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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

INTERNATIONAL FRUIT GENETICS,
LLC, a California limited liability company,

Plaintiff,

v.

ORCHARDDEPOT.COM, a business entity
form unknown; CASEY DONAHUE, an
individual; IAN DONAHUE, an individual;
JOHN DOE NO.1, an unknown seller on
Amazon.com aka NYURKA80; JOHN DOE
NO.2, un unknown seller on Amazon.com
aka GardenSoul; and JOHN DOE NO. 3, an
unknown seller on Amazon.com aka
Garden55,

Defendants.

Case No. 4:17-cv-02905-JSW

**ORDER DENYING MOTION TO
DISMISS**

Now before the Court is the motion to dismiss filed by Defendants Orcharddepot.com, Casey Donahue, Ian Donahue, and Does 1 through 3 (collectively, “Defendants”). Having carefully reviewed the parties papers, considered their arguments and the relevant legal authority, the Court hereby DENIES Defendants’ motion to dismiss.

FACTUAL BACKGROUND

On May 19, 2017, International Fruit Genetics, LLC (“IFG”) filed a complaint alleging claims for patent infringement pursuant to 35 U.S.C. Section 271, unjust enrichment, violation of California Business and Professions Code Section 17200, trademark infringement under 15 U.S.C. Section 1114, unfair competition under 15 U.S.C. Section 1125(a), common law unfair competition, common law trademark infringement, and conversion. Defendants move to dismiss

1 the complaint for failure to state a claim upon which relief can be granted pursuant to Federal Rule
2 of Civil Procedure 12(b)(6).

3 IFG routinely enters into license agreements with a limited number of nurseries to
4 propagate and distribute their proprietary grape plants. There are three IFG patents at issue in this
5 case: (1) a patent covering the IFG six grapevine variety under the registered trademark MOON
6 DROPS; (2) a patent covering the IFG twelve grapevine variety under the registered trademark
7 TEAR DROPS; and (3) a patent covering the IFG nineteen grapevine variety under the registered
8 trademark COTTON CANDY. The license agreements allow the growers to grow, market, farm,
9 and/or sell table grapes from IFG’s proprietary table grape varieties, subject to the terms and
10 conditions of the license agreements. These license agreements, however, expressly forbid the
11 licensees from distributing the vines or cuttings to third parties. Despite these restrictions,
12 Defendants, who operate third party retailer websites, have allegedly been offering for sale and
13 selling cuttings from IFG’s proprietary plants on Amazon.com, and/or through the online orchard
14 supply store Orcharddepot.com.

15 The Court shall address additional relevant facts in the remainder of its order

16 **ANALYSIS**

17 **A. Legal Standard for Motion to Dismiss.**

18 A motion to dismiss is proper under Federal Rule of Civil Procedure 12(b)(6) where the
19 pleadings fail to state a claim upon which relief can be granted. The complaint is construed in the
20 light most favorable to the non-moving party and all material allegations in the complaint are
21 taken to be true. *Sanders v. Kennedy*, 794 F.2d 478, 481 (9th Cir. 1986). However, even under
22 the liberal pleading standard of Federal Rule of Civil Procedure 8(a)(2), “a Plaintiff’s obligation to
23 provide the ‘grounds’ of his ‘entitlement to relief’ requires more than labels and conclusions, and a
24 formulaic recitation of the elements of a cause of action will not do.” *Bell Atlantic Corp. v.*
25 *Twombly*, 550 U.S. 544, 555 (2007) (citing *Papasan v. Allain*, 478 U.S. 265, 286 (1986)).

