

**TENTATIVE Order Regarding Motion to Dismiss Counterclaim [37]**

Plaintiffs/Counter-Defendants Cookies SF LLC (“Cookies SF”) and Cookies Retail Products, LLC (“CRP”) (collectively “Cookies”) move to dismiss Defendants/Counterclaimants’ AK Futures LLC (“AK Futures”) counterclaims 1, 2, and 4 pursuant to Fed. R. Civ. P. 12(b)(6). (Dkt. No. 37). AK Futures opposed. (Dkt. No. 39). Cookies replied. (Dkt. No. 40).

For the following reasons, the Court **GRANTS** in part and **DENIES** in part the motion.

**I. BACKGROUND**

This case concerns trademark infringement, false designation of origin, unfair competition, and invalid copyright claims arising from the marketing and sale of clothing, merchandise, vaporizer products, and cannabis-derived products. (Compl. Dkt. No. 1).

Cookies are California-based corporations that sell cannabis-based products and related paraphernalia. (Counterclaim (“Countercl.”) ¶ 1, Dkt. No. 27). Cookies allegedly registered the “COOKIES mark,” the “C Logo mark,” and the “Cookies stylized mark” (referred to as “Cookies marks”) on clothing and merchandise that “are designed to evade or frustrate federal law.” (*Id.*). For example, Cookies advertise “smell proof” pockets to evade federal law enforcement. (*Id.*). Cookies have registered some of their marks with the U.S. Patent and Trademarks Office in different categories of products since 2014, 2016, and 2017. (Complaint (“Compl.”) ¶ 8, Dkt. No. 1). Cookies allege that their trademarks have been in continuous use since 2013. (*Id.* ¶ 11).

AK Futures, a delta8-tetrahydrocannabinidiol (“delta 8 THC”) company, has continuously used the “CAKE” word in stylized marks and used the cake design mark (collectively referred to as the “Cake marks”) since October 2020. (Countercl. ¶ 2). A comparison of the parties’ marks and logos are provided below:

Cookies' Trademarks	Defendants' Branding
	
	

(Compl. ¶ 20).

AK Futures alleges that Cookies registered the Cookies marks in a wide range of categories, like apparel and backpacks, in an effort to defraud the U.S. Patent and Trademarks Office because the marks are actually used to sell unlawful goods, *i.e.*, marijuana paraphernalia whose sale is prohibited by the Controlled Substances Act. (Countercl. ¶¶ 15–16). It is further alleged that Cookies have recently entered the market for delta-8 products after AK Futures launched its successful CAKE brand in the United States. (*Id.* ¶ 18). Because Cookies are seeking to derive sales of delta-8 products that are marketed together with illegal goods in retail stores, AK Futures alleges that this unlawful “bundling” constitutes unfair competition with AK Futures’ lawful sales of delta-8 products. (*Id.*).

Cookies brought federal and state law claims against AK Futures for trademark infringement of their Cookies marks and declaratory relief of invalid copyright. (Compl. Dkt. No. 1).

AK Futures brings the following counterclaims against Cookies: (1) trademark cancellation on the basis of fraudulent registration; (2) trademark cancellation on the basis of unlawful use in commerce; (3) declaratory judgment on AK Futures’ noninfringement of the Cookies marks; and (4) unfair competition

under state law. Cookies now seek to dismiss counterclaims 1, 2, and 4. (Mot., Dkt. No. 37).

## II. LEGAL STANDARD

Under Rule 12(b)(6), a defendant may move to dismiss for failure to state a claim upon which relief can be granted. A plaintiff must state “enough facts to state a claim to relief that is plausible on its face.” Bell Atl. Corp. v. Twombly, 550 U.S. 544, 570 (2007). A claim has “facial plausibility” if the plaintiff pleads facts that “allow[] the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” Ashcroft v. Iqbal, 556 U.S. 662, 678 (2009).

