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BALSAM BRANDS INC. and
BALSAM INTERNATIONAL UNLIMITED COMPANY

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

BALSAM BRANDS INC., a Delaware
corporation, and BALSAM
INTERNATIONAL UNLIMITED
COMPANY, an Ireland unlimited
company,

Plaintiffs,

v.

CINMAR, LLC d/b/a FRONTGATE and
GRANDIN ROAD, a Delaware limited
liability company, and FRONTGATE
MARKETING, INC., a Delaware
corporation,

Defendants.

AND RELATED COUNTERCLAIMS

Case No. 3:15-CV-04829-WHO

**SECOND AMENDED COMPLAINT
FOR**

- 1. PATENT INFRINGEMENT;**
- 2. FALSE MARKING;**
- 3. TRADEMARK
INFRINGEMENT;**
- 4. FALSE ADVERTISING;**
- 5. CALIFORNIA UNFAIR
COMPETITION; AND**
- 6. CALIFORNIA FALSE
ADVERTISING**

DEMAND FOR JURY TRIAL

1 Plaintiffs Balsam Brands Inc. and Balsam International Unlimited Company
2 d/b/a Balsam Hill™, (together, Balsam) allege as follows against defendants Cinmar,
3 LLC and Frontgate Marketing, Inc. (together, Frontgate):

4 INTRODUCTION

5 1. Balsam is the Christmas tree expert. Founded in 2006, Balsam designs
6 and sells artificial Christmas trees, wreaths, garlands, home décor and consumer
7 products directly to customers. Its flagship brand, Balsam Hill, is the world's leading
8 retailer of artificial Christmas trees and related holiday décor products. Balsam
9 Brands is headquartered in Redwood City, California.

10 2. Maneuvering and storing artificial Christmas trees is challenging, and
11 can be dangerous. Having struggled with his own artificial trees for decades, Bruce
12 A. Schooley devised an elegant solution: an invertible tree with two tree trunk
13 portions, one stationary and one movable, configured to allow the rotation of one of
14 the trunks and its attached branches from upside-down to right-side-up. He called it
15 the Flip Tree™. Mr. Schooley was issued two patents on his invention, the first in
16 2011 and a second one earlier this year. He also registered a U.S. trademark on the
17 term "Flip Tree."

18 3. In 2008 Mr. Schooley had his invertible Christmas tree manufactured,
19 and in early 2009 he demonstrated it for Frontgate. Frontgate was immediately
20 interested, and entered into an arrangement with Mr. Schooley to purchase and sell
21 his trees. Sales took off, and Frontgate enjoyed success with them through 2013, by
22 which time revenues from Mr. Schooley's trees dominated Frontgate's total
23 Christmas-tree revenues.

24 4. But Frontgate insisted that the trees be manufactured more cheaply
25 than Mr. Schooley had, a savings Mr. Schooley believed came at the expense of
26 quality and reliability. Frontgate was also having the trees made at a facility in
27 China about which Mr. Schooley had serious safety concerns.

1 5. Mr. Schooley also became increasingly uncomfortable with Frontgate's
2 professed "Kill Balsam [Hill]" strategy. One of Frontgate's expressed goals was to
3 knock Balsam out of the Christmas tree business. At the time, only Frontgate was
4 selling Mr. Schooley's invertible trees, so it marked up prices dramatically on those
5 trees while slashing standard tree prices to depress Balsam's revenues.

6 6. When Mr. Schooley's patent issued in 2011, he mentioned to several
7 people at Frontgate that the company should consider buying or licensing it.
8 Frontgate was never interested.

9 7. Frontgate's practices eventually pushed Mr. Schooley away, and he
10 took his invertible trees elsewhere. Frontgate never took a license to Mr. Schooley's
11 patent and stopped carrying invertible Christmas trees. That is, until this year, after
12 Balsam started carrying Mr. Schooley's invertible trees.

13 8. In 2013 Mr. Schooley began talking with Balsam. He was immediately
14 impressed, realizing that he and Balsam had a shared mission to provide customers
15 high-quality artificial Christmas trees with great customer service. Balsam
16 purchased Mr. Schooley's patents and his FLIP TREE trademark at the end of 2013,
17 and included the invertible tree technology in several of its most popular trees in the
18 fall of 2014. As expected, the trees have been a great success.