26 Pursuant to *Twombly*, a plaintiff must not merely allege conduct that is conceivable but
27 must instead allege “enough facts to state a claim to relief that is plausible on its face.” *Id.* at 570.
28 “A claim has facial plausibility when the plaintiff pleads factual content that allows the court to

1 draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Ashcroft v.*
2 *Iqbal*, 556 U.S. 662, 678 (2009) (citing *Twombly*, 550 U.S. at 556.). “The plausibility standard is
3 not akin to a probability requirement, but it asks for more than a sheer possibility that a defendant
4 has acted unlawfully When a complaint pleads facts that are merely consistent with a
5 defendant’s liability, it stops short of the line between possibility and plausibility of entitlement to
6 relief.” *Id.* (quoting *Twombly*, 550 U.S. at 557) (internal quotation marks omitted). If the
7 allegations are insufficient to state a claim, a court should grant leave to amend, unless amendment
8 would be futile. *See, e.g., Reddy v. Litton Indus., Inc.* 912 F.2d 291, 296 (9th Cir. 1990); *Cook,*
9 *Perkiss & Liehe, Inc. v. N. Cal. Collection Serv., Inc.*, 911 F.2d 242, 246-47 (9th Cir. 1990). As a
10 general rule, “a district court may not consider any material beyond the pleadings in ruling on a
11 12(b)(6) motion.” *Branch v. Tunnell*, 14 F.3d 449, 453 (9th Cir. 1994), *overruled on other*
12 *grounds, Galbraith v. County of Santa Clara*, 307 F.3d 1119 (9th Cir. 2002) (citation omitted).

13 **B. Motion to Dismiss.**

14 Defendants move to dismiss on the bases that (1) the first sale exhaustion doctrine bars
15 IFG’s claims for patent infringement, trademark infringement, unfair competition, and other
16 related claims; (2) there is a heightened two-step requirement to allege infringement of a plant
17 patent; (3) IFG’s common law claims are preempted by federal law; and (4) IFG’s unfair
18 competition law claim lacks sufficient facts to support a cognizable legal theory.

19 **1. The First Sale Exhaustion Doctrine Does Not Bar IFG’s Claims.**

20 Defendants contend that a patentee’s sale of a product exhausts the patent rights in that
21 item. As a result, Defendants assert that IFG is barred from bringing its patent infringement,
22 trademark infringement, unfair competition, and other related claims because IFG exhausted its
23 intellectual property rights when IFG licensed its grapevine cuttings to hundreds of growers. IFG,
24 however, argues that there is a fundamental difference between licensing and selling a product.
25 IFG contends that it has not exhausted its patent rights in its proprietary grape varieties because
26 the company imposed restrictions on its licenses and did not sell its products in the open market.

27 A United States patent entitles the patent holder to exclude others from offering for sale or
28 selling the patent holder’s invention throughout the United States. 35 U.S.C. §154(a). When a

1 patentee sells its patented product, however, its patent rights are “exhausted” and they can no
2 longer receive protection for that item under the Patent Act. *See Impressions Products, Inc. v.*
3 *Lexmark Intern., Inc.*, 137 U.S. 1523, 1525 (2017). A license, on the other hand, does not have
4 the same implications as a sale. *Id.* at 1534. Although a patent holder exhausts its patent rights if
5 a licensee complies with the license, a patent holder does not exhaust its patent rights if a licensee
6 makes a sale outside the scope of the license. *See id.* at 1535. In *General Talking Pictures*, the
7 Supreme Court found that both a licensee and a purchaser could be held liable for patent
8 infringement if the licensee made a sale beyond the terms of the license, and the purchaser
9 subsequently ordered and leased the item. *General Talking Pictures v. Western Electric Co.*, 305
10 U.S. 124, 126 (1938) (“The licensee infringed the patentee’s rights because it did not comply with
11 the terms of its license, and the patentee could bring a patent suit against the purchaser only
12 because the purchaser participated in the licensee’s infringement.”).

13 Defendants operate a third-party retailer website, OrchardDepot.com, which allows
14 customers to purchase gardening products. Defendants’ website allegedly offers IFG’s proprietary
15 grapevine cuttings. IFG’s licenses, however, restrict growers from using IFG’s proprietary table
16 grape varieties to propagate new vines themselves and/or to distribute the vines or cuttings to third
17 parties. IFG’s license agreements with its nurseries and growers explicitly provide that IFG owns
18 its proprietary plant material at all times. (See Compl. ¶ 19.) Defendants do not contest the
19 validity of IFG’s licenses. Accordingly, IFG did not exhaust its patent rights because it placed
20 legitimate restrictions on the licenses, which Defendants did not comply with. *See Impressions*
21 *Products* 137 U.S. at 1525. Similar to *General Talking Pictures*, IFG contends that Defendants
22 have been providing and offering the proprietary cuttings on Amazon.com and Orcharddepot.com.
23 *See General Talking Pictures*, 305 U.S. at 126. Taking the material allegations in the complaint as
24 true, Defendants’ actions violate IFG’s licenses and are outside of its scope. As a purchaser,
25 therefore, Defendants may be held liable for patent infringement and cannot prevail on their
26 contention that the first sale exhaustion doctrine limits their liability.

