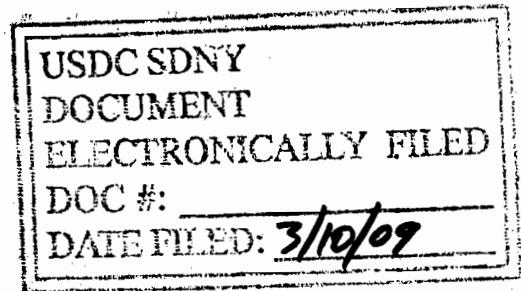


UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK  
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POT LUCK, L.L.C.,



Plaintiff,

-against-

MEMORANDUM AND ORDER  
06 Civ. 10195 (DAB)

CHERYL A. FREEMAN, JEFF SAGANSKY,  
JERRY SMALLWOOD, ALLUMINATION  
FILMWORKS LLC and ARDUSTRY HOME  
ENTERTAINMENT, LLC,

Defendants.

-----X  
DEBORAH A. BATTIS, United States District Judge.

Plaintiff Pot Luck, LLC, ("Pot Luck") is suing Defendants Ardustry Home Entertainment, LLC, its successor in interest Allumination Filmworks, LLC, and three owners and/or employees<sup>1</sup> of Allumination (collectively "Defendants") to enjoin them from distributing, selling, or marketing the film *High Times' Potluck* ("the Film"), to recover all copies, labeling, packaging, and other materials related to the Film, and to disgorge profits and obtain damages arising from the alleged unlawful distribution of the Film by Defendants. In its Complaint, Plaintiff asserts six causes of action against Defendants: (1) copyright infringement;

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<sup>1</sup> Defendant Jeff Sagansky was an owner of Allumination from March 11, 2005 to September 1, 2006. Sagansky was originally named in the Complaint, but has not been served with process. Plaintiffs agree that they are not pursuing any claims against Sagansky. (See Pl. Mem. 1, n.1; Def. Mem. 4.) Accordingly, this case is dismissed with prejudice against Defendant Jeff Sagansky.

(2) false designation under the Lanham Act; (3) unfair competition under the Lanham Act; (4) common law unfair competition; (5) deceptive acts and practices; and (6) fraud.

Defendants move to dismiss the copyright and trademark claims pursuant to Federal Rule of Civil Procedure 12(b)(1) for lack of subject matter jurisdiction, which in turn would destroy supplemental jurisdiction for the remaining state law claims. In the alternative, Defendants move to dismiss the remaining state law claims pursuant to Federal Rule of Civil Procedure 12(b)(6) for failure to state a claim on which relief may be granted. For the reasons that follow, Defendants' Motion to Dismiss the Complaint under Rule 12(b)(1) is GRANTED.

#### I. BACKGROUND<sup>2</sup>

Plaintiff is a limited liability corporation organized under the laws of the State of New York. (Compl. ¶ 3.) Defendants Ardustry Home Entertainment and Allumination Filmworks are limited liability companies organized under the laws of Delaware, with their principal places of business in California. (Compl. ¶¶ 7-8.) Defendant Freeman is a resident of California. (Compl.

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<sup>2</sup> Unless otherwise indicated, the following facts are alleged in the Complaint and are assumed to be true for the purposes of deciding this motion to dismiss.

¶¶ 4-5.) Defendant Smallwood is a resident of New Jersey.  
(Compl. ¶ 6.)

A. The License Agreement and World Rights Agreement

Plaintiff created and owns an original feature-length motion picture entitled *High Times' Potluck* (the "Film"), which it registered with the United States Copyright Office on or about May 12, 2003 (Registration Number PA-1-212-729). (Compl. ¶ 12.)

Plaintiff entered into discussions with Freeman and Smallwood about providing them with distribution rights to the Film in exchange for certain future payments. (Compl. ¶ 13.) On or about June 30, 2004, Plaintiff signed an agreement with Freeman and Sagansky, both representatives of Ardustry. (Compl. ¶ 14.) In exchange for granting Ardustry an exclusive license to distribute the Film throughout the United States, Canada, and their respective territories, commonwealths, possessions, and trusteeships, Freeman, Sagansky and Ardustry promised to make certain payments to Plaintiff after deducting expenses incurred in the distribution of the film and a distribution fee ("The License Agreement"). Id.

Plaintiff and Defendants subsequently entered into a similar contract on November 4, 2004, granting Defendants an exclusive license to distribute the Film in television and home-video

formats throughout the rest of the world (the "World Rights Agreement"). (Baker Decl., Ex. 5.) Plaintiff alleges that Freeman, Sagansky, and Ardustry subsequently transferred their license rights to the Film under the two agreements to their related entity Defendant Allumination. (Compl. ¶ 15.)

