**No.**

# In the Supreme Court of the United States

**SHAKEY'S PIZZA ASIA VENTURES, INC.,**

*Respondent*,

v.

**PCJV USA, LLC, PCI TRADING LLC, and GUY KOREN,**

*Applicants*.

EMERGENCY APPLICATION FOR STAY OF DISTRICT COURT CASE OR, IN THE ALTERNATIVE, STAY OF ENFORCEMENT OF PRELIMINARY INJUNCTION ORDER ISSUED BY THE UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA, PENDING APPEAL WITH THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

ARASH BERAL
*Counsel of Record*
TODD M. MALYNN
BLANK ROME LLP
2029 CENTURY PARK EAST, SUITE 600
LOS ANGELES, CA 90067
arash.beral@blankrome.com

*Counsel for Applicants*

## TABLE OF CONTENTS

## TABLE OF CITED AUTHORITIES

**Cases**

**Constitutional Provisions**



**Statutes, Rules and Regulations**



**Other Authorities**

**TO THE HONORABLE ELENA KAGAN:**

Applicants PCJV USA, LLC ("PCJV"), PCI Trading LLC ("PCIT"), and Guy Koren ("Koren") (collectively, "Applicants") respectfully request issuance of an emergency stay of the District Court proceedings or, in the alternative, an emergency stay of enforcement of the District Court's preliminary injunction order (the "Order," USDC Doc. No. 56, attached) disposing the United States rights of Applicants to the name "Potato Corner" and related marks, pending appeal with the United States Court of Appeals for the Ninth Circuit (the "Appeal," in which Appeal Applicants filed their opening brief on December 20, 2024).

This Application presents the violation of Applicants' constitutional rights because the Order followed six years of litigation in California state court alongside a dismissal with prejudice of all claims, to which the District Court did not give full faith and credit. The District Court then denied a stay (USDC Doc. No. 64, attached), and so did the Court of Appeals (CA9 Doc. No. 11.1, attached), both applying a *discretionary* standard under Rule 65 of the Federal Rules of Civil Procedure in reliance on *Nken v. Holder*, 556 U.S. 418, 434 (2009), rather than affording Applicants *mandatory* full faith and credit under Article IV, Section 1 of the U.S. Constitution, as implemented by The 1790 Act (28 U.S.C. § 1738).

As a result of the Order, Applicants are forced to de-brand and re-brand, losing the very intellectual property rights they controlled and used for fifteen years as joint venturers with the international brand-owner through the vehicle they jointly developed to expand the brand in the United States: Applicant PCJV.

## STATEMENT OF RELEVANT FACTS AND PROCEDURAL HISTORY

"It makes me feel safe to award you the rights to the U.S.," said the brand-owner to Koren over fifteen years ago.[1] This commitment launched a series of events inducing Koren to forego being a domestic licensee in California to becoming a partner with the international brand-owner in creating and developing a U.S. franchise system, and operating it.

In 2010, U.S.-based partners (led by Koren, known as the "LA Group" with a 40% ownership stake and 3 of 7 board seats) and Philippines-based partners (led by non-party Cinco Corporation ["Cinco"] and its 4 owners [collectively, the "Cinco Group"] with a 60% ownership stake and 4 of 7 Board seats) launched PCJV,[2] the first and exclusive user of U.S. "Potato Corner" marks. PCJV, through Koren, developed the U.S. franchise restaurant system and grew to dozens of units.

PCJV's operations, including the right to control the U.S. marks, vested with PCJV's Board and President as reflected in PCJV's governing documents inclusive of, first, a Joint Venture Agreement ("JVA"), then a Limited Liability Company Operating Agreement ("LLC Agreement"), then an Amended Joint Venture Agreement ("AJVA"). The Cinco Group made that literal "investment" in PCJV when they approached Koren to advance capital and employ sweat equity to develop and operate a national franchise system as the vehicle through which international branding rights would expand to the U.S.

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[1] Applicants will file a record with exhibits should the Court deem it necessary.
[2] PCJV stands for "Potato Corner Joint Venture." The same partners also launched Applicant PCIT, a supply-chain company.

In 2017, the Cinco Group sold 55% of their Cinco stock to a third-party group (the "Hernandez Group") in the Philippines who then claimed to be the majority owner of PCJV in contravention of the LA Group's prior consent rights in addition to the LA Group's right of first refusal rights. In 2018, Cinco briefly prevailed but failed at a hostile takeover attempt of PCJV; after granting an *ex parte* TRO restraining Koren as PCJV's President from using intellectual property belonging to PCJV, a state court denied Cinco's preliminary injunction motion and granted Koren an injunction protecting Koren's control over all of PCJV's business and affairs, including the licensing of the U.S. trademarks to franchisees. In 2019, the Cinco Group tried to change the *status quo* again, but the state court embraced its June 2018 injunction ruling and denied relief.

Generally, Respondent Shakey's Pizza Asia Ventures, Inc. ("SPAVI" – not affiliated with "Shakey's Pizza" in the U.S.), which allegedly acquired Cinco's global portfolio in 2022: (a) conducted due diligence in each "territory" where Cinco had holdings; (b) employed one or more officers and board members of Cinco and PCJV (from the Hernandez Group); (c) retained the Cinco Group's litigation counsel to represent SPAVI as early as 2021; (d) represented to Applicants that SPAVI would be bound by a settlement Koren would make with the Cinco Group; (e) pled that due to the broad state court injunction, it was "legally powerless" to act in furtherance of a threat Cinco made in open court in 2018 that it allegedly had the unilateral right to revoke PCJV's trademark rights (a concept immediately shut down by the state court, see discussion *infra*); (f) chose not to intervene in the state court action and go to trial, buy the LA Group out, or enter into a global settlement; and (g) declared in no uncertain terms that it did not acquire any interests or rights in PCJV or PCIT.

Applicants and Cinco Group resolved the state court action on May 28, 2024. The Cinco Group (then inclusive of the Hernandez Group) agreed to transfer all of their rights and interests in PCJV and PCIT to Koren, with a dismissal of all claims with prejudice. The Cinco Group represented and warranted that no rights under PCJV's governing documents "attached" to the "Interests" being sold to Koren were subject to any rights previously sold to SPAVI, and, further, that the "Interests" and the "attached" rights "do not and will not…require any…license" and "do not and will not…violate or conflict with, result in the acceleration of, or create in any party the right to accelerate, terminate, or modify any…license."

