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BODYBUILDING.COM, LLC

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF IDAHO

BODYBUILDING.COM, LLC, a Delaware  
Limited Liability Company,

Plaintiff,

vs.

PhD FITNESS, LLC, a California Limited  
Liability Company; JIM STOPPANI, an  
Individual,

Defendants.

Case No. 1:16-cv-00271-BLW

PLAINTIFF’S MEMORANDUM IN  
SUPPORT OF MOTION TO DISMISS  
DEFENDANTS’ FIRST AND SECOND  
COUNTERCLAIMS

PLAINTIFF’S MEMORANDUM IN SUPPORT OF MOTION TO DISMISS DEFENDANTS’  
FIRST AND SECOND COUNTERCLAIMS - 1

PhD FITNESS, LLC, a California Limited Liability Company; JIM STOPPANI, an Individual,

Counterclaimants,

vs.

BODYBUILDING.COM, LLC, a Delaware Limited Liability Company,

Counterclaim Defendant.

Plaintiff and Counterclaim Defendant Bodybuilding.com, LLC (“Bodybuilding.com”) respectfully submits this Memorandum of Points and Authorities in support of its Motion to Dismiss the First and Second Counterclaims of Defendants and Counterclaimants PhD Fitness, LLC and Jim Stoppani (“Defendants”). For the reasons set forth herein, the First and Second Counterclaims fail to state a claim, and therefore should be dismissed with prejudice.

## **I. INTRODUCTION**

In their Answer, Affirmative Defenses and Counterclaims and Demand for Jury Trial (“Counterclaim”), Defendants assert that they are the exclusive owners of the trademark “JYM,” and that the continued use of that mark by Bodybuilding.com constitutes trademark infringement under federal and state law. Bodybuilding.com disputes Defendants’ claim of ownership; as set forth in the Complaint, it is Bodybuilding.com – not Defendants – that is the rightful and exclusive owner of the JYM mark. But even if Defendants’ claim of ownership is correct, their claims of trademark infringement against Bodybuilding.com fail as a matter of law.

In the Development Agreement between the parties – the very same agreement that Defendants contend reflects their ownership of the JYM mark – Defendants granted Bodybuilding.com a royalty-free, worldwide right to use their intellectual property in connection with JYM-branded products. The Development Agreement further provides that this right survives termination or expiration of the Development Agreement. In other words, even if Defendants are the owners of the JYM mark, they have granted Bodybuilding.com a perpetual, royalty-free, worldwide license to use the mark in connection with JYM-branded products.

These facts doom Defendants’ federal and state trademark infringement claims against Bodybuilding.com. It is well settled that a trademark licensee cannot be liable to its licensor for infringement, because the licensor has consented to the licensee’s use of the mark. And where, as here, the license is before the Court as part of the pleadings, this defense can and properly should be resolved on a motion to dismiss. Because Defendants have licensed to Bodybuilding.com the mark that they claim to own, and because that license survives into perpetuity, Defendants’ claims for infringement of that mark must fail.

For these reasons and as more fully explained below, the Court should dismiss Defendants’ First and Second Counterclaims with prejudice pursuant to Federal Rule of Civil Procedure 12(b)(6).

## II. FACTUAL BACKGROUND<sup>1</sup>

### A. The Parties

Bodybuilding.com operates an online retail store and various mobile applications through which consumers can purchase dietary supplements, apparel, food, exercise equipment, and other fitness-related goods. Compl. ¶ 6. It also operates a digital media publishing business and produces digital articles, photos, videos, advertising, and other health and fitness content. *Id.*

Stoppani is a nutrition expert and the author of numerous fitness articles and publications, and purports to be “one of the world’s foremost authorities on nutritional supplements.” Counterclaim ¶¶ 65-68. PhD Fitness, LLC is a company that Stoppani founded and uses in connection with his business. Counterclaim ¶ 88.

### B. The Development Agreement

Between the fall of 2012 and February 2013, Stoppani was in the process of developing his own formula for a fitness supplement line, and engaged in discussions with Bodybuilding.com regarding the development, marketing, and sale of such products. Counterclaim ¶¶ 70-73. Stoppani contends that in or around February 2013, he and his business partner “decided to use the name ‘JYM’ for their new line of products, and informed Bodybuilding.com that the products would be sold under the ‘JYM’ brand.” Counterclaim ¶ 77.

