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IN THE COURT OF APPEAL OF THE STATE OF CALIFORNIA

SECOND APPELLATE DISTRICT

DIVISION EIGHT

ALL CITIES REALTY, INC.,

Plaintiff and Appellant,

v.

JIM BRUNET et al.,

Defendants and Respondents.

B241999

(Los Angeles County
Super. Ct. No. BC355724)

APPEAL from a judgment of the Superior Court of Los Angeles County.
Anthony J. Mohr, Judge. Affirmed in part; reversed in part and remanded.

Parker Shumaker Mills, William K. Mills, Clarisse Young Shumaker and
Theodore W. Frank for Plaintiff and Appellant.

Raines Feldman and Konrad Gatien for Defendants and Respondents Jim Brunet,
Melissa Barlow, Sam Wogomon, Karen Montandon, Connie Donohue, David Marzouk,
Woody Stahl, Albert Aftalion, Willie Overton, Shalon Guli, Nancy Ramsey, Louisa
Millington, and Cynthia Satterfield.

Plaintiff All Cities Realty, Inc.'s founder registered the domain name "allcitiesrealty.com" in 1996 and became one of the first websites real estate consumers visited when searching the worldwide web for real estate. He also started using the mark "All Cities Realty" in connection with his services as a real estate broker. In 2001, the United States Patent and Trademark Office approved his application to register the mark, and California registered the mark in 2006. Plaintiff has continually used and protected the mark.

In October 2002, nonparty CF Real Estate Loans, Inc. (Re/Max) registered the dba "Re/Max All Cities Realty" with the California Department of Real Estate, and launched an extensive advertising campaign in print media and on the internet using the names "All Cities Realty" and "[Re/Max] All Cities Realty." Re/Max's own website (which plaintiff describes as the "master website") used "[Re/Max] All Cities Realty" as the umbrella name for all of its related companies and franchises and in 14 real estate offices in Southern California. Each of Re/Max's 1,700 independent contractor brokers and agents posted their own biographical pages and real estate listing pages on the master website under the All Cities Realty mark, and used the All Cities Realty mark in their own advertising in periodicals and newspapers, on bus benches and lawn signs.

Plaintiff sued Re/Max in federal court, and later filed this action against the 1,700 brokers and sales agents of Re/Max (defendants), for their unauthorized use of the "All Cities Realty" mark. On the eve of trial in the federal action, Re/Max filed bankruptcy, and this case was stayed. Plaintiff recovered nothing from Re/Max, and the stay was lifted in this action.

Some defendants demurred and sought judgment on the pleadings, reasoning plaintiff could not hold Re/Max's entire sales force responsible for Re/Max's infringement, based on two federal cases, *Chanel, Inc. v. Italian Activewear of Florida, Inc.* (11th Cir. 1991) 931 F.2d 1472 (*Chanel*) and *Omega, SA v. Giftland Co.* (D.N.J. Aug. 11, 2005, No. 03-CIV-5808 (WJM)) 2005 U.S. Dist. LEXIS 17043 (*Omega*). The trial court sustained the demurrer without leave to amend and granted judgment on the pleadings, after permitting plaintiff to make an offer of proof.

Plaintiff says this case presents a question of first impression concerning what standard should apply to decide the individual liability of the independent contractor sales force of an infringing corporation. Defendants agree this is a case of first impression but contend a plaintiff cannot hold 1,700 individuals in the sales force liable without pleading each individual actively participated in the infringing company's decision to engage in infringing acts.

We find defendants' motions were based on the erroneous assumption that plaintiff has sued defendants only for Re/Max's infringement, and not for defendants' own infringing acts. Because the operative complaint alleges direct infringement by defendants, we reverse in part, and remand for further proceedings. However, we find plaintiff failed to state a cause of action for vicarious infringement, and we affirm dismissal of that cause of action.