In resolving a Rule 12(b)(6) motion under Twombly, the Court must follow a two-pronged approach. First, the Court must accept all well-pleaded factual allegations as true, but “[t]hreadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice.” Iqbal, 556 U.S. at 678. Most succinctly stated, a pleading must set forth allegations that have “factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” Id. Courts “are not bound to accept as true a legal conclusion couched as a factual allegation.” Id. (quoting Twombly, 550 U.S. at 555). “In keeping with these principles[,] a court considering a motion to dismiss can choose to begin by identifying pleadings that, because they are no more than conclusions, are not entitled to the assumption of truth.” Iqbal, 556 U.S. at 679.

Second, assuming the veracity of well-pleaded factual allegations, the Court must “determine whether they plausibly give rise to an entitlement to relief.” Id. at 679. This determination is context-specific, requiring the Court to draw on its experience and common sense, but there is no plausibility “where the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct.” Id.

### III. DISCUSSION

#### A. *Request for Judicial Notice*

In general, district courts may not consider any material beyond the pleadings in ruling on a Rule(b)(6) motion, but the Court may take judicial notice of documents referenced in the complaint and matters of public record without converting a motion to dismiss into a motion for summary judgment, with two exceptions. See Fed. R. Civ. P. 12(b)(6); Chavez v. United States, 683 F.3d 1102, 1108 (9th Cir. 2012). First, a court may take judicial notice of matters of public record if the facts are not “subject to reasonable dispute.” Lee v. City of Los Angeles, 250 F.3d 668, 688–89 (9th Cir. 2001); see Fed. R. Evid. 201(b) (providing that courts may judicially notice such facts because they are either generally known within the court’s territorial discretion or can be “accurately and readily determined from sources whose accuracy cannot reasonably be questioned. But courts cannot take notice of “disputed facts contained in such public records.” Khoja v. Orexigen Therapeutics, Inc., 899 F.3d 988, 999 (9th Cir. 2018). Second, a court may “consider material which is properly submitted as part of the complaint.” Lee, 250 F.3d at 688.

Cookies request the court take judicial notice of status and title printouts reflecting Cookies’ trademark filings from the United States Patent & Trademark online database. (Mot. 38). AK Futures did not oppose. The Court **GRANTS** judicial notice of the existence of the foregoing documents because they are matters of public record.

#### B. *Motion to Dismiss Under Fed. R. Civ. P. 12(b)(6)*

Cookies argues that dismissal of counterclaims 1, 2, and 4 should be dismissed because AK Futures counterclaims are based on the theory that Cookies’ trademarks are “associated” with unlawful cannabis products, and such theory is unsupported by law. Under Cookies’ view, the Controlled Substances Act “does not transform everyday items into drug paraphernalia” simply because they are “used with cannabis in some fashion.” (Mot. 7).

1. Counterclaim 1: Trademark Cancellation Based on Fraudulent Registration

A defendant can seek to cancel a plaintiff's trademark registration if the defendant can show that the registration was obtained by fraud. 15 U.S.C. § 1064(3); *id.* § 1119 (providing courts with the power to cancel registration); *In re Bose Corp.*, 580 F.3d 1240, 1245 (Fed. Cir. 2009); *eCash Techs., Inc. v. Guagliardo*, 127 F. Supp. 2d 1069, 1079 (C.D. Cal. 2000). Any person who procures registration with the U.S. Patent and Trademark Office by "a false or fraudulent declaration or representation," or "by any false means," shall be liable in a civil action by the injured person. 15 U.S.C. § 1120. Fraud in procuring a trademark registration occurs "when an applicant for registration knowingly makes a specific false material representation of fact in connection with an application to register, with the intent of obtaining a registration to which it is otherwise not entitled." *PepsiCo, Inc. v. Arriera Foods LLC*, 2022 TTAB LEXIS 327, at \*25 (T.T.A.B, Sept. 20, 2022) (citing *In re Bose Corp.*, 580 F.3d at 1240).