19 9. In August of this year Balsam was startled to learn that Frontgate, too,
20 was again offering Mr. Schooley's style of invertible Christmas trees. Balsam was
21 also startled to see Frontgate advertising invertible trees as "exclusive" to Frontgate
22 and containing "patented technology" when, on information and belief, Frontgate
23 has no patent rights to such technology.

24 10. Balsam was further surprised to learn that Frontgate was using the
25 terms "Flip Tree," "Flip" and "Tree" to advertise its trees. On information and belief,
26 Frontgate purchased search result advertisements that use the terms "Flip" and
27 "Tree" in close proximity to each other in a manner that infringes Balsam's
28 trademark.

11. Balsam brings this suit to reverse these unlawful actions.

JURISDICTION, VENUE AND INTRADISTRICT ASSIGNMENT

12. This action arises under the patent laws of the United States of America, including 35 U.S.C. §§ 271 *et seq.* This Court has subject matter jurisdiction under 28 U.S.C. §§ 1331 & 1338(a).

13. Venue is proper in this District under 28 U.S.C. § 1391(b) & (c). On information and belief, Frontgate is subject to this Court's personal jurisdiction because the acts and transactions complained of include the offer to sell and the sale of the identified infringing goods in the State of California and specifically in this District. Furthermore, Frontgate's sales transactions are initiated nationwide through catalogs, which are delivered in the State of California and this District, and through the Internet, which targets sales to the State of California and this District, thereby purposefully availing itself of the benefits of the state.

14. Under Civil L.R. 3-2(c), this is an intellectual property action that has been assigned to the San Francisco Division.

PARTIES

15. Balsam Brands Inc. is a corporation organized under the laws of the State of Delaware with corporate offices in Redwood City, CA.

16. Balsam International Unlimited Company, formerly known as Balsam International Limited, is an unlimited company organized under the laws of Ireland with its corporate offices in Dublin, Ireland.

17. Cinmar, LLC is a limited liability company organized under the laws of Delaware with its principal place of business in West Chester, Ohio.

18. Frontgate Marketing, Inc. is a corporation organized under the laws of Delaware also with its principal place of business in West Chester, Ohio.

19. On information and belief, Cinmar, LLC and/or Frontgate Marketing, Inc. do business as Frontgate and Grandin Road, including through catalogs and the websites www.frontgate.com and www.grandinroad.com. The term "Frontgate"

1 will be used here to refer collectively to Cinmar, LLC, Frontgate Marketing, Inc., and
2 the Frontgate and Grandin Road brands.

3 GENERAL ALLEGATIONS

4 20. Balsam International Unlimited Company is the owner, by assignment,
5 of U.S. Patent No. 8,062,718 B2 (the '718 Patent), entitled "Invertible Christmas Tree,"
6 which was duly and legally issued on November 22, 2011 by the United States Patent
7 and Trademark Office. Balsam International Unlimited Company has granted
8 Balsam Brands Inc. an exclusive license to the '718 Patent. A copy of the '718 Patent
9 as corrected is attached as Exhibit A.

10 21. Balsam International Unlimited Company is the owner, by assignment,
11 of U.S. Patent No. 8,993,077 B2 (the '077 Patent), entitled "Invertible Christmas Tree,"
12 which was duly and legally issued on March 31, 2015 by the United States Patent and
13 Trademark Office. Balsam International Unlimited Company granted Balsam Brands
14 Inc. an exclusive license to the '077 Patent. A copy of the '077 Patent as corrected is
15 attached as Exhibit B.

16 22. Balsam owns U.S. Trademark Registration No. 3,772,926 for the mark
17 FLIP TREE in connection with artificial Christmas trees. A true and correct copy of
18 this registration is attached as Exhibit C.

19 23. The FLIP TREE registration is in full force and effect on the U.S. Patent
20 and Trademark Office's Principal Register, and gives rise to presumptions in favor of
21 Balsam with respect to validity, ownership, and exclusive rights to use the FLIP
22 TREE mark.