FACTS AND PROCEDURAL BACKGROUND

In June 2005, plaintiff sued Re/Max in federal court for trademark infringement, based on Re/Max's use of its "All Cities Realty" mark. In July 2006, plaintiff filed this lawsuit against the 1,700 real estate brokers and agents affiliated with Re/Max, for their use of the All Cities Realty mark. This case was stayed pending resolution of plaintiff's federal action against Re/Max. Ultimately, Re/Max declared bankruptcy, and plaintiff recovered nothing. The stay of this action was then lifted.

In a demurrer to the original complaint, defendants accused plaintiff of "shak[ing] down the individual defendants . . . for money it failed to recover from Re/Max." Defendants contended they are not "personally liable for trademark infringement as a matter of law, unless the Plaintiff alleges and proves that each individual defendant personally acted as a moving force in [Re/Max's] decision to infringe." Defendants relied on two federal cases, *Chanel, supra*, and *Omega, supra*, for the proposition that individual defendants may be liable for a third party's infringement only if they "knowingly caused the infringement" by the third party and were the "moving, active, conscious force" behind the third party's decision to infringe. Plaintiff opposed the demurrer, contending the complaint stated claims for *direct* infringement by defendants,

and the two federal cases were inapposite. The demurrer was sustained with leave to amend.

The first amended complaint included new allegations that “[Re/Max] could not have infringed on Plaintiff’s trademark without the substantial efforts of Defendants who marketed, advertised and sold real estate using Plaintiff’s trademark.” Defendants again demurred on the basis of *Chanel* and *Omega*, contending plaintiff “has not alleged, and cannot allege, that any of the Demurring Defendants exercised the control over Re/Max’s alleged infringement that would be necessary for individual liability to attach.”

Defendants also demurred on the ground of misjoinder, contending the claims against the various brokers and agents did not arise out of the same transaction or occurrence.

The trial court again sustained the demurrer with leave to amend, ruling it would not relax the pleading requirements simply because plaintiff had elected to sue 1,700 defendants. The court also entered a case management order under *Cottle v. Superior Court* (1992) 3 Cal.App.4th 1367, requiring plaintiff to make “offers of proof for every defendant. . . . [¶] . . . we need to know what [each defendant] did to become the driving force” behind Re/Max’s infringement.

With its second amended complaint, plaintiff included an offer of proof of nearly 1,500 pages, consisting mostly of advertisements by the defendant brokers and agents that appeared in print and on the internet. The second amended complaint alleged causes of action for California trademark infringement; injury to plaintiff’s business reputation and/or dilution of plaintiff’s mark; infringement of mark to enhance commercial value of defendants’ services; California common law unfair competition; vicarious trademark infringement; injunctive relief; and California statutory unfair competition.

The second amended complaint alleged the history of plaintiff’s registration of the All Cities Realty trademark and the infringing acts of Re/Max and its brokers and agents summarized above. Plaintiff further alleged it demanded Re/Max to cease and desist use of the All Cities mark, but Re/Max and defendants continued to use plaintiff’s mark. Re/Max launched a “[Re/Max] All Cities Realty” master website in 2005. Defendant brokers and agents added their own real estate listings to this website, as well as personal

biographical and contact information. Defendant brokers and agents “used the All Cities Realty mark on the website, print media, signs, business cards, and contractual documents.” Re/Max created separate websites for each of the defendants, and defendants “had substantial control over the infringing . . . websites, which they used to promote their personal business activities, and which utilized and displayed the All Cities Realty mark.”

The second amended complaint recited that in the federal action, Re/Max maintained it was not liable for the infringing conduct of its brokers and agents as they “were independent contractors and as such had control over their own marketing and advertising.” Re/Max’s brokers and agents were compensated on a “100% commission basis.” Discovery obtained in the federal case revealed defendants had independent contractor agreements with Re/Max. Under the agreements, defendants were not “employee[s] for any purpose[] whatsoever.” Defendants “had sole control over their own businesses and business decisions.”

The second amended complaint also recited pertinent history of this case, including that Re/Max moved ex parte to intervene, alleging “it had defense and indemnification obligations to each and every [d]efendant.”

