

Clarity for an uncommon common law unfair competition claim

By Jason Russell, Esq., Hillary Hamilton, Esq., and Adam Lloyd, Esq., *Skadden, Arps, Slate, Meagher & Flom*

FEBRUARY 17, 2021

Although many California litigators have encountered the seemingly ubiquitous statutory unfair competition cause of action codified in Section 17200 of the Business and Professions Code, its common law cousin remains more elusive, particularly as a stand-alone claim.

Unlike a sweeping equitable claim under Section 17200 — which covers anything that can properly be called a business practice that is unfair, unlawful or fraudulent — a California common law unfair competition claim is narrower, is akin to an intellectual property infringement claim and permits recovery of money damages.

This article aims to demystify this uncommon common law claim and proposes an analytical framework for courts and litigants to use when they encounter the claim in practice.

Common law unfair competition is not an easy claim for a plaintiff to prove.

The Ninth U.S. Circuit Court of Appeals, quoting the California Supreme Court, has concluded that “[t]he common law tort of unfair competition is generally thought to be synonymous with the act of ‘passing off’ one’s goods as those of another.”¹

In other words, a case where the defendant claims that its own goods are those of the plaintiff. The California Supreme Court explained that “[t]he tort developed as an equitable remedy against the wrongful exploitation of trade names and common law trademarks that were not otherwise entitled to legal protection.”²

However, unlike an infringement claim, the common law claim “does not depend on the ownership by the plaintiffs of any particular word, phrase, or device, as a trademark. ... The right of action in such a case arises from the *fraudulent purpose and conduct of the defendant* and the injury caused to the plaintiffs thereby, and it exists independently of the law regulating trademarks or of the ownership of such trademark by the plaintiffs.”³

Thus, “[t]he gist of such an action is not the appropriation and use of another’s trademark, but the fraudulent injury to and appropriation of another’s trade.”⁴ This distinction is important, as discussed in greater detail below. Common law unfair competition is not an easy claim for a plaintiff to prove.

Although California district courts have followed the Ninth Circuit in limiting common law unfair competition to allegations of “passing off,”⁵ few courts have articulated a clear, cohesive test for what a plaintiff must establish in order to prevail on such a claim.

The California Civil Jury Instructions provide no guidance, and many courts have analyzed the claim holistically, without defining its elements. This is likely because such claims are often treated as simply rising or falling with the traditional federal intellectual property infringement claims that often accompany them, but the lack of a well-defined test can leave litigants in the lurch when faced with a stand-alone common law unfair competition claim.

What does it mean, specifically, for a defendant to be liable for “passing off” under a common law unfair competition theory? What must a plaintiff actually prove?

The answer may not be as tenebrous as it first appears. As its name implies, the tort has been around a long time, and enough courts and treatises have taken a pass at the claim over the years that synthesizing a user-friendly test that accurately encapsulates the tort’s roots is possible.

To begin, it is important to first identify the heart of the claim, as it forms the foundation on which to construct a usable framework. The “crux of a common law unfair competition claim” is “that Defendants have *deliberately misled* consumers into believing that the [ir] goods are Plaintiff’s,” as a California district court recently recognized in *Rider Clothing LLC v. Boardriders, Inc.*⁶

Based on our review of the case law and secondary authorities underpinning this foundation, we propose that litigants and courts adopt the following three-part test to address stand-alone California unfair competition common law claims, as the *Rider* court ultimately did.

To prevail on a claim for unfair competition, a plaintiff must prove that (i) the defendant subjectively and knowingly intended to confuse buyers of a competitive product; (ii) consumers were likely to be confused; and (iii) the defendant thereby caused plaintiff a competitive injury.⁷

Not only does this articulation give clarity to litigants on both the plaintiff and defense sides when pursuing or defending this claim, it effectively harmonizes precedent by drawing out the

three fundamental elements common to all common law unfair competition claims. Support for each element is discussed in turn below.

Intent: The first and most important element of a common law unfair competition claim is proving the defendant's subjective and knowing intent to mislead consumers of a competitive product. At base, "passing off" is a *deliberate* tort that arises from a defendant attempting to injure a competitor's business by misleading consumers as to the source of goods.

Few courts have articulated a clear, cohesive test for what a plaintiff must establish in order to prevail on such a claim.