B. Defendants' Failure to Fulfill the Agreements

The Film was released on January 25, 2005. (Compl. ¶ 16.) Plaintiff alleges that subsequent to the release, Defendants have failed to distribute and promote the film as agreed under the licenses, and that Plaintiff has yet to receive proper compensation pursuant to the provisions of the License Agreement. Id. Plaintiff further alleges that entities who have expressed a desire to distribute the Film in territories covered under the World Rights Agreement have been denied territorial licenses by Defendants. (Compl. ¶ 17.) Defendants continue to distribute the Film pursuant to the licenses. (Compl. ¶ 19.)

Plaintiff alleges that Defendants never had any intention of paying compensation under the agreements, and thus fraudulently procured the License and World Rights Agreements so as to profit from Plaintiff's Film in what amounts to the "misuse, misappropriation, theft, and pirating" of Plaintiff's Film. (Compl. ¶¶ 18-21.)

## II. DISCUSSION

### A. Subject Matter Jurisdiction

#### 1. Standard for a 12(b)(1) Motion

Rule 12(b)(1) of the Federal Rules of Civil Procedure provides for dismissal of a claim when the federal court "lacks jurisdiction over the subject matter." Fed. R. Civ. P. 12(b)(1). Under Rule 12(b)(1) even "a facially sufficient complaint may be dismissed for lack of subject matter jurisdiction if the asserted basis for jurisdiction is not sufficient." Frisone v. Pepsico Inc., 369 F.Supp.2d 464, 469 (S.D.N.Y. 2005) (citations omitted). However, "a federal court may refuse to entertain a claim based on federal law otherwise within its jurisdiction only if the federal basis for that claim is so attenuated and unsubstantial as to be absolutely devoid of merit." Adams v. Suozzi, 433 F.3d 220, 225 (2d Cir. 2005) (citations omitted).

When resolving issues surrounding subject matter jurisdiction, a district court is not confined to the complaint and may refer to evidence outside the pleadings, such as affidavits. Makarova v. United States, 201 F.3d 110, 113 (2d Cir. 2000) (citing Kamen v. Am. Tel. & Tel. Co., 791 F.2d 1006, 1011 (2d Cir. 1986)). Ultimately, however, the plaintiff "bears the burden of proving subject matter jurisdiction by a

preponderance of the evidence." Aurecchione v. Schoolman Transp. Sys., Inc. 426 F.3d 635, 638 (2d Cir. 2005) (citing Luckett v. Bure, 290 F.3d 493, 497 (2d Cir. 2002)).

## 2. The Copyright Claim

A suit "arises under" the Copyright Act for purposes of federal question jurisdiction if "the complaint is for a remedy expressly granted by the Act, e.g., a suit for infringement or for the statutory royalties for record reproduction . . . or the complaint . . . asserts a claim requiring construction of the Act. . . ." Bassett v. Mashantucket Pequot Tribe, 204 F.3d 343, 349 (2d Cir. 2000) (quoting T.B. Harms Co. v. Eliscu, 339 F.2d 823, 828 (2d Cir. 1964) (Friendly, J.)) (internal citations omitted).

However, under the T.B. Harms test a plaintiff must rescind any license it has provided to the alleged infringer before it may recover for copyright infringement "based on fraudulent inducement" or "material breach of covenant." TVT Records v. Island Def Jam Music Group, 412 F.3d 82, 93 (2d. Cir. 2005); see also Ariel (UK) Ltd. v. Reuters Group, PLC, 277 Fed. Appx 43, 45 (2d Cir. May 6, 2008) (noting in upholding dismissal of Plaintiff's copyright claim for lack of subject-matter jurisdiction that "recision was not plausible on [the] face" of the complaint ). Indeed, Defendants characterize Plaintiff's

copyright claims as being contingent upon the "condition precedent" of "rescission or annulment of the parties' contracts." (Def. Reply Mem. of Law, at 3-4.)

Here, the Complaint alleges that Defendants have "failed, despite repeated demands by Plaintiff, to properly and pursuant to the Agreement calculate the amount of money due Plaintiff, or to pay Plaintiff the money it is owed pursuant to the Agreement." (Compl. ¶ 16.) Both the License Agreement and the World Rights Agreement, however, explicitly limit Plaintiff's right to rescind the licenses, stating under "Grant of Rights" that "[l]icensors hereby grants, sells, transfers, and assigns to Licensee the exclusive and irrevocable right to reproduce, modify, distribute public perform, exhibit, license, sublicense, lease, rent, sell, promote, advertise, publicize, manufacture, and otherwise exploit the Film. (Baker Decl. Ex. C at ¶ 2; Ex. D at ¶ 2) (emphasis added).