To prevail on a cancellation action, a party must establish by clear and convincing proof: (1) false representation regarding a material fact; (2) knowledge of its falsity; (3) intent to induce the USPTO to act in reliance on the misrepresentation; (4) reasonable reliance by the USPTO on the misrepresentation; and (5) damages. *Robi v. Five Platters, Inc.*, 918 F.2d 1439, 1444 (9th Cir. 1990); e.g., *Brutus & Barnaby, LLC v. Broth*, No. 2:20-cv-09094, 2021 U.S. Dist. LEXIS 140597, at \*6 (C.D. Cal. Apr. 2, 2021); *AirWair Int'l Ltd. v. Schultz*, 84 F. Supp. 3d 943 (N.D. Cal. 2015). Courts have acknowledged that misleading omissions of material fact are actionable fraud. *BBK Tobacco & Foods LLP v. Cent. Coast Agric. Inc.*, No. CV-19-05216, 2022 U.S. Dist. LEXIS 127964, at \*80 (D. Ariz. July 19, 2022) (acknowledging that material omissions in a trademark application could be the basis for a fraud claim); see also *Buti v. Impresa Perosa, S.R.L.*, 935 F. Supp. 458, 474 (S.D.N.Y. 1996), *aff'd*, 139 F.3d 98 (2d Cir. 1998); *Citibank, N.A. v. Citibanc Group, Inc.*, 215 U.S.P.Q. 884, 902 (N.D. Ala. 1982), *aff'd*, 724 F.2d 1540 (11th Cir. 1984).

Under Federal Rule of Civil Procedure 9(b), a pleading claiming "fraud" must "state with particularity the circumstances constituting fraud or mistake." Fed. R. Civ. P. 9(b); *Brutus & Barnaby, LLC*, 2021 U.S. Dist. LEXIS 140597, at \*11. A pleading that identifies the specific document, the date on which it was filed with the U.S. Patent and Trademark Office ("USPTO"), and the alleged

misrepresentations therein is sufficient under Fed. R. Civ. P. 9(b). See Top Producer Sys. v. Software Scis. Ltd., No. 97-0415, 1997 U.S. Dist. LEXIS 12368, at \*8 (D. Or. July 21, 1997).

Here, AK Futures seeks to cancel five of Cookies' trademark registrations<sup>1</sup> because Cookies falsely represented in their "use in commerce" declarations that they were for "lawful use" rather than marijuana<sup>2</sup> paraphernalia under the Controlled Substances Act. (Countercl. ¶ 21). The product categories in which Cookies registered their marks include goods such as odor neutralizers, vacuum sealer machines, plastic storage bags, backpacks, storage containers, and apparel (sweatshirts and T-shirts). (Id.). These items were meant to: "neutralize the odor of its marijuana products," "store and transport" marijuana, "to facilitate the storage and transport of its marijuana products," to "facilitate the smoking" of marijuana products, and "to conceal [the] odor [of marijuana] from federal law enforcement." (Id. ¶¶ 23–27). Cookies argue that none of the items listed in the counterclaims classify as drug paraphernalia under the Controlled Substances Act because (1) they are not "primarily" designed to conceal marijuana and (2) even if they were, they are exempt 21 U.S.C. § 863(f)(1) because California legalized marijuana.

The Controlled Substances Act prohibits the sale of "drug paraphernalia." 21 U.S.C. § 863(a). "Drug paraphernalia" is defined as "any equipment, product, or material of any kind which is *primarily intended or designed* for use in manufacturing, compounding, converting, *concealing*, producing, processing, preparing, injecting, ingesting, inhaling, or otherwise introducing into the human body a controlled substance, possession of which is unlawful under this subchapter." Id. § 863(d) (emphasis added). Courts may consider other factors, such as accompanying instructions with the items concerning their use, descriptive materials that explain or depict their use, the manner in which the items are displayed for sale. Id. § 863(e) (listing eight factors).

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<sup>1</sup> The "C Logo Mark" is registered under Registration No. 5305159. (Compl. ¶ 11). The "COOKIES Trademark" is registered under Registration Nos. 5319867, 5305158, 4951161, and 4619692. (Id.).

<sup>2</sup> The Controlled Substances Act uses the spelling "marihuana." 21 U.S.C. § 802(16).