Defendants Connie Donohue, Karen Montandon, and Ken Wogomon demurred to the second amended complaint. A second group of defendants, identified as the “KMW” defendants (consisting of 131 individual defendants), moved for judgment on the pleadings. Connie Donohue, Karen Montandon, and Ken Wogomon filed a notice of joinder in the KMW defendants’ motion. The demurrer contended under *Chanel* and *Omega*, the legal standard for assessing defendants’ liability was whether defendants were the moving, active, conscious force behind Re/Max’s decision to infringe, and no such facts were alleged. The motion for judgment on the pleadings also contended *Chanel* and *Omega* barred liability on the facts alleged. This time, defendants did not assert misjoinder as a basis for relief in their motions.

The trial court, relying on *Chanel* and *Omega*, concluded liability could not be imposed upon “individuals who participated in, but were not the moving force behind . . .

the infringing conduct of a third party.” The court sustained the demurrer without leave to amend and granted the motion for judgment on the pleadings. A judgment of dismissal was entered, and this timely appeal followed.

DISCUSSION

A demurrer tests the legal sufficiency of the complaint. We review the complaint de novo to determine whether it alleges facts sufficient to state a cause of action. For purposes of review, we accept as true all material facts alleged in the complaint, but not contentions, deductions or conclusions of fact or law. We also consider matters that may be judicially noticed. (*Blank v. Kirwan* (1985) 39 Cal.3d 311, 318.) “A demurrer tests the pleadings alone and not the evidence or other extrinsic matters. . . . The only issue involved in a demurrer hearing is whether the complaint, as it stands, unconnected with extraneous matters, states a cause of action.” (*Hahn v. Mirda* (2007) 147 Cal.App.4th 740, 747, citations omitted.) When a demurrer is sustained without leave to amend, “we decide whether there is a reasonable possibility that the defect can be cured by amendment: if it can be, the trial court has abused its discretion and we reverse; if not, there has been no abuse of discretion and we affirm.” (*Blank, supra*, at p. 318.) A motion for judgment on the pleadings involves the same standards and procedures as a general demurrer. (*Richardson-Tunnell v. School Ins. Program for Employees* (2007) 157 Cal.App.4th 1056, 1061; *Burnett v. Chimney Sweep* (2004) 123 Cal.App.4th 1057, 1064.)

1. Trademark Claims

Defendants contend only plaintiff’s common law trademark rights are at stake, because the original complaint was filed before plaintiff registered its mark in California, and the conduct complained of generally predates registration of the mark. Plaintiff agrees the second amended complaint states claims for common law infringement, but contends that because it filed articles of incorporation under the All Cities Realty name in

California in 1999, its statutory rights are also at issue.¹ Plaintiff contends it also has federal statutory rights because the fifth cause of action invokes the Lanham Trademark Act (15 U.S.C. § 1051 et seq.).

We find it is immaterial here whether plaintiff's state law claims are characterized as common law or statutory claims. Under California's trademark statutes, registration of the mark creates a presumption of ownership. (See, e.g., *North Carolina Dairy Foundation, Inc. v. Foremost-McKesson, Inc.* (1979) 92 Cal.App.3d 98, 106 & fn. 5; see also Bus. & Prof. Code, § 14245 [elements of a statutory infringement claim], § 14259 [California's Model State Trademark Law shall not "adversely affect the rights or the enforcement of rights in marks acquired in good faith at any time within common law"].) Since it is undisputed the second amended complaint adequately alleges plaintiff's ownership of the "All Cities Realty" mark, the statutory basis for the claim of infringement adds nothing.

