the two parties products appearing in a common distributor’s
20 catalogue. (Doc. No. 13 at 10-13; Doc. No. 16 at 9.)

21 Fraud, by its nature is difficult to detect and to state with certainty. Thus, courts only
22 require plaintiffs to allege facts that give strong inference of fraudulent intent. Rule 9(b)
23 requires that the circumstances constituting fraud be stated with particularity, but “does not
24 require nor make legitimate the pleading of detailed evidentiary matter.” *Walling v. Beverly*
25 *Enterprises*, 476 F.2d 393, 397 (9th Cir. 1973) (quoting 2A J. Moore, Federal Practice ¶
26 9.03, at 1930 (2d ed. 1972)). “Nor does Rule 9(b) require any particularity in connection
27 with an averment of intent, knowledge or condition of the mind. It only requires the
28 identification of the circumstances constituting fraud so that the defendant can prepare an
adequate answer from the allegations.” *Id.* (citing *Trussell v. United Underwriters, Ltd.*, 228

1 F. Supp. 757, 774 (D. Colo. 1964) and *Gottlieb v. Sandia American Corp.*, 35 F.R.D. 223,
2 224 (E.D. Pa. 1964)). As the FAC stands now, Plaintiff has met this burden. Plaintiff has
3 alleged sufficient facts, that if proven true, would establish that at the time Defendants filed
4 the trademark application, Defendants knew of Plaintiff's superior rights and a likelihood
5 of confusion would result.

6 Defendant makes several objections to the FAC, however each fails to show how the
7 FAC has not met Plaintiff's burden of pleading. First, Defendant argues that imputed
8 knowledge of a corporate officer "cannot supply the missing scienter," and is legally
9 insufficient. (Doc. No. 14 at 11.) The FAC alleges that ECP was founded by Donna
10 O'Reilly and Martine Fennelly ("Martine").⁶ (Doc. No. 13 at 6.) However, according to
11 Defendants, Martine was terminated six years prior to the Defendant's trademark
12 application. Therefore, even if imputed knowledge was legally sufficient to establish
13 scienter, Plaintiff's allegations still fail as the principal cannot be charged with an agent's
14 knowledge after her departure from the company. (Doc. No. 14 at 11-12.)

15 As stated above, the FAC pleads that ECP was founded in 2003 by Martine and
16 O'Reilly. (Doc. No. 13 at 6.) Martine had longstanding professional relationships with
17 Plaintiff's own executives and was herself knowledgeable of the equine industry as well as
18 Plaintiff's reputation and products. (*Id.*) Generally, under California law, "the knowledge
19 of a corporate officer within the scope of his employment is the knowledge of the
20 corporation." *Meyer v. Glenmoor Homes, Inc.*, 246 Cal. App. 2d 242, 54 Cal. Rptr. 786,
21 800-01 (1966) (citation omitted). As alleged, the FAC contains enough facts to infer that
22 since its founding, ECP had actual knowledge of Plaintiff's products and use of the mark
23 AIR RIDE by virtue of a corporate officer. What Defendant asks this Court to do is
24 inappropriate on a motion to dismiss. (*See* Def. Rep. Doc. No. 17 at 2-3.) Defendant wants
25 this Court to declare that Martine was not a co-founder, did not have personal knowledge
26 of Plaintiff's AIR RIDE mark, and that Plaintiff has merely concluded that Defendant knew
27 of their rights. (*Id.*) Such declarations may be appropriate to seek upon a motion for
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⁶ Plaintiff's FAC refers to Martine Fennelly while Defendant's Response refers to the same individual as "Ms. Martine." For consistency sake, the Court will refer to this individual as "Martine."

1 summary judgment after the close of discovery, but the Court may not do so upon a motion
2 to dismiss.