There is no question that the items as described in Cookies’ trademark applications have obvious legal uses. And a trademark applicant need not affirmatively disclose every existing or potential unlawful uses of such products. See, e.g., Veliz v. Veliz, No. 6:19-cv-00094, 2021 U.S. Dist. LEXIS 195395, 2021 WL 4538489, at \*5 (S.D. Tex. Aug. 12, 2021).

But Cookies’ trademark registrations could, in theory, be cancelled if Cookies’ the items were “primarily intended or designed for . . . concealing” marijuana and Cookies intentionally concealed such fact from their trademark applications. 21 U.S.C. § 863(a). The Court is convinced that such omission is likely “material” to the USPTO’s evaluation of whether to grant the registration of the marks. BBK Tobacco & Foods LLP v. Cent. Coast Agric. Inc., No. CV-19-05216, 2022 U.S. Dist. LEXIS 127964, at \*80 (D. Ariz. July 19, 2022) (acknowledging omissions that the goods for which the marks were registered were in fact “drug paraphernalia” could be materially misleading, but declining to conclude as such on summary judgment).

To survive a motion to dismiss, AK Futures must allege with particularity that each of the goods for which the marks are registered were “primarily intended or designed for use” in concealing marijuana. (Mot. 9 (agreeing); Opp’n 7 (same)). Cookies argue that “even if [they] advertise smell-proof pockets, [AK Futures] cannot establish that the pockets are *primarily intended or designed* specifically to hide the smell of cannabis”<sup>3</sup> because consumers regularly seek to conceal other odors, like pet odors or gym body odors. (Mot. 10). Whether or not the items are *actually* primarily intended or designed for use in concealing marijuana is not an appropriate question to resolve a motion to dismiss.

While the Court generally agrees with Cookies that general household items cannot be “transformed” into drug paraphernalia simply because they can be used with cannabis, that is not what AK Futures is alleging here. AK Futures has specifically alleged that certain goods were designed with “smell-proof” features to

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<sup>3</sup> While Cookies argues that “concealing odor is not the same thing as ‘concealing’ [marijuana],” (reply 3), this is a distinction without a difference. Cookies also argue that their representations cannot be misleading or false because Cookies were not selling any marijuana products at the time of the registrations, (reply 5–6), but this argument is largely unresponsive to whether the products were primarily designed to conceal marijuana and therefore “drug paraphernalia.”

conceal the strong odor of marijuana products from federal law. (See Countercl. ¶¶ 15, 23– 27) (“[A]pparel and backpacks that are designed with ‘smell proof’ cannabis-carrying features meant to evade detection by law enforcement”). Specifically, the odor-concealing items include “plastic bags, backpacks, storage containers, and apparel *pockets designed to . . . conceal* their odor from federal law enforcement,” (Compl. ¶ 23 (emphasis added)), and sweatshirts and T-shirts with “*pockets designed to conceal the odor* of marijuana products from federal law enforcement,” (*id.* ¶ 27 (emphasis added)). Based on these allegations, Cookies’ apparel were not ordinary sweaters or T-shirts in the traditional sense, but those that contained special “smell-proof” pockets designed to conceal marijuana. Whether those features include special zippers, liners, or fabrics can be elucidated in discovery.

However, AK futures does not provide any specific allegations that the other goods that do not have “pockets” also have “smell-proof features” designed primarily to conceal the odor of marijuana. AK Futures still must provide sufficient facts that *each* of the goods specified in each of the registration statements were primarily intended or designed to conceal marijuana odor. Plastic bags, storage containers, and lunch bags generally conceal odors, and there are no allegations that these products had any special “marijuana concealing” features. Thus, those items, as alleged, are not “drug paraphernalia.”

While the parties do not substantively discuss BBK Tobacco & Foods LLP, 2022 U.S. Dist. LEXIS 127964, the Court distinguishes BBK Tobacco from the instant case. There, the district court held that statements made in the trademark application did not contain misleading omissions, even though the defendant also argued that the products constituted marijuana “drug paraphernalia” under § 863(d). *Id.* Like Cookies, the trademark applicant in BBK Tobacco registered marks for apparel and merchandise in connection with its cannabis-related products. *Id.* However, unlike the allegations in BBK Tobacco, the allegations here specifically state that the products were designed with “smell-proof” features intended to conceal marijuana odors.