The elements of an infringement claim under California statutory and common law are plaintiff's earlier and continuous use of a trademark, defendant's subsequent use of a confusingly similar trademark, and likelihood of confusion in the minds of the public that defendant's business is the same as, or affiliated with, plaintiff's business. To prove liability for trademark infringement, plaintiff need only prove defendants used the mark plaintiff used first and continuously. (See *Sunset House Distributing Corp. v. Coffee*

¹ "The filing of articles of incorporation . . . shall establish a rebuttable presumption that the corporation has the exclusive right to use as a trade name, in the state the corporate name set forth in the articles or certificate, as well as any confusingly similar trade name, if the corporation is the first to have filed the articles or obtained the certificate containing the corporate name, and is actually engaged in a trade or business utilizing that corporate name or a confusingly similar name." (Bus. & Prof. Code, § 14415.) The second amended complaint does not allege "All Cities Realty" is the name set forth in its articles of incorporation, and does not allege when the articles of incorporation were filed. The second amended complaint alleges only "Plaintiff is a corporation organized and existing under the laws of the State of California and has its principal place of business in Orange County, State of California."

Dan's, Inc. (1966) 240 Cal.App.2d 748, 753; see also Bus. & Prof. Code, § 14245.)

In their demurrer and motion for judgment on the pleadings, defendants contended the second amended complaint does not allege defendants directly infringed plaintiff's trademark, but only alleges defendants' indirect, or secondary, infringement by participating in Re/Max's infringing marketing scheme. The distinction between direct and indirect infringement is important because the elements of the claims are different. Defendants argue they may only be liable for participating in Re/Max's infringement if they were a "moving, active, conscious force" behind Re/Max's decision to infringe. (See *Chanel, supra*, 931 F.2d at pp. 1477-1478; *Omega, supra*, 2005 U.S. Dist. Lexis 17043.)

Defendants urge us to rely on federal cases construing federal trademark claims. The Ninth Circuit has found, "As a general matter, trademark claims under California law are 'substantially congruent' with federal claims and thus lend themselves to the same analysis." (*Grupo Gigante S.A. de C.V. v. Dallo & Co.* (9th Cir. 2004) 391 F.3d 1088, 1100.) Defendants argue, in the absence of California authority discussing independent contractor liability for trademark infringement by a principal, we should follow the federal cases applying tort concepts of liability under federal trademark law. (See *Chanel, supra*, 931 F.2d at pp. 1477-1478; *Omega, supra*, 2005 U.S. Dist. Lexis 17043; see also *AT&T v. Winback & Conserve Program* (3d Cir. 1994) 42 F.3d 1421, 1429-1434 [applying the law of agency, including the doctrine of apparent authority, to determine scope of liability under the Lanham Act]; *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.* (7th Cir. 1992) 955 F.2d 1143, 1148-1150 [discussing vicarious and contributory liability for infringement].)

The *Chanel* and *Omega* holdings on which defendants rely are premised on joint tortfeasor liability. In *Chanel*, the question was whether a defendant could be liable for infringement when he was merely a friend of the owner of an infringing store which sold knock-off Chanel merchandise, was not an employee of the infringer, and would only occasionally "keep an eye on things" while the owner was away. (*Chanel, supra*, 931 F.2d at p. 1474.) The court acknowledged that "[n]atural persons, as well as

corporations, may be liable for trademark infringement under the Lanham Act. [Citations.] Because of its very nature a corporation can act only through individuals. ‘Obviously . . . if there was an infringement by the corporation, this infringement was caused by some one or more persons either officers or employees of the corporation who caused the acts to be done.’ [Citation.] If an individual actively and knowingly caused the infringement, he is personally liable.” (*Id.* at p. 1477.) Nevertheless, the court reversed the grant of summary judgment for Chanel because “[t]he link between [defendant] and the infringing activities is . . . tenuous.” (*Id.* at p. 1478.)