On or about May 17, 2013, the parties entered into a 36-month Development Agreement (the “Development Agreement”) for the development, marketing, and sale of products bearing

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<sup>1</sup> Bodybuilding.com does not concede the factual allegations of the Counterclaim, including the assertion that Defendants are the exclusive owners of the JYM mark. Bodybuilding.com assumes that the allegations in Defendants’ Counterclaim are true solely for purposes of this Motion.

the name “JYM.” Counterclaim ¶¶ 11, 105; Request for Judicial Notice (“RJN”), Ex. A, Recitals.<sup>2</sup> Defendants allege that, prior to entering into the Development Agreement, Stoppani and his business partner voiced concerns regarding ownership of the JYM mark. Counterclaim ¶ 79. Defendants further allege that these concerns prompted the parties to “include[] paragraph 8.2 of the Agreement, which confirmed that PhD Fitness would have ownership of the trademarks and tradenames.” *Id.*; *see also* Counterclaim ¶ 106 (“Section 8.2 of the [Development] Agreement provides that PhD Fitness owns and has all rights of ownership in the trademark and tradenames provided by PhD Fitness, which by implication includes the mark ‘JYM.’”).

However, in addition to language respecting ownership, Paragraph 8.2 also includes a grant of rights to Bodybuilding.com. It specifically grants to Bodybuilding.com “a royalty-free, worldwide right to use [PhD Fitness]’s Intellectual Property” for all JYM-branded products. RJN, Ex. A, ¶ 8.2. Moreover, the grant of rights in Paragraph 8.2 has no termination date; on the contrary, the parties expressly agreed that the provisions of Paragraph 8 survive termination or expiration of the Development Agreement. RJN, Ex. A, ¶ 20. Thus, although the Development Agreement expired on May 17, 2016, Compl. ¶ 19; Counterclaim ¶ 19, Bodybuilding.com’s rights under Section 8.2 survived such expiration, RJN, Ex. A, ¶ 20.

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<sup>2</sup> As explained in Bodybuilding.com’s concurrently filed Request for Judicial Notice, the Development Agreement has been incorporated by reference into the pleadings in this case, and thus the Court may properly consider it and its contents to resolve this Motion. *E.g.*, *Northstar Fin. Advisors Inc. v. Schwab Invests.*, 779 F.3d 1036, 1042-43 (9th Cir. 2015); *Davis v. HSBC Bank Nev., N.A.*, 691 F.3d 1152, 1160 (9th Cir. 2012); *Knievel v. ESPN*, 393 F.3d 1068, 1076 (9th Cir. 2005); *see also* RJN at 1-2.

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**C. The Instant Lawsuit**

On April 19, 2016, before the Development Agreement expired, counsel for Defendants sent Bodybuilding.com a letter disputing Bodybuilding.com's ownership of the JYM mark, and asserting that instead, Defendants own the JYM mark. Compl. ¶ 20; Counterclaim ¶ 20. Counsel for Defendants also asserted that Bodybuilding.com's right to use the JYM mark would terminate on May 17, 2016, and that Defendants "will hold Bodybuilding.com liable for all damages" in connection with Bodybuilding.com's use of the JYM mark after that date. Compl. ¶ 20; Counterclaim ¶ 20. Counsel for Defendants sent another letter to Bodybuilding.com on May 17, 2016, again expressing Defendants' belief that they own the JYM mark and demanding that Bodybuilding.com no longer manufacture any products bearing the mark. Compl. ¶ 21; Counterclaim ¶ 21.

On June 22, 2016, Bodybuilding.com filed its Complaint, seeking declaratory relief and cancellation of Defendants' trademark registration for the JYM mark, and asserting claims for relief under the Lanham Act and Idaho law. *See generally* Compl. On July 14, 2016, Defendants filed their Answer, Affirmative Defenses and Counterclaims, and included counterclaims for, among other things, false designation of origin (*i.e.*, infringement of an unregistered trademark) under federal law and common law trademark infringement under Idaho law. *See generally* Counterclaim.

### III. ARGUMENT

#### A. Legal Standard Governing Motions to Dismiss.

A motion to dismiss under Rule 12(b)(6) tests the legal sufficiency of a claim. A claim should be dismissed when “it appears beyond doubt that the plaintiff can prove no set of facts which would entitle him to relief.” *Conley v. Gibson*, 355 U.S. 41, 45-46 (1957); *Cahill v. Liberty Mut. Ins. Co.*, 80 F.3d 336, 338 (9th Cir. 1996). The court accepts all material allegations as true and reasonable inferences to be drawn from them. *See Sprewell v. Golden State Warriors*, 266 F.3d 979, 988 (9th Cir. 2001); *Cahill*, 80 F.3d at 337-38. However, the court is not required to accept as true allegations that are contradicted by documents incorporated into the complaint (such as, here, the Development Agreement) or which are otherwise properly subject to judicial notice. *Sprewell*, 266 F.3d at 988. Dismissal of a claim is appropriate where there is no cognizable legal theory that could afford the claimant relief or an absence of sufficient facts alleged to support a cognizable legal theory. *Taylor v. Yee*, 780 F.3d 928, 935 (9th Cir. 2015).