Next, Cookies argues that even if such items can be considered “drug paraphernalia” under § 863(d), they are exempt from the definition under § 863(f). There are two ways in which items can be exempt from the Controlled Substances Act’s definition of “drug paraphernalia.” First, the prohibition of selling drug paraphernalia shall not apply to “any person authorized by local, State, or Federal

law to manufacture, possess, or distribute such items.” 21 U.S.C. § 863(f)(1). Second, it shall not apply to “any item that, in the normal lawful course of business, is imported, exported, transported, or sold through the mail or by any other means, and traditionally intended for use with tobacco products, including any pipe, paper, or accessory.” *Id.* § 863(f)(2) (commonly referred to as the “Tobacco Exception”).

With respect to the apparel with marijuana “smell-proof” features, AK Futures raises numerous arguments that the § 863(f)(1) does not apply. First, “legalization of marijuana [in California]” does not mean that the drug paraphernalia items are also authorized for sale. (Opp’n 10). This is because the statute explicitly states “such items,” referring to drug paraphernalia, not the broader category of the drug itself. *See* 21 U.S.C. § 863(f)(1). The Court is unpersuaded by AK Futures’ narrow interpretation of § 863(f)(1). California has authorized in 2016 the sale and possession of recreational marijuana and its “accessories.” Cal. Health & Safety Code § 11362.1 (West, Westlaw through 2022 Reg. Sess.). AK Futures argues that “cannabis accessories” cannot be interpreted to apply to products designed or intended for concealing cannabis because such use is not listed in the statute’s definition of “cannabis accessories.”<sup>4</sup> However, “packaging” and “storing” are listed among the list of items that qualifies as “cannabis accessories,” *see* Cal. Health & Safety Code § 11018.2 (West, Westlaw through 2022 Reg. Sess.). The Court therefore rejects AK Futures’ reading of California law.

Next, AK Futures argues that § 863(f)(1) applies only to persons, not items, and therefore the statements made are still misleading. This “intentional choice of language” has led at least one out-of-circuit district court in a civil forfeiture case to conclude, based on the plain meaning of the text, that “[s]ection 863(f)(1) exempts ‘any person’ from prosecution, while § 863(f)(2) exempts ‘an item’ from the definition of drug paraphernalia.” United States v. Assorted Drug Paraphernalia Valued at \$29,627.07, No. CV 18-143, 2018 WL 6630524, at \*8

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<sup>4</sup> “Cannabis accessories” means “any equipment, products or materials of any kind which are used, intended for use, or designed for use in planting, propagating, cultivating, growing, harvesting, manufacturing, compounding, converting, producing, processing, preparing, testing, analyzing, packaging, repackaging, storing, smoking, vaporizing, or containing cannabis, or for ingesting, inhaling, or otherwise introducing cannabis or cannabis products into the human body.” Cal. Health & Safety Code § 11018.2 (West, Westlaw through 2022 Reg.Sess.).

(D.N.M. Dec. 19, 2018). The court concluded that Congress did not intend to shield drug paraphernalia from lawful forfeiture. *Id.* Not only is this decision not binding upon this Court, but the Court also finds that the issues and facts are sufficiently distinguishable. The Court thus rejects this reading of § 863(f)(1).