In *Omega*, the question was whether a check cashing business proprietor, who provided check cashing services for an infringer and received a 10 percent commission on checks cashed for the infringer, could be liable for the infringer’s trademark infringement. (*Omega, supra*, 2005 U.S. Dist. Lexis 17043.) The *Omega* court acknowledged that to hold the defendant liable for infringement, defendant “‘must personally take part in infringing activities or specifically direct [others] to do so,’ [citation]. In other words, participation in activities *merely related* to the infringing acts is not enough.” (*Ibid.*) Accordingly, the *Omega* court concluded summary judgment in favor of the plaintiff was not warranted. (*Ibid.*)

Omega relied primarily on *Chanel*, and *Electronic Laboratory Supply Co. v. Cullen* (3d Cir. 1992) 977 F.2d 798, 807, which concluded “a corporate officer who actually and substantially participates in the corporation’s act of trademark infringement is personally liable . . . even though he acted as an agent of the corporation rather than on his own behalf [because a] person who knowingly and significantly participates in another’s act of trademark infringement is himself guilty of infringement.” (Citation omitted.)

Chanel and *Omega* both relied exclusively on cases addressing the liability of corporate officers and directors for their participation in their corporation’s infringement. (See *Chanel, supra*, 931 F.2d at pp. 1477-1478, citing *Mead Johnson & Co. v. Baby’s Formula Serv., Inc.* (5th Cir. 1968) 402 F.2d 19 & *Wilden Pump & Engineering Co. v. Pressed & Welded Products Co.* (9th Cir. 1981) 655 F.2d 984, 990; see *Omega, supra*,

2005 U.S. Dist. Lexis 17043, citing *Electronic Laboratory Supply Co. v. Cullen*, supra, 977 F.2d at p. 807.) However, we are not persuaded these authorities have any bearing on whether an independent contractor sales force may be liable for their own acts of infringement. Defendants have construed the second amended complaint as only stating claims under secondary or joint tortfeasor theories of infringement, rather than for direct infringement by defendants. Accordingly, defendants would have us construe the second amended complaint too narrowly.

The second amended complaint alleged defendants had complete discretion over their marketing, and directly infringed on plaintiff's mark through their own marketing efforts. It alleged defendants had exclusive control over their own marketing activities and made independent use of Re/Max's marketing strategy to generate 100 percent of their commissions, so their infringing acts were not performed for the benefit of Re/Max. The major misapprehension of the demurrer and motion for judgment on the pleadings is that they ignored the allegations of defendants' acts of direct infringement, undertaken independently of Re/Max.

We recognize there are also allegations in the second amended complaint, which have been incorporated in all of the causes of action, that defendants engaged in secondary infringement, or were joint tortfeasors with Re/Max, in addition to their own acts of direct infringement. We do not decide here whether those claims are viable. It is well settled demurrers do not lie as to parts of claims, as long as some valid claim is alleged. (See *Fremont Indemnity Co. v. Fremont General Corp.* (2007) 148 Cal.App.4th 97, 119.) Discovery and other proceedings will disclose whether plaintiff's claims are only based on theories that defendants contributed to Re/Max's infringement. However, at the pleading stage, resolution of this issue is premature. Because the second amended complaint alleged acts of direct infringement by defendants, independent of Re/Max, the judgment of dismissal must be reversed as to the first, second, third, fourth, sixth, and seventh causes of action, all of which state claims for direct infringement, under different (albeit related) theories.

The fifth cause of action for vicarious infringement under the Lanham Act must be

addressed separately. This claim alleged “[d]efendants benefitted . . . from the infringement of the All Cities Realty mark by the [Re/Max] All Cities Realty Entities [because defendants] paid consideration . . . to [Re/Max] in order to use and contribute to the infringing advertising and promotional materials created by [Re/Max].” Under the theory of vicarious infringement, a defendant need not actually use an infringing mark to be held liable for trademark infringement. Instead, the wrongdoer’s actions may be attributed to an innocent third party simply because of the third party’s relationship to the infringer. (*Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, *supra*, 955 F.2d 1143 at pp. 1148-1150.)