#### B. Defendants’ First and Second Counterclaims Fail to State a Claim Because Defendants Granted BodyBuilding.com a “Worldwide Right” to Use the JYM Mark.

##### 1. Defendants’ Lanham Act Claim Fails.

Defendants’ First Counterclaim is for false designation of origin under section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). In support of that claim, Defendants allege that they are the “exclusive owners of the JYM mark” and that Bodybuilding.com’s sale of products and services bearing that mark following expiration of the Development Agreement is likely to cause confusion in violation of the Lanham Act. *See Counterclaim ¶¶ 91, 92.*

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FIRST AND SECOND COUNTERCLAIMS - 7

However, it is axiomatic that a party that holds a valid license to use a trademark and is acting within the scope of the license is not an infringer, and therefore not liable to the trademark owner under the Lanham Act. As Professor McCarthy notes, in the leading treatise on trademark and unfair completion law:

By definition, a party who holds a valid license to use a trademark and is not in breach of the license, cannot be an infringer of the licensed mark . . . . Every license carries with it a waiver of the right of the trademark owner to sue for infringement arising out of acts that fall within the scope of the license.

3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 18:40 (4th ed.); *cf.* *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928, 939 (9th Cir. 2010) (“A copyright owner who grants a nonexclusive, limited license ordinarily waives the right to sue licensees for copyright infringement.”). This is because “where the trademark holder has authorized another to use its mark, there can be no likelihood of confusion,” which is a prerequisite to any trademark infringement claim. *Segal v. Geisha NYC, LLC*, 517 F.3d 501, 506 (7th Cir. 2008).

*Segal* is particularly instructive here. In that case, the parties were co-founders of a Chicago-based Japanese restaurant called “Japonais.” 517 F.3d at 503. The parties expressly agreed in writing that if two of the four founders wanted to expand the restaurant beyond the Chicago area, they could do so by delivering written notice to the other founders setting forth the material terms of the expansion, and could then use the intellectual property of the restaurant in any such expansion. *Id.* at 503-04. Three of the four founders chose to expand the restaurant to New York and Las Vegas, and having given the requisite notice, used the “Japonais” name and



design in those other locations. *Id.* at 503. The fourth founder sued, asserting claims under section 43(a) of the Lanham Act, along with various state claims. *Id.* at 504.

The district court granted the defendants' motion to dismiss the Lanham Act claim under Rule 12(b)(6), and the Court of Appeals affirmed, holding that because defendants had a contractual right to use the restaurant's intellectual property, the plaintiff's Lanham Act claim failed: "where the trademark holder has authorized another to use its mark, there can be no likelihood of confusion and no violation of the Lanham Act if the alleged infringer uses the mark as authorized." *Id.* at 506.

Here, taking as true Defendants' allegation that they own the JYM mark, the Development Agreement expressly grants to Bodybuilding.com a worldwide, royalty-free, perpetual license to use that mark. Paragraph 8.2 of the agreement states: "Company grants Bodybuilding.com a royalty-free, worldwide right to use Company's Intellectual Property for Products." RJN, Ex. A, ¶ 8.2. The term "Company" is defined as Defendant PhD Fitness, LLC, and "Products" is defined as "items developed by the Parties bearing Stoppani's name and/or image, and/or the JYM trade name, including ingredients, labels and packaging." RJN, Ex. A, at 1, ¶ 1. There is no allegation, nor could there be, that Bodybuilding.com has used the JYM mark on anything other than "Products" as defined in the Development Agreement (on the contrary, the sole basis for Defendants' claim is that Bodybuilding.com continued selling JYM Products after the expiration of the Development Agreement, *see* Counterclaim ¶ 92). There is also no dispute that the provisions of Paragraph 8 survive expiration of the Development Agreement

indefinitely. *Id.* at ¶ 20.<sup>3</sup> In sum, even taking the well-pleaded allegations of the Counterclaim as true, Bodybuilding.com’s actions fall squarely within the scope of the rights granted in Paragraph 8.2 of the Development Agreement.

As the holder of a valid license to use the JYM mark, Bodybuilding.com cannot be liable under section 43(a) of the Lanham Act because Defendants have consented to its use of the mark. Thus, Defendants’ First Counterclaim should be dismissed for failure to state a claim.

ii. Defendants’ Idaho State Law Trademark Claim Fails.