Next, AK Futures argues that because federal trademark registrations are national in scope, Cookies' reliance on § 863(f)(1) still fails because its products are unlawful in other states. (Opp'n 12). In other words, because the underlying goods are lawful "drug paraphernalia" in California but unlawful in other states, the statement contained in the federal registration application that the goods are "for lawful use" is still materially misleading. The Court has not identified any authority that addresses this tension. However, Court recognizes the USPTO's stringent policy in denying trademark registrations where the underlying goods are prohibited federally despite being lawful under state law. See In re JJ206, LLC, DBA Juju Joints, 120 U.S.P.Q. 1568, 2016 TTAB LEXIS 518, at \*3, 5–6 (T.T.A.B. 2016) (noting that a good is lawful under state law is "irrelevant to the question of federal registration when it is unlawful under federal law" and finding that the cannabis vaporizing pens were "drug paraphernalia" (quoting In re Morgan Brown, 119 U.S.P.Q. 1350, 2016 TTAB LEXIS 285, at \*1 (T.T.A.B. 2016))); In re PharmaCann LLC, 123 U.S.P.Q.2d 1122, 2017 TTAB LEXIS 177, at \*24 (T.T.A.B. June 16, 2017) ("We must determine the eligibility of marijuana-related marks for federal registration by reference to the [Controlled Substances Act] as it is written, not as it might be enforced at any point in time by any particular Justice Department."). In the Court's view, this is sufficient to conclude that omitting statements in a federal registration that the goods are federally prohibited drug paraphernalia is actionable fraud. Cookies attempt to distinguish In re JJ206 on the basis that "cannabis was in the identification" of the drug paraphernalia, but the Court is unconvinced that the term "cannabis" must appear within the registration description to be considered "drug paraphernalia." The Court thus concludes that Cookies cannot rely on § 863(f)(1).

With respect to the ashtrays and lighters (Registration No. 495116, RJN 2, Dkt. No. 38), the Court finds that there are no allegations that support the conclusion that they are "drug paraphernalia" as opposed to ordinary lighters or ashtrays, which are not federally prohibited.

Based on the foregoing, the Court finds that the allegations pertaining only to the apparel containing "smell-proof" pockets are sufficient under Fed. R. Civ. P.

12(b)(6) and 9(b)—but not as to the other categories of goods as pled—because such goods are prohibited “drug paraphernalia.” To that extent, the Court **GRANTS** in part and **DENIES** in part Cookies’ Motion as to this counterclaim.

2. Counterclaim 2: Trademark Cancellation Based on Unlawful Use

AK Futures seeks to cancel Cookies’ trademark registrations because Cookies “sell marijuana products and paraphernalia” under the Controlled Substances Act. (Countercl. ¶ 32, 35). For similar reasons, Cookies contend that AK Futures fails to state a claim for trademark cancellation based on unlawful use.

Only “lawful” use<sup>5</sup> of the underlying goods in commerce can give rise to trademark registration 15 U.S.C. § 1051(a)(3)(c); CreAgri v. USANA Health Sciences, 474 F.3d 626 (9th Cir. 2007) (“[O]nly lawful use in commerce can give rise to trademark priority.”); Kiva Health Brands LLC v. Kiva Brands Inc., 402 F. Supp. 3d 877, 888 (N.D. Cal. 2019) (collecting cases); see In re Morgan Brown, 119 U.S.P.Q. 2d 1350 (T.T.A.B. July 14, 2016) (“[A]ny goods or services for which the mark is used must not be illegal under federal law.”).

But “immaterial” or “collateral” unlawful conduct will not preclude trademark protection if “there is an insufficient nexus between the unlawful behavior and the use of the mark in commerce.” S. Cal. Darts Ass’n v. Zaffina, 762 F.3d 921, 931 (9th Cir. 2014) (holding that the applicant’s failure to pay taxes was “unrelated to the purpose of the federal trademark laws and, therefore, collateral and immaterial,” and the “unsubstantiated accusations” of illegal acts were “not sufficient to prove that [the applicant] acted unlawfully” on summary judgment); AK Futures Ltd. Liab. Co. v. Boyd St. Distro, Ltd. Liab. Co., 35 F.4th 682, 689 (9th Cir. 2022) (“[I]llegal activity of insufficient gravity or connection to a mark’s use in commerce might not defeat an otherwise valid trademark.”).

Here, the Cookie marks do not “encompass” any marijuana products. See In re Brown, 119 U.S.P.Q.2d at 1350 (finding that if a mark “encompasses” illegal goods, that alone can provide a basis for refusing the mark’s registration).