The licenses' language unambiguously denies Plaintiff the right to rescind its agreement, and such limitations have been upheld under New York law. See Cafferty v. Scotti Bros. Records, Inc., 969 F.Supp. 193, 198 (S.D.N.Y. 1997) (finding under the "clear language of the relevant contracts" that clause "irrevocably . . . grant[ing]" to licensee and its assignees the "universewide, perpetual right . . .to synchronize, record, perform and otherwise exploit [] Pre-existing Songs" barred

Plaintiff's copyright claim against assignee for continuing distribution of its songs, despite Plaintiff's alleged termination of assignee's rights).

Because any claim for rescission is barred by the unambiguous language of the licenses, and because Plaintiff must show a plausible claim that the licenses were rescinded in order to bring a cause of action arising under the Copyright Act, Defendants' motion to dismiss Plaintiff's copyright claim for lack of subject matter jurisdiction is GRANTED.

### 3. The Lanham Act Claims

Defendants contend that Plaintiff's causes of action under the Lanham Act must be dismissed for lack of subject matter jurisdiction because Plaintiff has not alleged that it owns a protectable mark. (Def's Mem. of Law, 8); (Def's Reply Mem. of Law, 5-6.)

#### i. The False Designation Claim

Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), "is a broad federal unfair competition provision which protects unregistered trademarks similar to the way that section 32(1) of the Lanham Act, 15 U.S.C. § 1114(1), protects registered marks." Chambers v. Time Warner, Inc., 282 F.3d 147, 155 (2d Cir. 2002). Section 43(a)(1)(A) creates liability for the "false designation

of origin, false or misleading description of fact, or false or misleading representation of fact, which . . . is likely to cause confusion . . . as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval . . . of [Defendant's] goods, services, or commercial activities. . ." Hence, a party need not obtain a registered trademark in order to gain the protection of the Trademark Act.

However, the Supreme Court has read the phrase "origin of goods" as it is used in § 43 to refer only "to the producer of the tangible goods that are offered for sale, and not to the author of any idea, concept, or communication embodied in those goods." Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23, 37 (2003). The Court found that to "hold otherwise would be akin to finding that § 43(a) created a species of perpetual patent and copyright, which Congress may not do." Id.

Therefore, under Dastar, "[t]he right to copy creative works, with or without attribution, is the domain of copyright, not of trademark or unfair competition. The failure to credit the true author of a copyrighted work is not a false designation of origin, but a violation of copyright." Contractual Obligation Prod., LLC v. AMC Networks, Inc., 546 F.Supp.2d 120, 130 (S.D.N.Y. 2008); (quoting Freeplay Music, Inc. V. Cox Radio, Inc., 409 F.Supp.2d 259, 263 (S.D.N.Y. 2005)). Where a Defendant

produces a work alleged to be "practically identical to the [w]orks" authored by the Plaintiff, "[u]nder the Dastar rule, a consumer who purchases a copy . . . is not falsely informed about the origin of the [work] because [Defendant] did in fact produce the work. Plaintiff[] ha[s] a claim for copyright infringement. A claim for false designation of origin, however, does not lie on the facts as alleged." Atrium Group De Ediciones Y Publicaciones, S.L. v. Harry N. Abrams, Inc., 565 F.Supp.2d 505, 512 (S.D.N.Y. 2008).

Here, Plaintiff brings its Trademark claim under Section 43(a). It alleges that by distributing its film, Defendants are likely to confuse and mislead retailers and consumers as to the true origin of the film. (Compl. ¶ 26.) However, Defendants were in fact the manufacturers and distributors of the film. (See Compl. ¶¶ 16, 19.) Therefore, as in Dastar, consumers will not be confused as to "the origin" of the film, because Defendants are "the origin" of the film as the term is used in Section 43 of the Lanham Act.<sup>3</sup> Because under the rule in Dastar Plaintiff's false designation claim is absolutely devoid of

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<sup>3</sup> Plaintiff's reliance on Chambers v. Time Warner, Inc., 282 F.3d 147 (2d Cir. 2002) is also inapposite. In Chambers, a pre-Dastar case, the Court reinstated a Section 43 claim against Defendant MP3.com for using plaintiff Musicians' "names and likenesses" without Defendant's consent to promote plaintiffs' recordings offered on its site. However, unlike the Defendants here, MP3.com was not "the origin" of Plaintiff's names and likenesses as the term has been defined in Dastar, because MP3.com was not the original producer or distributor of the Plaintiffs' names and likenesses.

merit, Defendants' 12(b)(1) Motion to Dismiss Plaintiff's Trademark claim is hereby GRANTED.

ii. The Unfair Competition Claim.