Three days later, on May 31, 2024, SPAVI (still represented by the same counsel as the Cinco Group): (1) purported to "revoke" PCJV's trademark rights; (2) filed the below action; and (3) attempted to convert PCJV's franchisees for itself. Last month, SPAVI convinced the District Court to overlook *res judicata* and full faith and credit and grant it a preliminary injunction. USDC Doc. No. 56. Respondent claimed that it is the only legal owner of U.S. Potato Corner marks, and, in addition, Applicants had no rights whatsoever. The District Court agreed and then denied a stay. USDC Doc. No. 64. The Court of Appeals, too, discretionarily denied a stay. CA9 Doc. No. 11.1. Applicants filed their opening brief papers on December 20, 2024 with the Court of Appeals. The Appeal is pending.

## ISSUE PRESENTED WARRANTING IMMEDIATE STAY

Under the All Writs Act (28 U.S.C. § 1651(a)), this Court has employed a two-part test in considering whether to grant a stay of an injunction pending appeal: *First*, does the case present "an important question of federal law"? *Second*, even if so, is it one that should be "settled by [the] Court"? *Hollingsworth v. Perry*, 558 U.S. 183, 190 (2010) (*per curiam*). Based on *Nken v. Holder*, 556 U.S. 418 (2009), the answer is yes. Indeed, this Court is not just the court of last resort but is the only Court that can resolve the important federal question arising under the Full Fath and Credit Clause that would otherwise escape review absent an emergency stay pending appeal. Both the District Court and the Court of Appeals relied on *Nken* in discretionarily denying a stay.

The important federal question involves the interplay between (a) the Full Faith and Credit Clause in Article IV, Section 1 of the U.S. Constitution, as implemented by The 1790 Act (28 U.S.C. § 1738), and (b) Rule 65 of the Federal Rules of Civil Procedure in connection with a preliminary injunction under the Lanham Act (15 U.S.C. § 1051 *et seq*.). An emergency stay is needed to resolve the conflict between the constitutional *mandate* that federal courts are to give full faith and credit to state court judgments, and the *discretion* granted to lower courts in deciding applications to stay under Rule 65.

This Court held in *Nken* that the "traditional" discretionary standard for a stay applied to a motion for a stay of an immigration removal order because Congress did not change the standard when it enacted the new statute, which the government argued set a new standard requiring an immigrant to show "'by clear and convincing evidence that the entry or execution of such order is prohibited as a matter of law.'" 556 U.S. at 425 (citing 8 U. S. C. §1252(f)(2)). But where full faith and credit is constitutionally owed, such as it was in this case, does the "traditional" discretionary standard apply? Applicants contend it does not.

The mandate that lower courts shall give judgments full faith and credit is a constitutional, statutory, and federal common law right; it is not a matter of discretion. *VL v. EL,* 577 U.S. 404 (2016) (*per curiam*); *San Remo Hotel, L.P. v. City and County of San Francisco,* 545 U.S. 323 (2005); *University of Tennessee v. Elliott,* 478 U.S. 788 (1986). Courts cannot avoid the mandate under Rule 65 no differently than they could avoid a sister state's interpretation of a Georgia adoption statute in *VL*, application of a federal common law abstention and ripeness doctrines in *San Remo Hotel, L.P.*, or a federal court's refusal to give full faith and credit to findings of an administrative law judge in *University of Tennessee.* Full faith and credit is a matter of right that *Nken* by its own terms does not grant discretion to deny when it risks irreparable harm pending appeal.

An order is needed limiting *Nken*, which is enabling federal courts under Rule 65 to avoid issuing stays pending appeal under an abuse of discretion standard that denies full faith and credit and moots brand-saving review under the Lanham Act (which comes too late to prevent a forced rebrand). *De novo* review – the standard of review of the merits of an order denying *res judicata* – should be the required standard that governs a stay pending appeal under the Full Faith and

Credit Clause, including The 1790 Act, to avoid irreparable harm under the Lanham Act due to a failure to grant full faith and credit under Rule 65.

## ARGUMENT

### I. THE LOWER COURTS DID NOT AFFORD APPLICANTS THEIR CONSTITUTIONAL RIGHTS

Article IV, §1, of the United States Constitution demands that "Full Faith and Credit shall be given in each State to the public Acts, Records, and judicial Proceedings of every other State. And the Congress may by general Laws prescribe the Manner in which such Acts, Records and Proceedings shall be proved, and the Effect thereof." In 1790, Congress enacted the first version of the full faith and credit statute. *See* Act of May 26, 1790, ch. 11, 1 Stat. 122. The modern version of the statute, 28 U. S. C. §1738, provides that "judicial proceedings…shall have the same full faith and credit in every court within the United States and its Territories and Possessions as they have by law or usage in the courts of such State…." *San Remo Hotel,* 545 U.S. at 336. The 1790 Act encompasses *res judicata*, both in terms of "claim preclusion" and "collateral estoppel, or 'issue preclusion.'" *Id.* (citing *Allen* v. *McCurry*, 449 U. S. 90, 94–96 (1980)).

#### A. Full Faith and Credit is Mandatory and a Matter of Right

The Court has enforced the Full Faith and Credit Clause, its implementing statute, and corresponding federal common law to bar re-litigation in federal court over statutory and common law rules invoked to avoid the mandate that federal courts shall provide full faith and credit to final judgments on the merits. For example, in *VL*, the Court rejected Alabama's refusal to provide full faith and credit to a final judgment under Georgia law. Based on a presumption that an adoption decree was correct and final under a new Georgia statute, including because no Geogia court had opined that an adoption decree was not final and subject to collateral attack, the Court held that Alabama courts were required to give full faith and credit to the adoption decree and were not permitted to rule in favor of the biological parents by interpreting Georgia's statute differently. 577 U.S. at 407-10.

In *San Remo Hotel,* the Court addressed whether a constitutionally based takings claim that was not ripe for adjudication was still barred by *res judicata* after the federal court had abstained to hear related claims based on *Pullman* abstention. Because the state court's final judgment on the related claims resolved issues dispositive of the takings claim, the Court affirmed the Ninth Circuit's decision that *Pullman* abstention did not create an exception to the Full Faith and Credit Clause, as implemented by The 1790 Act. 545 U.S. at 324, 336-38.