As adopted by the *Rider* court, the McCarthy on Trademarks and Unfair Competition treatise explains that "[t]he terms 'palming off' and 'passing off' should usually be restricted to the situations where they were originally coined by the common law," i.e., "where there is real proof that defendant *subjectively and knowingly intended to confuse buyers of a competitive product.*"⁸

Proving this requisite intent is — and should be — difficult, as a plaintiff must show, as stated in case law, that a defendant "fraudulently markets his goods or services as those of another" by making "fraudulent misrepresentation[s] ... for the purpose of inducing persons to purchase the goods which he markets."⁹ A viable common law unfair competition claim requires "'deceptive conduct' or conduct that otherwise 'lies outside the ordinary course of business and is tainted by fraud or coercion.'"¹⁰

Thus, "[t]he mere use of substantially similar means of identifying a product, if not used in such manner as to induce the public to believe that the work to which it is applied is the *identical* thing which it originally designated, does not constitute unfair competition."¹¹

In light of the above, it is self-evident that a plaintiff hoping to prevail on a common law unfair competition claim must show more than that the marks at issue were merely similar or that the defendant was simply aware of the plaintiff's mark.¹² And, conversely, a defendant's ignorance of plaintiff's mark entirely defeats the claim.¹³

Consumer Confusion: Second, "[u]nder California law, a plaintiff claiming unfair competition must 'prove a likelihood of confusion by purchasers as to source,'" and "this confusion must be of a specific kind: the public must be misled into thinking that the defendant's product is actually the plaintiff's."¹⁴

As California federal courts have found, the entire purpose of the common law claim is "to prevent unfair competition through misleading or deceptive use of a term exclusively identified with the claimant's product and business, affording judicial protection whenever 'the name and the business through continued association become synonymous in the public mind; and submerges the primary meaning of the name ... in favor of its meaning as a word identifying that business.'"¹⁵

The "crucial element" here "is the mental association in the buyer's mind between the mark used in connection with the product and a single source of origin."¹⁶ Thus, "[t]he decisive test of common law unfair competition is whether the public is likely to be deceived about the source of goods or services by the defendant's conduct."¹⁷

Cementing consumer confusion as an element of the tort, courts routinely reject arguments by plaintiffs contending — in an effort to dodge this consumer deception requirement — that all they must prove is that a defendant "appropriated and used the plaintiff's property at little or no cost to the defendant," because "common law misappropriation is simply a subset of unfair competition" and when "the specific property at issue is a trade name or something comparable, *the courts have consistently required a likelihood of confusion.*"¹⁸

Widespread adoption of the three-part test discussed here will illuminate this tort for litigants and courts alike.

Because the tort here "is rooted in preventing conduct that harms competitors by deceiving customers," establishing the "link to consumer deception" is "crucial" for a plaintiff to prevail,¹⁹ and courts will dismiss the claim where there is no admissible evidence of consumer confusion.²⁰

Causing Injury: Finally, a plaintiff pursuing a common law unfair competition claim must prove that the defendant's misconduct caused the plaintiff a competitive injury, meaning the plaintiff must suffer some actual economic harm to its business that was caused by the defendant's deception of plaintiff's actual and potential customers.²¹

This requirement flows from the tort's roots in fraud and the law's intention that courts not subject parties to onerous discovery burdens or a jury trial on the basis of hypothetical or highly speculative claims of commercial damage.

Thus, a plaintiff in these cases must specifically allege — and then later produce either documentary or testimonial evidence to prove — *how* the defendant's deceit actually damaged the plaintiff's business by confusing consumers. Without such evidence, the passing off claim should fail.

For example, many California district courts have rejected common law unfair competition claims in the absence of such evidence proving that a defendant's misrepresentations diverted the plaintiff's sales to the defendant, quantifiably damaged the plaintiff's reputation in the marketplace or otherwise measurably harmed the plaintiff's established goodwill.²²

Just because a tort is obscure does not mean it need be obscured. Widespread adoption of the three-part test discussed above will illuminate this tort for litigants and courts alike. The test also makes clear that a California common law unfair competition claim is difficult to prove and should not be tacked on to every infringement case as a matter of course, but reserved only for egregious, subjectively fraudulent conduct.

Notes

¹ *Sybersound Records, Inc. v. UAV Corp.*, 517 F.3d 1137, 1153 (9th Cir. 2008) (quoting *Bank of the W. v. Superior Court*, 2 Cal. 4th 1254, 1263 (1992)) (affirming dismissal where plaintiff had "not alleged that the Corporation Defendants have passed off their goods as those of another nor that they exploit trade names or trademarks"); *Southland Sod Farms v. Stover Seed Co.*, 108 F.3d 1134, 1147 (9th Cir. 1997) (affirming summary judgment where "Plaintiffs' allegations do not amount to 'passing off' or its equivalent, [so] Defendants are correct that Plaintiffs' claim for unfair competition was properly dismissed").