3 Second, Defendant contends that conclusory averments of copying do not supply the
4 missing scienter. (Doc. No. 13.) While the Court agrees that Plaintiff's allegations of a
5 general scheme of copying is tenuous at best to establish knowledge, the Court does not
6 focus only on one factual allegation in isolation. Instead, when looking at the FAC as a
7 whole, Plaintiff has shown the "who, what, when, where, and how." Plaintiffs have stated
8 with particularity the circumstances that constitute the misconduct alleged which allows this
9 Court to draw an inference of scienter i.e., fraudulent intent. Whether Plaintiff may be able
10 to produce evidence to supports its theory and prove its allegation is another matter,
11 appropriately addressed after discovery.

12 Currently, a review of the FAC shows that Plaintiff's have established enough factual
13 allegations to provide Defendant with notice of the conduct charged and to prepare an
14 answer and/or defense. Moreover, as stated above, conditions of the mind may be averred
15 generally so long as the factual circumstances are stated with particularity. Plaintiff has
16 done so. The Court thus DENIES Defendant's motion to dismiss the second cause of action
17 for fraud on the USPTO.

18 **B. Third Cause of Action: Civil Liability for False Registration**

19 Section 38 of the Lanham Act provides that:

20 Any person who shall procure registration in the Patent and Trademark Office
21 of a mark by a false or fraudulent declaration or representation, oral or in
writing, or by any false means, shall be liable in a civil action by any person
injured thereby for any damages sustained in consequence thereof.

22 15 U.S.C. § 1120.

23 To establish a civil claim for fraudulent procurement, a plaintiff must prove: "(1) a
24 false representation regarding a material fact; (2) knowledge or belief that the representation
25 is false ('scienter'); (3) an intention to induce the listener to act or refrain from acting in
26 reliance on the misrepresentation; (4) reliance on the misrepresentation ('reasonable
27 reliance'); and (5) damage proximately resulting from such reliance." *eCash Techs., Inc. v.*
28 *Guagliardo*, 210 F. Supp.2d 1138, 1149 (C.D. Cal. 2001) (citations omitted).

1 Plaintiff contends that as a result of Defendant's fraudulent registration of their Air
2 Ride marks, "[Defendant] has unfairly gained market share from Plaintiff because
3 consumers wrongfully believed they were purchasing Plaintiff's genuine AIR RIDE saddle
4 pads." (Doc. No. 13 at 14.) Moreover, Plaintiff's sales growth suffered as a result of
5 Defendant's alleged fraudulent conduct. (*Id.*) Defendant moves to dismiss based on many
6 of the same arguments. Specifically, as this cause of action is derivative and dependent
7 upon the validity of Plaintiff's second cause of action for fraud on the USPTO, dismissal is
8 warranted. The Court has denied Defendant's motion to dismiss the second cause of action,
9 therefore this first basis is moot. However, Defendant further argues that the civil liability
10 cause of action must be dismissed as "damages recoverable under § 1120 must flow from
11 registration of the mark, not from its use or enforcement." (*Id.*) Citing to *Gilbert/Robinson*,
12 *Inc. v. Carrie Beverage-Missouri, Inc.*, 989 F.2d 985 (8th Cir. 1993), Defendant argues
13 Plaintiff "does not have standing to bring an action under § 1120 where, as here, the asserted
14 damages flow from the use or enforcement of the mark rather than its registration."
15 Defendant's reliance on *Gilber/Robinson* is misplaced as its conclusion is inapplicable to
16 the case at bar.

17 A person suing for civil liability must show that the damage claimed was proximately
18 caused by assertion or use of the fraudulently procured registration, as the language of the
19 statute states a person shall be liable for damages "sustained in consequence of" the fraud
20 on the USPTO. 15 U.S.C. § 1120. *Gilbert/Robinson* involved an injury to the *infringer*
21 resulting from being enjoined as the infringer. In *Gilbert/Robinson*, the trademark owner,
22 Gilbert, had already acquired trademark rights to the mark "HOULIHAN'S" through thirteen
23 years of use of the mark in commerce.⁷ Gilbert initiated an action against defendant Carrie,
24 after Carrie started operating a bar, "MIKE HOULIHAN'S." As a counterclaim, Carrie
25 alleged that Gilbert obtained their federal registration by fraud. *Id.* at 988-89. The Eighth
26