In *University of Tennessee*, the Court barred re-litigation of a civil rights action after the Equal Employment Opportunity Commission adjudicated the underlying issues before an administrative law judge. Even though neither the Full Faith and Credit Clause nor The 1790 Act applied by their terms to administrative proceedings, the Court applied federal common law to bar re-litigation:

> Occasionally courts have used language to the effect that *res judicata* principles do not apply to administrative proceedings, but such language is certainly too broad. When an administrative agency is acting in a judicial capacity and resolves disputed issues of fact properly before it which the parties have had an adequate opportunity to litigate, the courts have not hesitated to apply *res judicata* to enforce repose.

478 U.S. at 798-99.

### B. *Nken* Conflicts with Full Faith and Credit

The holding in *Nken,* which affirmed discretionary review of motions for a stay, is predicated on the Court's holding that a stay "is not a matter of right," and therefore may be denied "'even if irreparable injury might otherwise result to the appellant.'" 556 U.S. at 427 (citing *Virginian R. Co.* v. *United States*, 272 U. S. 658, 672 (1926)). *Nken* conflicts with and undermines the holdings of *VL*, *San Remo Hotel*, and *University of Tennessee* that Full Faith and Credit is a mandatory obligation of federal courts. Neither Rule 65 nor "traditional" common law standards for a stay authorize federal courts to deny full faith and credit. Federal courts have (and should have) no discretion to deny full faith and credit at least where, as here, "irreparable injury might otherwise result to the appellant."

#### 1. Under *Nken*, the Lower Courts Denied a Stay Without Conducting a Full Faith and Credit Analysis

Both the District Court and the Court of Appeals denied a stay, relying on *Nken*. The Order (USDC Doc. No. 56, at p. 19), however, had plainly erred when it ruled that Cinco's dismissal with prejudice was not "a final judgment on the merits," with neither claim nor issue preclusion effect. *See Fed. Home Loan Bank of San Francisco v. Countrywide Fin. Corp.*, 214 Cal. App. 4th 1520, 1523 (2013) ("The threshold question is whether the Bank's voluntary dismissal of its Section 15 claim in the Credit Suisse action was a final judgment on the merits. The answer is yes."). A dismissal with prejudice under California law has both claim and issue preclusion effect, which Applicants were denied. *See Estate of Redfield,* 193 Cal. App. 4th 1526, 1533 (2011) ("A dismissal with prejudice is the modern name for a common law retraxit. [Citation.]...Dismissal with prejudice is determinative of the issues in the action and precludes the dismissing party from litigating those issues again."); *Torrey Pines Bank v. Superior Court (White),* 216 Cal. App. 3d 814, 820 (1989) ("Dismissal with prejudice is determinative of the issues in the action and precludes the dismissing party from litigating those issues again.").

In *Fed. Home Loan Bank of San Francisco*, cited with approval in *Kim v. Reins International California,* 9 Cal. 5th 73, 91 (2020), the California Court of Appeal applied claim preclusion to bar litigation of a claim that fell within the "scope of [a prior] action, related to the subject matter and relevant to the issues, so that it *could* have been raised…." 214 Cal. App. 4th at 1529 (emphasis original). The plaintiff dismissed four of five securitization claims with prejudice against one of multiple lender defendants asserting control-person liability, then refiled against the dismissed bank. *Id.* at 1523. The Court began with the basic principles of *res judicata. Id.* at 1527 ("Res judicata bars a cause of action that was or could have been litigated in a prior proceeding if: '(1) the present action is on the same cause of action as the prior proceeding; (2) the prior proceeding resulted in a final judgment on the merits; and (3) the parties in the present action or parties in privity with them were parties to the prior proceeding.'") (citations omitted).

The Court of Appeal rejected the plaintiff's initial challenge to *res judicata* that the dismissal with prejudice did not constitute a bar to the dismissed claims "because the primarily liability claims against other defendants" allegedly deriving from the same harm remained pending against other tortfeasors. *Id.* at 1528-29. The Court rejected the argument because the "pendency of claims against other defendants in the [original] action does not undermine the *res judicata* effect of the final judgment on the merits for Countrywide Financial in that case." *Id.*

The Court of Appeal then rejected plaintiff's challenge to *res judicata* on the fifth claim, which was not asserted in the prior action. It held that "[t]he issue is not whether the Bank dismissed any claims regarding the fifth securitization in the [prior] action. The issue is whether the Bank could have raised a claim against Countrywide Financial based on its alleged control of Countrywide Securities [an undismissed defendant] in *Credit Suisse.* The law is settled that a 'prior final judgment on the merits not only settles issues that were not [sic] actually litigated but also every issue that might have been raised and litigated in the first action.' [Citation omitted]….Hence the rule is that the prior judgment is *res judicata* on matters which were raised or could have been raised, on matters litigated or litigable....' [Citation omitted]." *Id.* at 1528-29.

In this case, Cinco's threatened claim to unilaterally revoke PCJV's trademark rights under PCJV's governing documents in response to an adverse tentative ruling interpreting those agreements in 2018, was "litigable" in the state-court action as it "fell within the "scope of the [prior] action, related to the subject matter and relevant to the issues, so that it *could* have been raised…." *Id.* at 1529. Respondent even admitted in its federal complaint that (a) its predecessor-in-interest and anyone acting in concert (*i.e.,* Respondent) was "legally powerless" to act on Cinco's threatened right to unilaterally revoke the joint venture's U.S. trademark rights, and (b) it took an assignment of U.S. registrations from Cinco with full knowledge of Applicants' prior rights and the state court's preliminary injunction favoring Applicants, which established that the enjoined claim fell within the "scope of the [state court] action," and therefore the state court's "judgment is conclusive on it...." *Id.* at 1530.

Both the state court action Cinco initiated against Koren to remove him as President of PCJV, and subsequent federal action Respondent initiated against Koren under the Lanham Act involve the same harm: That no foreign party had a direct, unilateral right to control Potato Corner USA's operations, including the use of the "Potato Corner" trademarks in the United States. Absent sole control of the U.S. marks, PCJV's first use by law did not inure to the sole benefit of one of PCJV's joint venture partners (*i.e.,* Cinco), but it inured to *PCJV's* benefit. *See* 15 U.S.C. § 1055 ("If first use of a mark by a person is controlled by the registrant…with respect to the nature and quality of the goods or services, such first use shall inure to the benefit of the registrant…."); *Sengoku Works Ltd. v. RMC Intern., Ltd.*, 96 F.3d 1217, 1219-20 (9th Cir. 1996) (discussing importance of prior contractual rights and control of first use of trademark in ownership dispute between alleged foreign licensor and exclusive user of registered mark); *Precision Door Service, Inc. v. Bell,* No. C 02–01108 CW, 2002 WL 655053, at *6 (N.D. Cal April 18, 2002) (enforcing franchise agreement under *Sengoku*).