23 24. Frontgate imports, offers to sell and sells invertible artificial Christmas
24 trees under its Frontgate brand, including the "Grand Balsam Inversion Artificial
25 Christmas Tree," the "Grand Fraser Fir Inversion Artificial Christmas Tree," and the
26 "Grand Noble Inversion Artificial Christmas Tree." Frontgate also imports, offers to
27 sell and sells under its Grandin Road brand the "Grand Fir One-Step Inversion
28 Artificial Christmas Tree." Collectively, these Christmas tree models, including the

1 Grandin Road Grand Fir One-Step Inversion tree, will be referred to as the
2 "Inversion Trees."

3 25. Frontgate's Grand Balsam, Grand Fraser Fir, and Grand Noble
4 Inversion Artificial Christmas Trees infringe the claims of the '718 and '077 Patents,
5 including but not limited to claims 1 and 4 of the '718 Patent and claims 11 and 14 of
6 the '077 Patent. On information and belief, Frontgate's Grand Fir One-Step Inversion
7 Artificial Christmas Tree also infringes at least the same claims of the '718 and '077
8 Patents.

9 26. Frontgate imports, sells and offers to sell to consumers the Inversion
10 Trees through mail-order catalogs, retail stores, and worldwide websites,
11 www.frontgate.com and www.grandinroad.com, without regard to Balsam's patent
12 rights.

13 27. Frontgate falsely advertises its Inversion Trees and "inversion
14 technology" as "exclusive" to Frontgate, when such trees and technology are not
15 exclusive to Frontgate. Frontgate has also falsely advertised and marked its
16 Inversion Trees as "featuring patented inversion technology" when it didn't have a
17 patent on such technology. Frontgate's conduct violates the patent marking statute,
18 as well as federal and California unfair competition laws.

19 28. Further, on information and belief, Frontgate purchases and uses
20 search result advertisements and sponsored links that display the terms "Flip" and
21 "Tree" in close proximity to each other in a manner that infringes Balsam's FLIP
22 TREE trademark.

23 29. Unless enjoined by this Court, Frontgate will continue to infringe the
24 '718 and '077 Patents, infringe the FLIP TREE mark, and falsely mark and advertise
25 its Inversion Trees. Balsam has been, and will continue to be, irreparably harmed by
26 Frontgate's conduct, and is without adequate legal remedy.

30. Frontgate's conduct has been willful, meriting enhanced damages to Balsam. Additionally, as the above facts show, this is an exceptional case entitling Balsam to its reasonable attorneys' fees.

**FIRST CAUSE OF ACTION
(Infringement of the '718 Patent)**

31. Balsam incorporates Paragraphs 1 through 30 above as though set forth here.

32. In violation of 35 U.S.C. § 271, Frontgate has infringed and continues to infringe one or more of the claims in the '718 Patent, including but not limited to claims 1 and 4, by at least using, importing, selling, and/or offering for sale its Inversion Trees in the United States. Also, Frontgate has infringed and continues to infringe one or more of the claims in the '718 Patent, including but not limited to claims 1 and 4, under the doctrine of equivalents because Frontgate's Inversion Trees are insubstantially different from the claimed inventions of the '718 Patent. For example, Frontgate's "track mechanism" is insubstantially different from the "pivot joint" claimed in the '718 Patent.

33. Under 35 U.S.C. § 284, Balsam is entitled to recover from Frontgate the damages Balsam has suffered as a result of Frontgate's infringement of the '718 Patent, including Balsam's lost profits, in an amount to be proven at trial, but in no case less than a reasonable royalty. Balsam is also entitled to recover pre-judgment interest.

34. Frontgate's infringement of the '718 Patent is and has been willful in that Frontgate was aware of the '718 Patent when it introduced its Inversion Trees to the market. Accordingly, Balsam is entitled to recover enhanced damages of three times the amount of damages awarded under 35 U.S.C. § 284.