Defendants’ Second Counterclaim for trademark infringement under Idaho law likewise fails. Defendants’ Counterclaim refers to both “common law” and Idaho Code section 48-512 in putative support of that claim. *See* Counterclaim at 21. As an initial matter, to the extent Defendants purport to bring their claim under section 48-512, the claim fails because Defendants have not alleged ownership of a *registered* trademark, which is a prerequisite for the application of that section. *See* Idaho Code § 48-512 (prohibiting acts that constitute infringement of “a mark registered under this act” and affording the “registrant” a cause of action).

More fundamentally, however, Defendants’ Second Counterclaim fails for the same reason as their First Counterclaim: Bodybuilding.com’s use of the JYM mark is expressly authorized in the Development Agreement. It is well-established that state trademark infringement claims are generally governed by the same principles as Lanham Act claims, and thus rise and fall with the federal claims. Indeed, Idaho’s trademark statute expressly reflects

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<sup>3</sup> Although Defendants allege that they did not provide their consent or permission to Bodybuilding.com to use the JYM mark after May 17, 2016, Counterclaim ¶¶ 92, 99, that allegation is refuted by the express terms of the Development Agreement and should therefore be disregarded. *Sprewell*, 266 F.3d at 988 (a court may disregard allegations that are contradicted by documents incorporated into the complaint by reference).

that it is intended to be “substantially consistent with the federal system of trademark registration and protection,” and that “the construction given the federal act should be examined as persuasive authority for interpreting and construing [Idaho’s state trademark act].” Idaho Code § 48-518; *see also Cohn v. Petsmart, Inc.*, 281 F.3d 837, 841 (9th Cir. 2002) (“We look to federal trademark law for guidance in interpreting the Idaho statute.”). The same is true of Idaho common law protection for trademarks. *See, e.g., McCall Weddings, LLC v. McCall Wedding & Event Directory, LLC*, No. 1:14-CV-00315-REB, 2015 WL 3867962, at \*11 (D. Idaho June 23, 2015) (granting summary judgment on plaintiffs’ Idaho common law trademark infringement claim, which “hinge[d]” on the same theory as their untenable Lanham Act claim and was thus “susceptible to the same failings”) (internal quotations and citation omitted). Just as federal law precludes a claim where the trademark owner has expressly licensed use of the mark to the accused party, so too does Idaho state law. Because the Development Agreement clearly establishes that Bodybuilding.com’s use of the JYM mark is not “unauthorized,” *contra* Counterclaim ¶ 100, Bodybuilding.com’s use of that mark is not likely to cause confusion, and does not violate state trademark law.

**C. The Court Should Dismiss Defendants’ Trademark Infringement Counterclaims With Prejudice.**

Dismissal of Defendants’ First and Second Counterclaims with prejudice is appropriate. The general rule that leave to amend should be freely granted does not extend to cases in which any amendment would be an exercise in futility. *See* Fed. R. Civ. P. 15(a)(2); *Airs Aromatics, LLC v. Opinion Victoria’s Secret Stores Brand Mgmt., Inc.*, 744 F.3d 595, 600 (9th Cir. 2014); *Steckman v. Hart Brewing, Inc.*, 143 F.3d 1293, 1298 (9th Cir. 1998). Having alleged that (a)

Defendants own the JYM mark; and (b) that the JYM mark falls within the scope of Paragraph 8.2 of the Development Agreement (and therefore its grant of rights to Bodybuilding.com), Defendants cannot now amend their counterclaims to contradict these allegations or the terms of the Development Agreement. *See Airs Aromatics, LLC*, 744 F.3d at 600 (affirming district court’s denial of leave to amend on the basis of futility in trademark dispute where plaintiff could not advance an alternative set of allegations consistent with its prior claims, because “[a] party cannot amend pleadings to ‘directly contradict[t] an earlier assertion made in the same proceeding’”). Because Defendants can make no amendment to escape this fatal deficiency, the Court should dismiss Defendants’ First and Second Counterclaims with prejudice.

#### **IV. CONCLUSION**

For the foregoing reasons, Bodybuilding.com respectfully requests that the Court dismiss Defendants’ First and Second Counterclaims with prejudice.

DATED THIS 8th day of August, 2016.

Respectfully Submitted,

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By /s/ D. John Ashby  
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 8th day of August, 2016, I electronically filed the foregoing PLAINTIFF'S MEMORANDUM IN SUPPORT OF MOTION TO DISMISS DEFENDANTS' FIRST AND SECOND COUNTERCLAIMS with the Clerk of the Court using the CM/ECF system which sent a Notice of Electronic Filing to the following persons:

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