It is as simple as this:

1. In state court, Cinco sought to regain control of the U.S. marks by trying to remove Koren as PCJV's President.
2. In this case, Cinco's party-in-privity (Respondent) is trying to obtain control of the U.S. marks by trying to re-litigate the same grounds for relief Cinco lost based on the state court's interpretation of PCJV's governing documents.

It is axiomatic that a United States franchise system cannot exist without trademark rights, which are and must be disclosed pursuant to state and federal laws in franchise disclosure documents ("FDDs") as part of the business opportunity being presented to prospective U.S. franchisees. A U.S. franchisor is not a generic company with no branding rights. By definition, a U.S. franchisor has branding rights—otherwise it is not a franchise. *See Pereda v. Atos Jiu Jitsu LLC*, 85 Cal. App. 5th 759, 768–69 (2022) ("A franchise is a business relationship through which one entity (the 'franchisor') sells a second entity (the 'franchisee') the 'right to use [the franchisor's] trademark….'") (alteration in original, citation omitted); Cal. Corp. Code § 31005(a)(3) ("Franchise" includes "[t]he operation of the franchisee's business pursuant to such plan or system [that] is substantially associated with the franchisor's trademark….").

Lacking a real full faith and credit analysis, the Order (USDC Doc. No. 56, at pp. 1, 10 n.4) focused on whether the state court *actually* adjudicated Cinco's trademark ownership claim, which it did not because it held for Koren and Koren had no need to assert a claim after that. Since *Cinco* threatened the claim, and

Cinco and parties in concert with Cinco (*i.e.*, Respondent) were enjoined from unilaterally acting upon the threatened claim outside of court, it was Cinco's and Respondent's prerogatives to assert any such claim, which they did not. Not having brought any such claim, the claim was barred for the same reasons the fifth claim in *Fed. Home Loan Bank of San Francisco* was barred. It was barred by California law. *E.g., Robi v. Five Platters, Inc.*, 838 F. 2d 318, 324 (9th Cir. 1988) (Lanham Act claim barred by prior property judgment); *Divix Golf, Inc. v. Mohr*, No. 05CV1488 JAH (CAB), 2009 WL 10673568, at *5 (S.D. Cal. Mar. 30, 2009) (claim seeking to re-litigate "right to control" barred); *Fernandez v. JR Int'l Grp.*, No. B151782, 2003 WL 1564437, at *5-6 (Cal. Ct. App. Mar. 27, 2003) (claim trying to re-interpret joint venture agreement barred).

### 2. The District Court Denied Full Faith and Credit by Issuing Conflicting Rulings in the Order

In granting Respondent a preliminary injunction, the District Court adjudicated not only a claim that Cinco and its party-in-privity plainly could have tried in state court, but also re-litigated the same issues Cinco lost in state court. As background material facts first verified in the state court action, then reiterated in Respondent's pleading, before the parties conceived of Potato Corner USA, Cinco promised Koren a long-term trademark license as a licensee in California. Under their originally contemplated deal, Koren did not need to invest substantial capital or sweat equity to create, develop, and run a U.S. franchise system. The Cinco Group, by their own choice and to avoid U.S. liability, changed the deal. Rather than them having the obligation to create, develop, and operate a U.S. franchise system, the Cinco Group approached and asked *Koren* to create, develop, and operate a U.S. franchise system as the vehicle through which trademark rights would expand to the United States (what became PCJV).

The Cinco Group agreed to vest control of the joint venture's first and exclusive use of the U.S. marks with PCJV's President and Board. Its promised consideration to Koren to forego his long-term rights as a licensee in California was that Cinco "agreed" (past tense) to license to the joint venture long-term rights via the JVA, where Cinco verified that the power to control the use of the marks was vested in the President and Board. Cinco subsequently documented in PCJV's Board minutes and FDDs that the license would be non-royalty bearing in favor of distribution income.

The parties documented PCJV's long-term trademark rights in two ways: (1) A non-transferrable, perpetual trademark license under the integrated JVA and AJVA until (2) either that license was terminated by mutual agreement under section 4 or the parties fulfilled their joint venture obligations under section 5(b) of the AJVA and entered into an enforceable written long-term license under section 3(g) transferring sole control of the U.S. marks back to Cinco under the AJVA. Therefore, absent a claim of breach, under the plain language and objectively manifested mutual intent of the parties, PCJV owned long-term trademark rights in the United States.

Respondent's trademark rights, if any, in the U.S. registrations it *allegedly* acquired from Cinco were always subject to the *prior* trademark rights in PCJV, which survived any transaction between Cinco and Respondent for these simple reasons: Cinco sold *all* of its interests in PCJV to Koren, including any and all trademark rights; and Respondent has declared that it purchased *no rights in PCJV*, and instead reiterated in its pleading the same challenges to PCJV's trademark rights Cinco originally raised in state court.

**a. The State Court Ruled That Cinco Was a Party and Koren Properly Controlled the U.S. Marks**

The same grounds for relief adjudicated by the state court against the Cinco Group are the same grounds for relief Respondent is trying to relitigate in federal court and as to which the Order issued directly conflicting rulings in violation of 28 U.S.C. § 1738. As mentioned, in state court Cinco tried to unilaterally take control over PCJV's use of the U.S. trademarks from Koren after Cinco sold 55% of its stock to a third party in violation of section 2(d) of the AJVA.

Instead of seeking declaratory relief, the Cinco Group just locked Koren out as President claiming they had the votes to remove Koren. Cinco then sought and obtained an *ex parte* TRO restraining Koren from, *inter alia,* using any *intellectual property belonging to PCJV*. After full briefing in response to dueling preliminary injunction motions, however, the state court rejected Cinco's arguments and granted Koren's motion for a preliminary injunction instead.

In response to the adverse tentative ruling at the preliminary injunction hearing, Cinco's counsel objected that reinstalling Koren as President of PCJV would mean that he would get to control Potato Corner USA "for life." The state court responded, that "was the deal" in that AJVA's duration is "perpetual" absent a further "deal" under section 4 of the AJVA. The state court then ruled that absent a breach of the AJVA, which Cinco failed to prove, Koren could not be removed as PCJV's President.

This ruling unmistakably resolved who controlled the use of the U.S. trademarks. One of the pled powers of the President was to manage *all* of PCJV's business and affairs, including PCJV's statutory and contractual obligations to license the U.S. trademarks, subject only to Board approval. The state court also adjudicated and rejected Cinco's argument that, after suing Koren as a joint venture partner, it allegedly was not a "party" to the AJVA as a basis for denying, *inter alia,* that it was not liable for allegedly breaching the AJVA.