35. Frontgate's infringement of the '718 Patent has caused and will continue to cause irreparable harm to Balsam unless Frontgate is enjoined by this Court pursuant to 35 U.S.C. § 283. Balsam has no adequate remedy at law.

36. As demonstrated by the facts above, this is an exceptional case under 35 U.S.C. § 285, and Balsam is entitled to recover its reasonable attorneys' fees.

**SECOND CAUSE OF ACTION
(Infringement of the '077 Patent)**

37. Balsam incorporates Paragraphs 1 through 30 above as though set forth here.

38. In violation of 35 U.S.C. § 271, Frontgate has infringed and continues to infringe one or more of the claims in the '077 Patent, including but not limited to claims 11 and 14, by at least using, importing, selling, and/or offering for sale its Inversion Trees in the United States. Also, Frontgate has infringed and continues to infringe one or more of the claims in the '077 Patent, including but not limited to claims 11 and 14, under the doctrine of equivalents because Frontgate's Inversion Trees are insubstantially different from the claimed inventions of the '077 Patent. For example, Frontgate's "track" is insubstantially different from "pivotably joined" claimed in the '077 Patent.

39. Under 35 U.S.C. § 284, Balsam is entitled to recover from Frontgate the damages Balsam has suffered as a result of Frontgate's infringement of the '077 Patent, including Balsam's lost profits, in an amount to be proven at trial, but in no case less than a reasonable royalty. Balsam is also entitled to recover pre-judgment interest.

40. Frontgate's infringement of the '077 Patent is and has been willful, in that Frontgate was aware of the '718 Patent when it introduced its Inversion Trees to the market, and the '077 Patent is a continuation of the '718 Patent of which, on information and belief, Frontgate was aware. Accordingly, Balsam is entitled to recover enhanced damages of three times the amount of damages awarded under 35 U.S.C. § 284.

48. As demonstrated by the facts above, this is an exceptional case under 35 U.S.C. § 285, and Balsam is entitled to recover its reasonable attorneys' fees.

**FOURTH CAUSE OF ACTION
(Trademark Infringement)**

49. Balsam incorporates Paragraphs 1 through 30 above as though set forth here.

50. On information and belief, Frontgate purchases and uses, without authorization, Balsam's FLIP TREE trademark, or confusingly similar variations, in advertisements and the header and text of the resulting sponsored links that appear when a user types in "Flip Tree" or a variation as a search term in an Internet search engine. Consumers who click the links in these advertisements, in the hopes of purchasing a Flip Tree, are taken to websites operated by Frontgate that instead offer competing products, including its Inversion Trees.

51. Frontgate's unauthorized use of Balsam's FLIP TREE mark, and confusingly similar variations, in advertisements and the header and text of the resulting sponsored links, is likely to confuse, mislead, and deceive consumers as to the source of products available through Frontgate's websites.

52. On information and belief, Frontgate knows or should know that this unauthorized use of Balsam's FLIP TREE mark, and confusingly similar variations, confuses and lures potential Flip Tree customers to Frontgate's websites for the purpose of promoting and selling Frontgate products, including its Inversion Trees.

53. Balsam has not consented to, sponsored, endorsed, or approved of Frontgate's use of the FLIP TREE trademark or any variations in connection with the manufacture, marketing, or sale of any Frontgate products or services.

54. On information and belief, Frontgate's actions are willful and reflect an intent to confuse consumers and to profit from the goodwill and consumer recognition associated with Balsam's mark. Indeed, comparing the historic and present day Frontgate website HTML code reveals that at some point after Mr.

1 Schooley terminated his relationship with Frontgate, Frontgate removed the
2 trademark symbol (™) from the term “Flip Tree,” but did not remove the capitalized
3 term “Flip Tree” from the HTML code. (Website HTML code contains text not
4 viewed by the average consumer browsing a website but is read by search engines in
5 response to user search queries.) On information and belief, Frontgate continues to
6 use the term “Flip Tree” in its website HTML code.

7 55. Frontgate’s Inversion Trees are offered through the same channels of
8 distribution and to the same target customers as Balsam’s Flip Trees.