² *Bank of the W.*, 2 Cal. 4th at 1263.

³ *Los Defensores, Inc. v. Gomez*, 223 Cal. App. 4th 377, 396-97 (2014) (alteration in original) (emphasis added).

⁴ *Id.* at 397 (citation omitted).

⁵ See, e.g., *Aquawood, LLC v. Toys "R" Us-Delaware, Inc.*, No. 2:15-cv-05869-AB (MRWx), 2016 WL 10576620, at *2 (C.D. Cal. Mar. 10, 2016); see also *Lodestar Anstalt v. Bacardi & Co.*, No. 2:16-cv-06411-CAS(FFMx), 2019 WL 8105378, at *16 (C.D. Cal. July 3, 2019) ("Common law unfair competition is limited to where a party 'passes off their goods as another.'" (citation omitted)); *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. CV13-5693 PSG (GJSx), 2016 WL 6916826, at *4 (C.D. Cal. Sept. 8, 2016) ("In California, common law unfair competition is limited to cases in which a party passes off their goods as another." (citation omitted)); *Atlas Brace Techs. USA, LLC v. Leatt Corp.*, No. CV 11-9973 ABC (RZx), 2012 WL 13162259, at *6 (C.D. Cal. Nov. 6, 2012) (common law unfair competition claim "is available only for conduct amounting to 'palming off' or 'passing off.'"); *Sachs v. Indus. Indem. Ins. Co.*, 1993 WL 93562, at *2 n.1 (C.D. Cal. Jan. 15, 1993) ("Plaintiff has provided the Court with absolutely no evidence that damages for the common law tort of unfair competition have ever been held by California courts to be available for any behavior other than 'passing off.'").

⁶ *Rider Clothing LLC v. Boardriders, Inc.*, No. 2:19-cv-04098-RGK-E, 2019 WL 8163813, at *5 (C.D. Cal. Nov. 26, 2019).

⁷ *Rider Clothing LLC v. Boardriders, Inc.*, No. 2:19-cv-04098-RGK-E, 2020 WL 4578700, at *3 (C.D. Cal. Aug. 7, 2020).

⁸ 4 McCarthy on Trademarks and Unfair Competition § 25:3 (5th ed.) (emphasis added); see also *Rider*, 2020 WL 4578700, at *3.

⁹ *Rider*, 2019 WL 8163813, at *5; *Rider*, 2020 WL 4578700, at *3.

¹⁰ *Silverlit Toys Manufacturing Ltd. v. Rooftop Grp., USA, Inc.*, No. CV 08-07631 CBM (PJWx), 2009 WL 10671853, at *6 (C.D. Cal. Aug. 7, 2009) (citation omitted); see also *Lodestar*, 2019 WL 8105378, at *16 ("Lodestar does not allege, nor does any evidence in the record demonstrate,

that Bacardi passed off its rum products as another or that it acted fraudulently or with an intent to mislead consumers.").

¹¹ *TMC Aerospace, Inc. v. Elbit Sys. of Am. LLC*, No. CV 15-07595-AB (Ex), 2016 WL 3475322, at *8 (C.D. Cal. Jan. 29, 2016) (citation omitted).

¹² See *Stonefire Grill, Inc. v. FGF Brands, Inc.*, 987 F. Supp. 2d 1023, 1055-56 (C.D. Cal. 2013) ("[M]erely conducting a trademark search and discovering Plaintiff's use is insufficient to demonstrate intent.").

¹³ See *Rider*, 2020 WL 4578700, at *3 (finding "Plaintiff has no evidence" of intent where "Defendants represented numerous times in responses to interrogatories and depositions that they were unaware of Plaintiff, its name, or its mark prior to this litigation"); accord *Allstate Ins. Co. v. Kia Motors Am., Inc.*, No. CV 16-6108 SJO (AGRx), 2017 WL 6550669, at *14 (C.D. Cal. Dec. 22, 2017), aff'd, 784 F. App'x 507 (9th Cir. 2019) (finding no intent "to confuse the public or to derive goodwill" from senior mark where defendant "independently derived the name, initially unaware that [plaintiff] used the mark, and its legal team performed a trademark search").

¹⁴ *Fisher v. Dees*, 794 F.2d 432, 440 (9th Cir. 1986) (affirming summary judgment where defendants were not selling their goods as plaintiffs' (emphases added) (citation omitted)); see also *Walt Disney Prods. v. Air Pirates*, 581 F.2d 751, 760 (9th Cir. 1978) ("California law reveals a consistently enforced requirement that a plaintiff charging unfair competition prove a likelihood of confusion by purchasers as to source.").