At the preliminary injunction hearing, the state court directly asked Cinco what it intended to do if Koren were reinstated as President. Cinco answered that "there are other actions that [it] can take…as owner of the trademark worldwide…. It could be at the end of the day P.C.J.V. has nothing *because the trademarks can be revoked.*" Emphasis added. Before Koren's counsel responded, the state court cautioned Cinco that, "you have to decide whether doing that could breach of the covenant of good faith and fair dealing or it would be some kind of wrongful or tortious breach." Koren's counsel confirmed that Cinco did not have a unilateral right to terminate PCJV's trademark rights, as that would constitute a "breach" and that if Cinco's claim was communicated to third-party U.S. franchisees, it "would likely be an interference with [Koren's] ability to run the business...."

Two weeks after oral argument, the state court issued its final ruling and held that Koren was likely to prevail on his cross-claim for declaratory relief based on the state court's interpretation of the AJVA and other control documents, and enjoined Cinco, parties-in-privity, and others, *not only* from "1) interfering with Koren's management of the Company as its President," *but also* from "communicating" with PCJV's U.S. franchisees "in a manner that casts doubt on Koren's title as President and/or his authority to manage the Company …"

#### b. The Federal Court Ruled That Cinco Was Not a Party and Had Sole Control of the U.S. Marks

Without affording full faith and credit to the state court's final judgment on the merits (*i.e.,* dismissal with prejudice after its preliminary injunction rulings), the District Court simply accepted Respondent's pleading allegations as true and shifted the burden of proof to the non-moving party. It then summarily disagreed with the state court's explicit ruling that Cinco was a party to the AJVA and held that "[n]either [Respondent] nor Cinco is a party to the AJVA (although the latter had indirect involvement through its subsidiary PCI)." USDC Doc. No. 56 at p. 15.

The ruling that Cinco was not a "party" to the AJVA begot another conflicting ruling that control of PCJV's first use of the U.S. trademarks was no longer vested in PCJV's President and Board. Per the Order, control of the U.S. trademarks allegedly remained solely with Cinco as a licensor under the AJVA—thereby negating the objectively manifested mutual intent of the parties found by the state court and breaking the time-space continuum in that Cinco was plainly a party that contributed long-term trademark rights, then per the Order somehow retroactively became a non-party that never contributed long-term trademark rights. Then, under *Nken*, the District Court denied an application for a stay pending appeal, "even if irreparable injury might otherwise result to the appellant."

The Order's denial of Full Faith and Credit becomes even more transparent when considering (a) Koren's settlement and purchase agreement with the Cinco Group, (b) the parties' negotiated mutual general releases of all known and unknown claims, and (c) the Order's disregard of the actual terms of the settlement defining the limited scope of the "Excluded Claims," which per the objectively manifested mutual intent of the parties, the Cinco Group released all claims against Applicants for allegedly breaching any license, needing any license, or terminating any license to use of the U.S trademarks. Significantly, in *Torrey Pines Bank v. Superior Court (White),* 216 Cal. App. 3d 814 (1989), the California Court of Appeal held that, absent an agreement to the contrary, a dismissal with prejudice bars further litigation *not only* on a claim against a defendant *but also* a defense to a claim brought by a defendant to enforce an obligation against a releasing party. *Id.* at 821. In granting *res judicata*, the *Torrey Pines Bank* Court explained, "White's dismissal with prejudice in case number 597676 barred another action by White against the Bank based on the same factual grounds alleged in his first amended complaint. We hold White's dismissal with prejudice also precluded him from asserting those identical facts as affirmative defenses to the Bank's complaint in case number N38961." *Id.*

In the settlement, Koren purchased all of the Cinco Group's and their affiliates' ("Sellers") ownership interests in Potato Corner USA, including their majority ownership and voting rights ("Interests"), along with all rights "attached" to those Interests in PCJV (including any and all trademark rights), free and clear of any "Encumbrances," broadly defined, as well as free from any understanding with or need to obtain a license from a third party. As to the scope of the mutual general release of all known and unknown claims, the settlement agreement is clear that Koren fully bought his peace as to all claims that were brought or could have been brought against Applicants.

The Order does not analyze or enforce the actual terms and conditions of the purchase agreement and mutual release to fulfill 28 U.S.C. § 1738's mandate that it give Full Faith and Credit to the state court judgment. Instead, it refers to an immaterial recital in which Cinco merely reiterates its own legal opinion and disputed contention regarding the assigned U.S. registrations, even though the parties agreed in writing to make the very distinction recognized in *Torrey Pines Bank,* 216 Cal. App. 3d at 814: Koren maintained rights against Cinco while permitting Cinco to defend itself with any declaration of rights falling within the scope of the Excluded Claims.

### 1. Respondent is Bound By *Res Judicata.*

The District Court also denied that Respondent was in privity with Cinco, which was error. *See Lamb v. Cramer*, 285 U.S. 217, 219 (1932) ("So far as he acquired, pendente lite, any interest in the property involved in the suit, he was not only subject to those equities, but bound by any decree which the court might make with respect to it, to the extent that it might adjudicate the rights of the plaintiffs against the defendants."); 18A Wright & Miller, Fed. Prac. & Proc. Juris. § 4462 (3d ed.) ("At least as to transferee who takes with notice of the pending litigation, however, the rule is well settled that he is bound by the subsequent judgment… If the transferee does not wish to be represented by the transferor, it is a simple matter to seek a substitution of parties, intervene, or perhaps take steps to move free from the litigation."). Respondent is in privity under at least two well-established grounds approved in *Taylor v. Sturgell*, 553 U.S. 880, 893-95 (2008) (articulating six relationships establishing privity for the purposes of *res judicata*) and discussed in Wright & Miller, *supra,* which the Supreme Court cited with approval in *Smith v. Bayer Corp.,* 564 U.S. 299, 307-08, 312-13 & n. 11 (2011).