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<sup>5</sup> Cookies also challenges the lawful use doctrine on the basis that the Lanham Act requires only “use in commerce,” not “use in lawful commerce.” (See Reply 10). The Court sees no reason why it should depart from Ninth Circuit precedence on the lawful use doctrine.

Compare AK Futures Ltd. Liab. Co., 35 F.4th at 689 (finding that delta-8 THC products are not prohibited by federal law and could support a valid trademark), with Wunderwerks, Inc. v. Dual Behav. Co. LLC, No. 21-cv-04980, 2021 U.S. Dist. LEXIS 233409, at \*9 n.6 (N.D. Cal. Dec. 6, 2021) (finding that the federally registered mark is “likely to be invalid” because the products included cannabis-infused beverages and thus “lawful use” could not be established), and BBK Tobacco & Foods LLP v. Skunk Inc., No. CV-18-02332, 2020 U.S. Dist. LEXIS 46728, at \*8 (D. Ariz. Mar. 18, 2020) (finding that the USPTO’s “strong policy against authorizing registrations of unlawful goods” would have precluded registration of the applicant’s mark for cannabis-based goods).

Nor do the marks encompass unlawful marijuana-concealing paraphernalia, (see discussion supra), with the exception of the products with the special “pockets” (Registration Nos. 5305159, 4619692) that the Court has concluded is sufficiently pled as unlawful drug paraphernalia. The Court also finds that the “unlawful” activity (selling drug paraphernalia) is sufficiently tied to the use of the marks with respect to these items. Cf. S. Cal. Darts Ass’n, 762 F.3d at 931. With respect to the other items, the Court concludes that the registrations (Registration Nos. 5319867, 5305158, 4951161) cannot be cancelled based on unlawful use.

To that extent, the Court **GRANTS** in part and **DENIES** in part the Motion as to this counterclaim.

### 3. Counterclaim 4: Unfair Competition Under California Law

AK Futures brings forth a claim for unfair competition under the Cal. Bus. & Prof. Code § 17200 (“UCL”), which prohibits any “unlawful, unfair or fraudulent business act or practice.” “Each prong [unlawful, unfair, or fraudulent] of the UCL is a separate and distinct theory of liability . . . .” Lozano v. AT&T Wireless Servs., Inc., 504 F.3d 718, 731 (9th Cir. 2007).

#### a. **Unlawful Business Practices**

First, AK Futures alleges that the Cookies’ practices of “marketing and sale of marijuana products” constitutes “unlawful” business practices because Cookies offers marijuana products on its website and sells the products at dozens of retail locations. ((Countercl. ¶¶ 13, 45–46).

The term “unlawful” has “a straightforward and broad interpretation.” CRST Van Expedited, Inc. v. Werner Enters., Inc., 479 F.3d 1099, 1107 (9th Cir. 2007). The California Supreme Court has stated that the UCL “covers a wide range of conduct,” embracing “anything that can properly be called a business practice and that at the same time is forbidden by law.” Id. Section 17200 “borrows violations from other laws by making them independently actionable as unfair competitive practices.” Id. (internal quotations omitted).

The parties dispute whether federal or state law serves as the predicate violation to support a claim under the UCL. Cookies argues that its sales of marijuana products cannot constitute “unlawful” business practices because California legalized marijuana. (Mot. 18). It persuasively argues that the unfair competition statute cannot be used to prohibit activity that is expressly allowed by California’s Health and Safety Codes (Mot. 19 (citing Cal. Gov’t Code § 11342.2 and § 11349 (West, Westlaw current through 2022 Reg. Sess.)). Citing numerous cases in opposition, AK Futures argues that violations of the Controlled Substances Act necessarily support a UCL claim regardless of whether marijuana is legal at the state level. (Opp’n 18).