9 56. Frontgate’s unauthorized use of the FLIP TREE trademark, and
10 confusingly similar variations, in commerce to advertise, promote, market, and sell
11 artificial Christmas trees and other products throughout the United States including
12 California, constitute trademark infringement in violation of 15 U.S.C. §§ 1114 and
13 1125(a).

14 57. Frontgate has caused, and will continue to cause, immediate and
15 irreparable injury to Balsam, including injury to Balsam’s business, reputation and
16 goodwill, for which there is no adequate remedy at law. Balsam is therefore entitled
17 to an injunction under 15 U.S.C. § 1116 restraining Frontgate from engaging in future
18 trademark infringement.

19 58. Balsam is further entitled under 15 U.S.C. § 1117 to recover from
20 Frontgate the damages sustained by Balsam as a result of Frontgate’s trademark
21 infringement in violation of 15 U.S.C. §§ 1114 and 1125(a).

22 59. Balsam is further entitled under 15 U.S.C. § 1117 to recover from
23 Frontgate the gains, profits and advantages that Frontgate obtained as a result of its
24 trademark infringement in violation of 15 U.S.C. §§ 1114 and 1125(a).

25 60. Balsam is further entitled under 15 U.S.C. § 1117 to recover the costs of
26 this action. Moreover, as described above, Frontgate’s conduct was undertaken
27 willfully and with the intention of causing confusion, mistake or deception, making
28

1 this an exceptional case entitling Balsam to recover additional damages and
2 reasonable attorneys' fees.

3
4 **FIFTH CAUSE OF ACTION**
5 **(False Advertising)**

6 61. Balsam incorporates Paragraphs 1 through 60 above as though set forth
7 here.

8 62. As described above in Paragraph 27, Frontgate falsely advertised on its
9 website and in its e-catalogs that its Inversion Trees featured "patented inversion
10 technology" when, on information and belief, no patent had been issued on
11 "inversion technology" to which Frontgate had any rights.

12 63. Further, Frontgate falsely advertises its Inversion Trees and "inversion
13 technology" as exclusive when inversion trees and technology are not exclusive to
14 Frontgate.

15 64. Further, Frontgate is infringing Balsam's FLIP TREE trademark by
16 purchasing and using, without authorization, "Flip Tree" or confusingly similar
17 variations thereof, in advertisements and the header and text of the resulting
18 sponsored links that appear when one types in "Flip Tree" or a variation thereof as a
19 search term in an Internet search engine.

20 65. Frontgate's statements, including its use of Balsam's mark, are false and
21 misleading, in violation of 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). They are
22 likely to influence a substantial number of existing and potential customers of
23 Balsam not to purchase invertible Christmas trees from Balsam and instead to
24 purchase them from Frontgate.

25 66. Frontgate is making and has made these false and misleading
26 statements in commerce in the context of promoting their Inversion Trees.

27 67. The false and misleading statements have likely already have deceived
28 Balsam's customers and potential customers, and likely will deceive them in the
future, all to Balsam's injury.

68. Frontgate's false and misleading statements are objectively baseless, and on information and belief it is making them willfully and in bad faith.

69. Frontgate has caused, and will continue to cause, immediate and irreparable injury to Balsam, including injury to Balsam's business, reputation and goodwill, for which there is no adequate remedy at law. Balsam is therefore entitled to an injunction under 15 U.S.C. § 1116 restraining Frontgate from engaging in future acts of false advertising and ordering removal of Frontgate's false advertisements.

70. Balsam is further entitled under 15 U.S.C. § 1117 to recover from Frontgate the damages sustained by Balsam as a result of Frontgate's false advertising in violation of 15 U.S.C. § 1125(a).

71. Balsam is further entitled under 15 U.S.C. § 1117 to recover from Frontgate the gains, profits and advantages that Frontgate obtained as a result of its false advertising in violation of 15 U.S.C. § 1125(a).

72. Balsam is further entitled under 15 U.S.C. § 1117 to recover the costs of this action. Moreover, as described above, Frontgate's conduct was undertaken willfully and with the intention of causing confusion, mistake or deception, making this an exceptional case entitling Balsam to recover additional damages and reasonable attorneys' fees.