First, a nonparty may be bound by a judgment where they agreed to be bound by the prior adjudication, assumed control of the prior litigation, or were at least "'adequately represented by someone with the same interests who [wa]s a party' to the suit." *Taylor*, 553 U.S. at 893-94 (citations omitted). The Ninth Circuit has stated that "[t]o determine whether a nonparty 'assumed control over' a previous action so as to be bound by its judgment, a court must evaluate whether the 'relationship between the nonparty and a party was such that the nonparty had the same practical opportunity to control the course of the proceedings.'" *United States v. Bhatia*, 545 F.3d 757, 760 (9th Cir. 2008) (quoting 18A Wright & Miller, Fed. Prac. & Proc. § 4451, at 373 (2d ed. 2002)). Similarly, a party's representation of a nonparty is adequate if their interests are aligned, the party understood it was representing the aligned interests, and the nonparty had a full and fair opportunity to intervene on its own behalf. *See Taylor*, 553 U.S. at 900.

Here, Respondent agreed to be bound by, assumed control over and/or was adequately represented by Cinco in the state court action. It had over two years to intervene as a real party in interest; Respondent employed officers of Cinco and hired Cinco's counsel of record to fully represents its interests; and Respondent represented to Defendants that it would be bound by a settlement between Defendants and Cinco. *E.g., Lettenmaier v. Fed. Home Loan Mortg. Corp.*, No. CV-11-156-HZ, 2011 WL 3476648, at *8 (D. Or. Aug. 8, 2011), *supplemented* 2011 WL 3476661 (D. Or. Aug. 8, 2011) ("Alpha Foundation is in privity with the Lettenmaiers under the second and third categories. Its interests are aligned with the Lettenmaiers and were protected by the Lettenmaiers in the FED action.").

Second, Respondent is a classic successor-in-interest to a property right who purchased alleged trademark rights from Cinco with full knowledge of and subject to PCJV's prior rights. It is thus barred by both claim and issue preclusion due to Cinco's dismissal with prejudice. *See Headwaters Inc. v. U.S. Forest Serv.*, 399 F.3d 1047, 1053 (9th Cir. 2005) (listing assignors and assignees as relationship with privity); *Consumer Advocacy Grp., Inc. v. Exxon Mobile Corp.*, 168 Cal. App. $4^{th}$ 675, 689 (2008) (parties have privity if they have "mutual or successive relationship to the same rights of property."); *Lettenmaier*, 2011 WL 3476648, at *8 ("Alpha

Foundation is the Lettenmaiers' successor-in-interest to the property and its claims are additionally precluded for that reason.").

### 2. A Stay is Warranted to Resolve an Important Conflict of Law and to Avoid Irreparable Harm

Applicants respectfully submit that the conflict between the Full Faith and Credit Clause and Rule 65, and how Rule 65's discretionary standard was applied here to deny Applicants their constitutional rights, warrants this Court to issue a stay of the underlying District Court proceedings or, in the alternative, enforcement of the Order, pending the Appeal. Without a stay, irreparable harm to Applicants will continue to mount. Applicants have been scurrying to comply with the Order, including seeking approvals from state regulators and real-estate landlords, however, Respondent has threatened *multiple* times to file motions to hold Applicants in contempt. The District Court, too, declined to set a time frame for compliance. The District Court then denied an application to enjoin Respondent from raiding PCJV's U.S. franchisees by threatening them and their employees. If the proceedings in the District Court or enforcement of the Order itself is not stayed within the next 3 weeks, Applicants will suffer irreparable harm that is not just limited to the loss of a 15-year brand name. They will risk business closure of some or all of their company and third-party owned U.S. franchisees. They will also continue to incur millions of dollars in rebranding efforts.

While these damages supported a request to modify the $100,000 bond ordered by the District Court, the District Court also declined to rule on an application to increase the bond on the erroneous ground that it lacked jurisdiction to hear a pending motion on the bond under Federal Rule of Civil Procedure 62(d). Consequently, irreparable harm, including loss of an established 15-year brand and the corresponding risk of business closure supporting a sufficient bond request, are now befalling Applicants for this reason: The Ninth Circuit and District Court followed *Nken*: they applied a discretionary standard to Applicants' emergency applications for stay pending appeal.

## CONCLUSION

For all of the foregoing reasons, Applicants respectfully request the Court to grant this Application and either issue a stay of the District Court proceedings or enforcement of the Order, pending the Appeal with the Court of Appeals for the Ninth Circuit.

Respectfully submitted,

ARASH BERAL
*Counsel of Record*
TODD M. MALYNN
BLANK ROME LLP
2029 CENTURY PARK EAST, SUITE 600
LOS ANGELES, CA 90067
arash.beral@blankrome.com

*Counsel for Applicants*

December 27, 2024

# APPENDIX

## TABLE OF APPENDICES

*Page*

cc: Fiscal

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

| | |
|---|---|
| SHAKEY'S PIZZA ASIA VENTURES, INC.,<br><br>Plaintiff,<br><br>v.<br><br>PCJV USA, LLC et al.,<br><br>Defendants. | Case No. 2:24-cv-04546-SB-AGR<br><br>ORDER GRANTING IN PART AND DENYING IN PART MOTION TO DISMISS AND MOTION FOR PRELIMINARY INJUNCTION [DKT. NOS. 41, 44] |

Cinco Corporation, a Filipino company that developed the Potato Corner brand of flavored french fries, registered trademarks for "Potato Corner" and related marks in the United States. Together with Guy Koren, Cinco created PCJV USA, LLC (PCJV), a joint venture that opened Potato Corner franchises in the United States. Their relationship soured, resulting in six years of state court litigation over control of PCJV. Koren obtained preliminary injunctive relief allowing him to retain control, and the parties ultimately reached an agreement for him to buy out Cinco's share of PCJV. Meanwhile, Cinco sold its intellectual property rights, including the registered U.S. trademarks, to Plaintiff Shakey's Pizza Asia Ventures, Inc. (SPAVI) in 2022. After SPAVI and PCJV failed to negotiate a licensing arrangement, SPAVI filed this trademark infringement action against PCJV, Koren, and numerous related entities. Defendants now move to dismiss the complaint, Dkt. No. 41, and SPAVI moves for a preliminary injunction, Dkt. No. 44. The Court issued a tentative opinion and held a hearing on November 8, 2024.

Both motions focus largely on ownership of the trademarks. Because SPAVI has plausibly alleged ownership and shown a likelihood of success on the merits of its claims—as well as the other required elements for injunctive relief—

the Court largely denies the motion to dismiss and grants the motion for a preliminary injunction as to PCJV's continued use of the trademarks.

I.

The Court begins with a recitation of the allegations in SPAVI's complaint, which are taken as true for purposes of Defendants' motion to dismiss, and with Defendants' exhibits that are subject to judicial notice.[1] The evidence presented in connection with the preliminary injunction motion, where relevant, will be addressed in the Court's discussion of that motion.