¹⁵ E.g., *Am. Shooting Ctr., Inc. v. Secor Int'l*, No. 13cv1847 BTM(JMA), 2016 WL 1182745, at *8 (S.D. Cal. Mar. 28, 2016) (alteration in original) (citation omitted).

¹⁶ *Id.*

¹⁷ *Aquawood*, 2016 WL 10576620, at *3.

¹⁸ See, e.g., *Garcia v. Coleman*, No. C-07-2279 EMC, 2008 WL 4166854, at *15-16 (N.D. Cal. Sept. 8, 2008) (emphasis added) (collecting cases, granting summary judgment on common law unfair competition claim, finding "no genuine dispute of fact as to whether 'there was a likelihood of confusion in the mind of the public between [plaintiff's] wine and Defendants' wine,' an essential element of the claim," even where "the Sonoma Ridge labels used by Defendants were identical to" plaintiff's "and for the same type of product," because "there is no record evidence supporting a finding of a likelihood of confusion").

¹⁹ *SkinMedica, Inc. v. Histogen, Inc.*, 869 F. Supp. 2d 1176, 1188-89 (S.D. Cal. 2012) (finding "Histogen's attempt to extend common law unfair competition beyond its grounding in consumer deception is unavailing," as the "cases make clear that the common law tort of unfair competition consists of 'passing off' or analogous acts").

²⁰ See *Rider*, 2020 WL 4578700, at *3 (finding plaintiff could not satisfy second element where "Plaintiff has failed to provide any coherent or admissible evidence of consumer confusion"); *Flo & Eddie*, 2016 WL 6916826, at *4; *SkinMedica*, 869 F. Supp. 2d at 1188-89 (granting summary judgment where Histogen has "not pointed to any facts that support this bare allegation" of "'passing off' ... in such a way as to cause consumer confusion"); see also *Garcia*, 2008 WL 4166854, at *17 ("[B]ased on the record submitted, no reasonable jury could find a likelihood of confusion.").

²¹ See *Luna Distrib. LLC v. Stoli Grp. (USA), LLC*, No. SA CV 17-1552-DOC (JDEx), 2018 WL 5099277, at *12 (C.D. Cal. July 10, 2018) ("[A] claim for common law unfair competition requires 'a showing of competitive injury.'" (citing *Bank of the W.*, 2 Cal. 4th at 1264)); *Deckers Outdoor Corp. v. Team Footwear, Inc.*, No. CV 13-00532 BRO (CWx), 2013 WL 12131287, at *2 (C.D. Cal. July 11, 2013) ("Common law unfair competition is akin to 'deceptive advertising,' where, as a result of such advertising, a plaintiff suffers unfair injury by a competitor." (citation omitted)).

²² See, e.g., *Rider*, 2020 WL 4578700, at *3 ("Plaintiff has admitted that it no longer engages in sales and could not provide any evidence

to support its claims that it lost sales or that Defendants damaged the goodwill of the Rider brand.”); *Water, Inc. v. Everpure, Inc.*, CV 09-3389 ABC (SSx), 2012 WL 12949368, at *10 (C.D. Cal. Aug. 2, 2012) (“Because these counterclaims require proof of damage and Everpure cannot offer evidence to establish damages, there is no genuine dispute of material fact and summary judgment is appropriate.”); *Milton H. Greene Archives, Inc. v. CMG Worldwide, Inc.*, No. CV 05-2200 MMM (MCx), 2008 WL 11334030, at *24 (C.D. Cal. Mar. 17, 2008) (granting summary judgment on common law unfair competition counterclaims where “Defendants have adduced no admissible evidence that they have been injured by any of plaintiffs’ purportedly unfair and false representations.”).

This article was published on Westlaw Today on February 17, 2021.

ABOUT THE AUTHORS



Jason Russell (L) is head of **Skadden, Arps, Slate, Meagher & Flom’s** Los Angeles office, representing a wide variety of clients in commercial litigation disputes in federal and state courts throughout the country as well as in international forums. He can be reached at jason.russell@skadden.com. **Hillary Hamilton** (C) is a litigation associate in the firm’s Los Angeles office. She can be reached at hillary.hamilton@skadden.com. **Adam Lloyd** (R) is also a litigation associate in the firm’s Los Angeles office. He can be reached at adam.lloyd@skadden.com.

Thomson Reuters develops and delivers intelligent information and solutions for professionals, connecting and empowering global markets. We enable professionals to make the decisions that matter most, all powered by the world’s most trusted news organization.