Under common law tort doctrine, vicarious liability attaches to a person who is free from fault but is required, by operation of law, to bear the consequences of the actions of another who was at fault. (*Roberts v. Craig* (1954) 124 Cal.App.2d 202, 208.) This theory is usually applied in the context of respondeat superior, where an employer is held liable for the torts of its employee (*Perez v. Van Groningen & Sons, Inc.* (1986) 41 Cal.3d 962, 967); to hold a principal liable for the torts of its agent (Civ. Code, § 2338); and in the context of partnerships and joint ventures (*Black v. Sullivan* (1975) 48 Cal.App.3d 557, 569; *Grant v. Weatherholt* (1954) 123 Cal.App.2d 34, 46). We can find no case holding an innocent independent contractor liable for the torts of its principal under a theory of vicarious liability. And, the allegations in the second amended complaint fail to state a basis for defendant independent contractors to be bound by Re/Max’s conduct, based merely on their financial participation in Re/Max’s advertising. Therefore, this cause of action fails to state a claim for relief, and the order of dismissal must be affirmed.

2. Misjoinder

Defendants contend even if dismissal was improper under *Chanel* and *Omega*, misjoinder provides an alternative basis for affirming the trial court’s order. “If another proper ground for sustaining the demurrer exists, this court will still affirm the demurrers even if the trial court relied on an improper ground, whether or not the defendants asserted the proper ground in the trial court.” (*Cantu v. Resolution Trust Corp.* (1992) 4

Cal.App.4th 857, 880, fn. 10.)

Code of Civil Procedure section 379, subdivision (a) provides: “All persons may be joined in one action as defendants if there is asserted against them: [¶] (1) Any right to relief jointly, severally, or in the alternative, in respect of or arising out of the same transaction, occurrence, or series of transactions or occurrences and if any question of law or fact common to all these persons will arise in the action; or [¶] (2) A claim, right, or interest adverse to them in the property or controversy which is the subject of the action.” “Demurrers on the ground of misjoinder lie only when the defect appears on the face of the complaint or matters judicially noticed” and the demurring parties are prejudiced. (*Royal Surplus Lines Ins. Co. v. Ranger Ins. Co.* (2002) 100 Cal.App.4th 193, 198.)

Defendants rely for support of their misjoinder argument upon *Farmers Ins. Exchange v. Adams* (1985) 170 Cal.App.3d 712 (*Farmers*), disapproved on another ground in *Garvey v. State Farm Fire & Casualty Co.* (1989) 48 Cal.3d 395, 411, footnote 10. In *Farmers*, an insurance company brought a declaratory relief action against hundreds of insured homeowners seeking a determination that the homeowners’ claims for damages caused by a storm were not covered by their policies. (*Farmers*, at pp. 715-716.) The appellate court upheld the homeowners’ challenge to the complaint based on misjoinder of defendants, finding it “improper to label the damage herein to innumerable types of structures, occurring at widely separated locations within the state, resulting from a myriad of causes, and under various conditions as the ‘same transaction or occurrence’ within the meaning of Code of Civil Procedure section 379.” (*Id.* at p. 723.)

Unlike *Farmers*, here, there are common issues of law and fact, and the claims arise from a series of transactions or occurrences, where defendants improperly used plaintiff’s mark under similar circumstances. Unlike *Farmers*, there were not vastly different injuries caused by each of the defendants. Moreover, defendants have pointed to no prejudice in the joinder of all defendants in this action. (Cf. *Anaya v. Superior Court* (1984) 160 Cal.App.3d 228, 233 [joinder of plaintiffs was proper in a case

in which numerous employees and their families sued an oil company for injuries due to chemical exposure over a 20- to 30-year period; “[t]he fact that each employee was not exposed on every occasion any other employee was exposed does not destroy the community of interest linking these [plaintiffs]”).)

DISPOSITION

The judgment of dismissal is reversed in part, and affirmed in part. The trial court shall vacate its orders sustaining the demurrer and granting motion for judgment on the pleadings without leave to amend as to the first, second, third, fourth, sixth, and seventh causes of action, and shall enter a new order sustaining the demurrer and granting motion for judgment on the pleadings as to the fifth cause of action, without leave to amend, and overruling and denying the motions as to the remaining causes of action. Appellant shall recover its costs on appeal.

GRIMES, J.

WE CONCUR:

BIGELOW, P. J.

FLIER, J.