The Potato Corner brand began in 1992 when a group of entrepreneurs opened a food cart in a shopping mall in the Philippines. Dkt. No. 1 ¶ 30. Cinco, the owner of the brand for most of the relevant history, expanded Potato Corner to include more than 1,000 stores worldwide. *Id.* ¶¶ 30–31. In 2010, Cinco registered the following service mark with the U.S. Patent and Trademark Office (PTO):

*The Potato Corner Logo Mark (U.S. Reg. No. 3760041)*

*Id.* ¶ 33. In 2019, Cinco registered the character mark "Potato Corner" with the PTO. *Id.* ¶ 34. Both marks have been in continuous use and remain registered. *Id.* ¶¶ 33–34.

[1] All but one of the exhibits proffered by Defendants in connection with their motion to dismiss are filings in the related state court litigation. As correctly noted in SPAVI's objection, Dkt. No. 47, these documents are properly subject to judicial notice as to their existence, but the Court does not rely on them for the truth of the facts contained therein. *See Lee v. City of Los Angeles*, 250 F.3d 668, 690 (9th Cir. 2001) ("On a Rule 12(b)(6) motion to dismiss, when a court takes judicial notice of another court's opinion, it may do so not for the truth of the facts recited therein, but for the existence of the opinion, which is not subject to reasonable dispute over its authenticity.") (cleaned up).

In 2009, Cinco began exploring an expansion of the Potato Corner brand into the United States in cooperation with Defendant Guy Koren and others. *Id.* ¶¶ 36–37. The next year, Cinco, Koren, and Amir Jacoby formed PCJV to serve as the U.S. franchisor for the brand. *Id.* ¶¶ 39–49. Cinco, through its subsidiary, Potato Corner, Inc. (PCI), owned 60 percent of PCJV, while Koren and Jacoby owned 40 percent. *Id.* ¶ 40. PCI and Koren, along with affiliates on both sides, entered into a Joint Venture Agreement (the JVA) and an Amended Joint Venture Agreement (the AJVA) in 2012. *Id.* ¶ 4; Dkt. No. 1-3 (JVA); Dkt. No. 1-4 (AJVA). Neither the JVA nor the AJVA contained a final license agreement, but § 3(g) of each contract contained an agreement to enter a license agreement:

> The Company [PCJV] shall enter into a Master License Agreement with Cinco (or an affiliated company to be designated by Cinco) which shall include the following terms and conditions:
>
> (i) The Company agrees to license the "POTATO CORNER" intellectual property rights from Cinco or an affiliated company to be designated by Cinco consisting of (i) the trademark, service mark and trade name "POTATO CORNER"; and (ii) various trademarks, service marks, trade names, slogans, designs, insignias, emblems, symbols, color schemes, package features, logo and other propriet[ar]y identifying characteristics used in relation and in connection with the "Potato Corner" Products and the System; and (iii) as well as other intellectual property rights in connection with the "POTATO CORNER" intellectual rights, for use in the Territory.
>
> (ii) The Company agrees to pay, as an arm's length license fee, the following amounts:
>
> (1) With respect to the licensing / sub-licensing or franchising the "POTATO CORNER" intellectual property rights in connection with the "POTATO CORNER" outlets/stores, an amount equal to thirty percent (30%) of all initial/franchise fees and ongoing royalty fees paid to/ collected by the Company. . . .

Dkt. No. 1 ¶ 42; Dkt. No. 1-3 at 4–5; Dkt. No. 1-4 at 4–5. The parties did not, however, negotiate a written license, and neither PCJV nor any of the other defendants ever paid any royalties for use of the Potato Corner marks. Dkt. No. 1 ¶¶ 3, 44.

The relationship between Cinco and Koren deteriorated, and they became embroiled in a dispute over control of the U.S. operations. In April 2018, Cinco and its affiliates filed a lawsuit against Koren and his associates in state court, seeking, among other things, to force PCJV to negotiate and execute a master licensing agreement. *Id.* ¶ 45. The state court initially granted a temporary restraining order effectively enjoining Koren from operating PCJV. *Id.* ¶ 56; Dkt. No. 41-3 (May 14, 2018 order). Later, however, the court denied Cinco's request for further injunctive relief and instead ruled for Koren, enjoining Cinco from interfering with Koren's management of PCJV as its president. Dkt. No. 41-4 (June 18, 2018 order). The court found language in the JVA and AJVA to be confusing but construed the contracts' governance provisions in a manner that left Cinco and its affiliates powerless to remove Koren as president despite their majority ownership of PCJV. *Id.* at 21–28. A new judge assigned to the state case declined to reconsider this conclusion a year later. Dkt. No. 1 ¶ 59; Dkt. No. 41-7 (August 30, 2019 order). Finally, after years of litigation, the parties settled, and the claims were dismissed on May 28, 2024. Dkt. No. 41-8. As part of the settlement, Koren acquired PCI's interest in PCJV and Defendant PCI Trading, LLC (PCIT), the entity responsible for procuring supplies and materials for the U.S. Potato Corner outlets. Dkt. No. 1 ¶¶ 4, 61.

Throughout the state litigation, Koren and PCJV did not pay any royalties to Cinco for use of the trademarks. *Id.* ¶ 60. However, Koren did file a declaration in the proceedings asserting that Cinco had licensed its marks to PCJV through a 50-year licensing agreement and that Cinco would be in breach of the agreement if it canceled the licensing agreement. Dkt. No. 1-5 ¶ 9 (June 13, 2018 declaration). The purported licensing agreement Koren submitted was not signed by Cinco, and its section on fees plainly was not a final agreement:

> **Fees**. Licensee shall pay to Licensor the amount of _______ ($________) and other good and valuable consideration, the sufficiency of which is agreed to. Do we still charge? I think we have to charge a minimum fee of 1% of all fees collected for this to really look like a License Agreement. May I get your feedback on this.

*Id.* at 18 of 21.

Meanwhile, SPAVI, a global restaurant company operating several other brands, purchased the Potato Corner brand from Cinco in December 2021. Dkt. No. 1 ¶ 62. Effective in early 2022, SPAVI therefore became the owner of Cinco's global intellectual property related to the Potato Corner brand, including the trademarks registered in the United States. *Id.*; Dkt. No. 1-1 (assignment documentation). SPAVI then attempted for more than two years to negotiate a license agreement with Koren, but the negotiations ended in an impasse after Koren demanded that the license fee be only 0.5 percent of gross sales and that his own franchises (about a third of the currently operating stores in the United States) be excluded from the obligation to pay fees, such that Koren would pay only a portion of the fees he received from third parties that had franchise agreements with PCJV. Dkt. No. 1 ¶¶ 63–67. On May 31, 2024, after concluding that Koren had abandoned the negotiations and was unwilling to enter a commercially viable license agreement, SPAVI sent Koren a notice terminating the license and demanding that PCJV cease using the Potato Corner trademarks. *Id.* ¶ 68.