27 Accordingly, the Court finds that the first sale exhaustion doctrine does not bar IFG’s
28 claims because Defendants’ sales were outside the scope of the IFG’s license. On this basis, the

1 Court DENIES Defendants’ motion to dismiss.

2 **2. IFG’s Patent Infringement Claims Satisfy the *Twombly* Pleading Standard.**

3 Defendants next argue that the Court should dismiss the complaint because IFG’s
4 allegations fail to meet the heightened pleading standard for plant patents. The Court finds that
5 there is no heightened pleading standard for plant patents. The case cited by Defendants, *Imazio*
6 *Nursery*, sets forth the standard at summary judgment. *Imazio Nursery, Inc. v. Dania*
7 *Greenhouses*, 69 F.3d 1560, 1569 (Fed. Cir. 1995). The plausible pleading standard at the motion
8 to dismiss stage, as construed in *Iqbal* and *Twombly*, applies to patent cases. *FootBalance Sys. v.*
9 *Zero Gravity Inside, Inc.*, No. 15-CV-1058 (JLS), 2017 WL 1215832 * 7 (S.D. Cal. 2017) (noting
10 that Rule 8 pleading standards as construed in *Iqbal* and *Twombly* govern in patent cases).

11 Here, IFG has sufficient facts to state a claim to relief that is plausible on its face.
12 Defendants have allegedly offered for sale and sold cuttings from IFG’s proprietary plants on
13 Amazon.com and Orcharddepot.com using the registered trademarks of IFG. The listings for
14 these grape cuttings included photographs of grapes, which matched the descriptions of IFG’s
15 proprietary plant material. These allegations are sufficient at the procedural stage and satisfy the
16 pleading standard. Accordingly, the Court DENIES Defendants’ motion to dismiss.

17 **3. IFG’s Common Law Claims are not Preempted by Federal Law.**

18 Defendants contend that IFG’s state law claims are preempted by federal law because IFG
19 only challenged conduct relating to the alleged patent infringement that is based in federal patent
20 law. IFG seeks relief for five state law claims: unjust enrichment, violation of California Business
21 and Professions Code Section 17200, common law unfair competition, common law trademark
22 infringement, and conversion. IFG argues that the Patent Act does not regulate these areas;
23 therefore, the state law claims do not conflict and are not preempted by federal law.

24 Several courts have found that state law is not “displaced” merely because it relates to
25 intellectual property law. *See, e.g., Smith v. Healy*, 744 F. Supp. 2d 1112, 1119 (D. Or. 2010);
26 *Bonito Boats v. Thunder Craft Boats*, 489 U.S. 141, 165 (1989). To determine if state laws are
27 preempted by federal law, courts have stated that the primary consideration is “whether that law
28 stands as an obstacle to the accomplishment and execution of the full purposes and objectives of