A review of the case law cited by AK Futures shows that none have held that the mere selling of cannabis supports a claim under the UCL. Each of the cases involved conduct independent from the sale of cannabis, such as nuisance from the odor of marijuana cultivation, Bokaie v. Green Earth Coffee LLC, No. 18-cv-05244, 2018 U.S. Dist. LEXIS 216960, at \*19 (N.D. Cal. Dec. 27, 2018), false statements on the labeling of cannabis products, Ballard v. Bhang Corp., No. 19-2329, 2020 U.S. Dist. LEXIS 188626, at \*3, 17–18 (C.D. Cal. Sep. 25, 2020), trademark tarnishment, Tapatio Foods, LLC v. Rodriguez, No. 1:19-cv-00335, 2019 U.S. Dist. LEXIS 201627, at \*10 (E.D. Cal. Nov. 19, 2019), or trademark infringement based on similarly confusing products that include cannabis-infused beverages Wunderwerks, Inc. v. Dual Behav. Co. LLC, No. 21-cv-04980, 2021 U.S. Dist. LEXIS 233409, at \*11-13 (N.D. Cal. Dec. 6, 2021). Under AK Futures’ theory, every seller of cannabis in California violates the UCL simply by selling cannabis. This is unsupported.

## **b. Unfair Business Practices**

Second, AK Futures alleges that “Cookies’ marketing and sale of marijuana products violates the Controlled Substances Act” and that Cookies’ “bundling” and

“cross-promotion of illegal marijuana products with Delta-8 products” is harming AK Futures and constitutes unfair competition.” (Countercl. ¶¶ 18, 45–46). In essence, AK Futures argues that Cookies “lure” consumers with the promise of “illegal marijuana” and then sell lawful Delta-8 products to compete with AK Futures’ brand. (Opp’n 18).

An unfair business practice under the UCL is “one that either offends an established public policy or is immoral, unethical, oppressive, unscrupulous, or substantially injurious to consumers.” McDonald v. Coldwell Banker, 543 F.3d 498, 506 (9th Cir. 2008). When a plaintiff “who claims to have suffered injury from a direct competitor’s ‘unfair’ act or practice invokes section 17200, the word ‘unfair’ in that section means conduct that threatens an incipient violation of an antitrust law, or violates the policy or spirit of one of those laws because its effects are comparable to or the same as a violation of the law, or otherwise significantly threatens or harms competition.” Cel-Tech Comms., Inc. v. Los Angeles Cellular Tel. Co., 20 Cal. 4th 163, 187 (1999).

Even if this Court were to accept that the selling of marijuana is “illegal,” the only authority for which AK Futures cites for its bundling and cross-selling of illegal and legal products theory is Knuttel v. Omaze, Inc., No. 2:21-CV-09034, 2022 WL 1843138, at \*13 (C.D. Cal. Feb. 22, 2022), which dismissed the plaintiff’s claims under the unfairness prong of the UCL and does not support AK Futures’ theory. There are no allegations in the Counterclaim that show that Cookies’ practices unfairly disadvantage AK Futures. Under AK Futures’ theory, every cannabis seller in California could be liable to it simply by offering cannabis products and noncannabis products.

Based on the foregoing, the Court **GRANTS** the Motion as to this counterclaim.

#### IV. CONCLUSION

In the absence of an “apparent or declared reason,” such as undue delay, bad faith, dilatory motive, repeated failure to cure deficiencies by prior amendments, prejudice to the opposing party, or futility of amendment, it is an abuse of discretion for a district court to refuse to grant leave to amend a complaint. Foman v. Davis, 371 U.S. 178, 182 (1962); Moore v. Kayport Package Express, Inc., 885 F.2d 531, 538 (9th Cir. 1989). This “does not extend to cases in which any

amendment would be an exercise in futility, or where the amended complaint would also be subject to dismissal.” Steckman v. Hart Brewing, 143 F.3d 1293, 1298 (9th Cir. 1998) (internal citations omitted).

Given the Ninth Circuit’s liberal policy in allowing amendments and the fact that AK Futures has not previously amended its Counterclaim, the Court grants leave to amend to address the deficiencies as stated herein. For the foregoing reasons, the Court **GRANTS** in part and **DENIES** in part the motion to dismiss. AK Futures shall have twenty days to amend its Counterclaim.

**IT IS SO ORDERED.**