Plaintiff alleges a separate cause of action for unfair competition under the Lanham Act. (Compl. ¶¶ 29-30.) Yet under Section 43 of the Act, there is no specific Federal cause of action for unfair competition. Instead unfair competition under the Lanham Act is a category of claims consisting primarily of causes of action for false designation of origin and false advertising. See, e.g., New West Corp. v. NYM Co. Of California, Inc., 595 F.2d 1194 (9th Cir. 1979) ("Trade-mark and trade name infringement, or unfair competition, preclude one from using another's distinctive mark or name if it will cause a likelihood of confusion or deception as to the origin of the goods."); Tiffany (NJ) Inc. v. Ebay, Inv., 576 F.Supp.2d 463, 519 (S.D.N.Y. 2008) (stating the elements that must be proven to state a claim under the Lanham Act for "unfair competition and false designation of origin" (emphasis added)); 1 Callmann on Unfair Comp., Tr. & Mono. § 2:7 (4th ed. 2008) (noting that the three types of unfair competition claims under the Lanham Act are (1) false designation of origin; (2) false descriptions and misrepresentations; and (3) unfair practices covered by international conventions); 5 McCarthy on Trademarks and Unfair

Competition § 27:9 (4th ed. 2009) (noting that Section 43 has "gradually developed through judicial construction into the foremost federal vehicle for the assertion of two . . . types of unfair competition: (1) infringement of even unregistered marks, names and trade dress, and (2) false advertising").

Plaintiff's Complaint, however, does not state the specific cause of action that it alleges under the rubric of unfair competition. Furthermore, beyond including a demand for relief, Plaintiff's claim for unfair competition under the Lanham Act consists entirely of the statement: "Defendant's above-described conduct constitutes a violation of the federal law against unfair competition as set forth in 15 U.S.C. § 1125 et seq." (Compl. ¶ 30.) This conclusory sentence, which cites to the very same section of the Act as Plaintiff's claim for false designation of origin, and which certainly does not allege a claim for false advertising, does not satisfy Plaintiff's burden of showing that it has stated a claim under federal law. For this reason, Defendants' 12(b)(1) Motion to Dismiss Plaintiff's unfair competition claim under the Lanham Act is GRANTED.

#### B. The State Law Claims

Because the Court has dismissed all of Plaintiff's claims arising under Federal Law, and because Plaintiff does not base subject-matter jurisdiction on diversity of the parties, the

remainder of Plaintiff's Complaint must be dismissed for lack of supplemental jurisdiction under 28 U.S.C. § 1367.

### III. LEAVE TO REPLEAD

Even when a complaint has been dismissed, permission to amend it "shall be freely given when justice so requires." Fed.R.Civ.P. 15(a). "While it is the usual practice upon granting a motion to dismiss to allow leave to replead," Cohen v. Citibank, 1997 WL 88378 at \*2 (S.D.N.Y. Feb. 28, 1997), a court may dismiss without leave to amend when amendment would be futile. Oneida Indian Nation of New York v. City of Sherrill, 337 F.3d 139, 168 (2d Cir. 2003) (citations omitted), reversed on other grounds by City of Sherrill v. Oneida Indian Nation of New York, 544 U.S. 197 (2005). "A proposed amendment to a pleading would be futile if it could not withstand a motion to dismiss pursuant to Rule 12(b)(6)." Id. (citing Ricciuti v. N.Y.C. Transit Auth., 941 F.2d 119, 123 (2d Cir. 1991)).

Because the language of the licenses unambiguously bars Plaintiff's alleged rescission of those agreements, the Court denies Plaintiff leave to replead its copyright claims. Furthermore, because under the rule in Dastar Plaintiff is the creator rather than the producer or distributor of the Film, the Court denies Plaintiff leave to replead its Trademark claims. However, because the Plaintiff may be able to assert facts

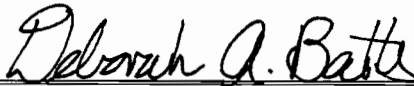
sufficient to satisfy the requirements diversity jurisdiction, 28 U.S.C. § 1332, Plaintiff is granted leave to replead its state law claims.<sup>4</sup>

#### IV. CONCLUSION

For the foregoing reasons, Defendants' Motion to Dismiss the Complaint pursuant to Federal Rule of Civil Procedure 12(b)(1) is GRANTED with prejudice as to Counts I, II, and III and GRANTED without prejudice as to the remaining Counts. The Motion to Dismiss Defendant Sagansky is GRANTED with prejudice as to all Counts. Plaintiff is GRANTED 30 days to amend its Complaint and replead the supplemental jurisdiction claims. Failure to do so will result in the DISMISSAL of these claims without prejudice and the closing of the docket in this case.

SO ORDERED.

Dated: New York, New York  
March 10, 2009

  
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Deborah A. Batts  
United States District Judge

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<sup>4</sup>Although the Court does not reach Plaintiff's state law claims, it cautions that a number of its allegations with regards to those claims appear insufficient on their face. Further, the injunctive relief sought in those claims is barred by the terms of the Agreements.