SIXTH CAUSE OF ACTION (California Unfair Competition)

73. Balsam incorporates Paragraphs 1 through 72 above as though set forth here.

74. As described above, Frontgate is falsely marking and advertising its Inversion Trees as including "patented inversion technology" and is falsely advertising that its Inversion Trees and inversion technology are "exclusive" to Frontgate. Further, Frontgate is infringing Balsam's FLIP TREE trademark by purchasing and using, without authorization, "Flip Tree" or confusingly similar variations, in advertisements and the header and text of the resulting sponsored links

1 that appear when one types in “Flip Tree” or a variation as a search term in an
2 Internet search engine.

3 75. This conduct constitutes unlawful, unfair, and/or fraudulent business
4 practices in violation of California Business & Professions Code §§ 17200, *et seq.*

5 76. Frontgate’s conduct ultimately threatens or harms consumers and
6 competitors and competition in the market for artificial Christmas trees.

7 77. By reason of, and as a direct and proximate result of Frontgate’s unfair,
8 fraudulent, and unlawful conduct, Balsam has suffered and will continue to suffer
9 financial injury in an amount to be determined at trial.

10 78. A permanent and mandatory injunction against Frontgate is necessary
11 to stop these ongoing unlawful, fraudulent, and unfair business practices.

12 79. Balsam is entitled to restitution from Frontgate for any and all
13 revenues, earnings, profits, and compensation that Frontgate has obtained from
14 Balsam in violation of California Business & Professions Code §§ 17200, *et seq.*

15 **SEVENTH CAUSE OF ACTION**
16 **(California False Advertising)**

17 80. Balsam incorporates Paragraphs 1 through 72 above as though set forth
18 here.

19 81. As described above, Frontgate is falsely marking and advertising its
20 Inversion Trees as including “patented inversion technology” and is falsely
21 advertising that inversion trees and inversion technology are “exclusive” to
22 Frontgate. Further, Frontgate is using, without authorization, Balsam’s FLIP TREE
23 mark, or confusingly similar variations, in advertisements and the header and text of
24 the resulting sponsored links that appear when one types in “Flip Tree” or a
25 variation as a search term in an Internet search engine.

26 82. This conduct constitutes false advertising in violation of California
27 Business & Professions Code §§ 17500, *et seq.*

1 importing into the United States any of its Inversion Trees and any product no more
2 than colorably different from the Inversion Trees;

3 5. That a permanent injunction issue against Frontgate, its agents,
4 servants, employees, officers, directors, successors, affiliates and assigns, and all
5 others in concert or privity with it, from any further marking or advertising of its
6 Inversion Trees with language stating or suggesting that “inversion technology” is
7 exclusive to Frontgate or that the technology is “patented”;

8 6. That Frontgate be ordered to pay damages under 35 U.S.C. § 284
9 sufficient to compensate Balsam for Frontgate’s past infringement and any
10 continuing future infringement up to the date that Frontgate is finally and
11 permanently enjoined from infringement, but not less than a reasonable royalty
12 and/or Balsam’s lost profits as a result of each infringing act;

13 7. That Frontgate be ordered to pay Balsam pre-judgment and post-
14 judgment interest and costs as permitted under 35 U.S.C. § 284;

15 8. That Frontgate’s infringement has been willful;

16 9. That the damages Frontgate owes be trebled under 35 U.S.C. § 284;

17 10. That this is an exceptional case under 35 U.S.C. § 285;

18 11. That Frontgate pay Balsam its reasonable attorneys’ fees under 35
19 U.S.C. § 285;

20 12. That Frontgate pay damages under 35 U.S.C. § 292(b) sufficient to
21 compensate Balsam for the competitive injury resulting from Frontgate’s false
22 marking;

23 13. That Frontgate be enjoined under 15 U.S.C. § 1116 from engaging in
24 future acts of trademark infringement and false advertising and ordering removal of
25 Frontgate’s false advertisements;

26 14. That Frontgate pay damages under 15 U.S.C. § 1117 sufficient to
27 compensate Balsam for the injury resulting from Frontgate’s trademark infringement
28 and false advertising;