27 ⁷ Gilbert opened the first HOULIHAN'S restaurant in 1972, applied for its first federal
28 registration in 1975, acquired registration in 1976. Gilbert expanded the HOULIHAN'S franchise and
acquired a second federal registration of HOULIHAN'S OLD PLACE AND LOGO. *Gilbert/Robinson*,
989 F.2d at 987-88. In 1985, Carrie opened a MIKE HOULIHAN'S in close proximity to a Gilbert
restaurant.

1 Circuit found no causation stating that defendant’s damage was not caused by any fraud on
2 the USPTO, because that injury would have been sustained whether there was a federal
3 registration or not. *Id.* at 991. “Thus even without its registrations, [the trademark owner]
4 would have had a substantially similar Lanham Act [§ 43(a)] cause of action and an identical
5 state law claim for infringement and unfair competition.” *Id.* at 991. There was no question
6 that Gilbert had superior rights, acquired through thirteen years of use prior to defendant’s
7 use of the same name. Thus, any alleged fraud did not cause defendant’s injury, as the
8 plaintiff owned a valid mark. *Id.* (“No case has allowed an infringer to recover as [Lanham
9 Act § 38 damages, losses attributable to the trademark owner’s enforcement of a valid mark
10 because the owner *enhanced its rights* by fraudulently procured registration.”)

11 It is obvious that the factual allegations in the instant case distinguish it from
12 *Gilbert/Robinson*, thus making the Eighth Circuit conclusion inapplicable. We are not
13 dealing with a party, already with a superior right, who then tried to “enhance” that right by
14 fraudulent registration. Instead, Plaintiff alleges damages, in terms of lost market share,
15 sales decline, and damage to reputation, caused by the assertion or use of the fraudulently
16 procured registration. *See* McCarthy on Trademarks, § 31:86. Accordingly, the Court
17 DENIES the motion to dismiss the third cause of action.

18 **C. Fifth Cause of Action: Violation of California’s Unfair Competition Law**
19 **(“UCL”)**

20 California Business and Professions Code § 17200 prohibits unfair competition,
21 defined to include any “unlawful, unfair or fraudulent business act or practice that is unfair,
22 deceptive, untrue or misleading advertising.” Cal. Bus. Prof. Code § 17200. The UCL is
23 “written in the disjunctive, it establishes three varieties of unfair competition - acts or
24 practices which are unlawful, unfair, or fraudulent. An act can be alleged to violate any or
25 all of the three prongs of the UCL - unlawful, unfair, or fraudulent.” *Berryman v. Merit*
26 *Prop. Mgm’t, Inc.*, 152 Cal. App. 4th 1544, 1554 (2007). The scope of California’s UCL
27 is “sweeping, embracing anything that can properly be called a business practice and at the
28 same time is forbidden by law.” *Rubin v. Green*, 4 Cal. 4th 1187, 1200 (1993).

1 Plaintiff alleges that Defendant's intentional acts of trademark infringement and fraud
2 on the USPTO constitutes "unlawful, deceptive, and/or unfair business acts and/or
3 practices" under California's UCL. (Doc. No. 13 at 15.) Defendant's only basis for
4 dismissal is the argument that the UCL claim is derivative and dependent of the second
5 cause of action. The Court has already denied the motion to dismiss the second cause of
6 action, accordingly the Court also DENIES the motion to dismiss the fifth cause of action.

7 **IV. CONCLUSION**

8 For the foregoing reasons, Defendant's Motion to Dismiss the Second, Third, and
9 Fifth Causes of Action in the First Amended Complaint is DENIED.

10 IT IS SO ORDERED.

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12 DATED: February 10, 2014

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Hon. Anthony J. Battaglia
U.S. District Judge