1 Congress.” *See Smith*, 744 F. Supp. 2d at 1119 (“In this as in other fields, the question of whether
2 federal law preempts state law involves a consideration of whether that law stands as an obstacle
3 to the accomplishment and execution of the full purposes and objectives of Congress. If it does
4 not, state law governs.”). Here, the purpose of the patent system is to “foster and reward
5 innovation, stimulate further innovation, and ensure free use of ideas in the public domain.” *G.S.*
6 *Rasmussen & Associates, Inc. v. Kalitta Flying Service, Inc.*, 958 F.2d 896, 905 (9th Cir. 1992).
7 Based on this purpose, courts have found that state contract laws enforcing royalty agreements,
8 trade secret protection, and unfair competition laws are not “inconsistent with the operation of
9 federal patent laws” and are not preempted by federal law. *See, e.g. Bonito Boats*, 489 U.S. at 166
10 (“Both the law of unfair competition and state trade secret law have coexisted harmoniously with
11 federal patent protection for almost 200 years, and Congress has given no indication that their
12 operation is inconsistent with the operation of the federal patent system.”); *G.S. Ramussen*, 958
13 F.2d at 905; *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1978) (“Commercial
14 agreements traditionally are the domain of state law. State law is not displaced merely because the
15 contract relates to intellectual property which may or may not be patentable; the states are free to
16 regulate the use of such intellectual property in any matter not inconsistent with federal law.”)

17 IFG alleges that Defendants have offered for sale and sold cuttings from IFG’s proprietary
18 plants on Amazon.com and/or through Orchard.Depot.com to customers who IFG believes may be
19 using these cuttings to propagate its proprietary plant material. For example, plaintiff alleges that
20 all of the Doe defendants have offered for sale and sold grapevine cuttings on Amazon.com and
21 have used IFG’s trademarks in their listings. By engaging in this practice, IFG argues that
22 Defendants have unjustly received significant benefits, including profits from these cuttings. (See
23 Compl. ¶ 47.)

24 IFG’s state law claims are also based on allegations that Defendants converted plant
25 material owned by IFG, are currently profiting from such conversion, and are thus liable for unfair
26 competition. In addition, IFG alleges that Defendants have used their widely known COTTON
27 CANDY trademark to market IFG’s proprietary plants, which has caused substantial damage to
28 IFG. (See Compl. ¶ 54-55.) Like *Smith* and *Bonito Boats*, IFG’s state law claims are not

1 preempted by federal law because Congress has given no indication that these state law claims are
2 inconsistent with federal patent law. *See Smith*, 744 F. Supp. 2d at 1119; *Bonito Boats*, 489 U.S.
3 at 166. Accordingly, on this basis, the Court DENIES Defendants’ motion to dismiss.

4 **4. IFG Has Stated a Valid Claim for Unfair Competition Under Section**
5 **1125(a)(1)(A).**

6 Finally, Defendants argue that IFG does not meet the pleading standard under Section
7 1125(a). IFG argues that the pleading standard set forth by Defendants is incorrect because
8 Defendants contentions relate to the pleading standard under Section 1125(a)(1)(b) for false
9 advertising, while the cause of action for false association is under Section 1125(a)(1)(A). *See*
10 *Zoller Laboratories, LLC v. NBTY, Inc.*, 111 Fed. Appx. 978, 982 (2004). (“Section 1125(a) thus
11 creates two distinct bases of liability: false association, §1125(a)(1)(A), and false advertising
12 §1125(a)(1)(B).”). The Court finds that Defendants used the incorrect pleading standard under
13 Section 1125(a)(1)(A). *See Summit Tech v. High-Line Medical Instruments, Co.*, 933 F. Supp.
14 918, 928 (C.D. Cal. 1996) (“In order to succeed on an infringement/false designation of origin
15 claim under Section 1125(a)(1)(A), Plaintiff must prove each of the following: (1) defendant uses
16 a designation (any word, term, name, device, or any combination thereof) or false designation of
17 origin; (2) the use was in interstate commerce; (3) the use was in connection with goods or
18 services; (4) the designation is likely to cause confusion, and (5) plaintiff has been or is likely to
19 be damaged by these acts.”)

20 IFG has sufficiently pled facts to meet the applicable standard for a false association claim
21 under Section 1125(a)(1)(A). Accordingly, the Court DENIES Defendants’ motion to dismiss on
22 this basis.

23 **CONCLUSION**

24 For the foregoing reasons, the Court DENIES Defendants’ motion to dismiss. The Court
25 shall conduct the initial case management conference in this matter on March 30, 2018 at 11:00


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a.m. The joint case management conference statement shall be filed no later than March 23, 2018.

IT IS SO ORDERED.

Dated: February 12, 2018



JEFFREY S. WHITE
United States District Judge