The same day, SPAVI filed this action, alleging trademark infringement and related claims against PCJV, PCIT, Koren, and a dozen affiliated entities. Dkt. No. 1. The Court denied Defendants' request for a temporary restraining order that would have required SPAVI to provide supplies to Defendants based on an unpleaded breach of contract theory. Dkt. No. 39. Defendants then moved to dismiss the complaint for failure to state a claim or, in the alternative, for joinder of necessary parties and a more definite statement. Dkt. No. 41. Shortly thereafter, SPAVI moved to preliminarily enjoin Defendants from continuing to use its trademarks. Dkt. No. 44.

## II.

### A.

To survive a motion to dismiss under Rule 12(b)(6), a plaintiff must allege "enough facts to state a claim to relief that is plausible on its face." *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007). A claim has "facial plausibility" if the plaintiff pleads facts that "allow[] the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009). In resolving a Rule 12(b)(6) motion, a court must accept all well-pleaded factual allegations as true, but "[t]hreadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice," and courts "are not bound to accept as true a legal conclusion couched as a factual allegation." *Id.* (quoting *Twombly*, 550 U.S. at 555). Assuming the veracity of well-pleaded factual allegations, a court must "determine whether they plausibly give rise to an entitlement to relief." *Id.* at 679. There is no plausibility "where the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct." *Id.*

B.

Defendants' motion consists of essentially four parts: (1) an extended background section seeking to recharacterize the allegations in the complaint through Defendants' framing of the relevant facts; (2) a series of challenges to SPAVI's ownership of its registered marks; (3) a challenge to the inclusion of claims against various affiliates of the principal defendants; and (4) an argument for joinder of necessary parties. The Court begins with the first three parts, which are relevant to the Rule 12(b)(6) arguments; Defendants' joinder argument is governed by Rule 19 and is addressed in Section III.

1.

Defendants devote the first half of their motion to an alternative narrative of the case that is largely divorced from SPAVI's allegations—the proper focus of their pleading challenge. Moreover, Defendants' framing of the facts relies heavily on a characterization of the state court litigation as having resolved the issues raised here. Defendants' reliance on the state court proceedings, which permeates their briefing in both motions, is misplaced. Those proceedings focused on control of PCJV, not whether PCJV owned or had a right to use the trademarks registered in Cinco's name. That Cinco was determined to be unable to oust Koren and ultimately sold its ownership interest in PCJV is not inherently inconsistent with its retention of its intellectual property and its subsequent sale of that property to SPAVI.

Defendants were unable—even when given another opportunity by the Court—to cite to any orders of the state court that either discussed (much less adjudicated) ownership of the trademarks at issue or enjoined Cinco from selling the marks to SPAVI. *See* Dkt. No. 52 (ordering Defendants to identify "the particular portions of the record in this case (by docket entry and page number) containing the orders in which the state court (1) adjudicated the ownership of the registered trademarks and (2) enjoined Cinco from selling the trademarks registered in its name"). In response to the Court's order, Defendants identified four exhibits, none of which supports their arguments. Dkt. No. 53. The May 14, 2018 order listed "Intellectual Property" among the items belonging to PCJV that Koren was precluded from destroying or transferring but did not discuss what intellectual property PCJV owned. Dkt. No. 41-3 at 2–3. The June 18, 2018 order referenced Koren's ability to control PCJV's "intellectual property" but did not address the scope of that property or suggest that it included the Potato Corner marks registered to Cinco. Dkt. No. 41-4 at 15. Likewise, the injunction in that order prohibiting Cinco from "interfering with Koren's management of [PCJV]" did not suggest that PCJV owned the marks or that Cinco could not dispose of any trademark rights it owned. *Id*. at 33. The state court's order dismissing the case based on the parties' settlement does not mention intellectual property. Dkt. No. 41-8. And the transcript of the June 6, 2018 hearing confirms that the state court did not adjudicate Cinco's trademark rights: when Cinco mentioned the possibility of revoking the trademarks irrespective of who controlled PCJV, the court stated that Cinco would have to decide whether doing so would violate its obligations but then immediately concluded, "I'm not looking at those agreements. That's not before me, and I don't know what they can do in that regard." Dkt. No. 37-17 at 34:16–35:8; *see also id.* at 36:24–27 (reiterating, after hearing Koren's argument that revoking the trademarks would violate Cinco's agreements, that "[w]hether Cinco takes other actions that introduce new factors of change, I don't know. It's not before me"). In citing to this transcript, Defendants omitted the state judge's repeated statements that Cinco's ability to revoke the trademarks was not before her, which plainly undercuts their claim that she decided that issue.

Nor have Defendants identified any statement by Cinco in the state proceedings that—even if attributable to SPAVI—is fatal to SPAVI's claims here. Thus, the factual predicate for many of their arguments is not only divorced from the pleadings but also mistaken. While the various state court filings to which Defendants cite are subject to judicial notice (as to their existence), they do not support the conclusions Defendants attempt to draw from them.

Accordingly, the Court turns to Defendants' legal arguments, evaluating the viability of the allegations in the complaint, taken as true, rather than Defendants' characterizations of the facts.

2.

Defendants' principal argument is that SPAVI does not own the U.S. trademarks, and that they are owned instead by PCJV. *See, e.g.*, Dkt. No. 41-1 at 9 ("In short, PCJV owns the U.S. IP.").[2] Defendants do not address the specific

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[2] Defendants asserted a conflicting position at the hearing, asserting that they have either a "perpetual license" or a 50-year license (20 years followed by three 10-year renewal periods). Not only is there no mention of a "perpetual license" in their motion, but Defendants were also unable to identify the material terms of any such license, including the royalty rates. When pressed, they relied on the minutes

elements of any of SPAVI's claims, but it is undisputed that all the claims in the complaint depend on SPAVI's ownership of the marks.

Under the Lanham Act, registration of a trademark is prima facie evidence of the registrant's ownership of the mark and exclusive right to use the mark in commerce. 15 U.S.C. § 1115(a). SPAVI plausibly alleges that it is the owner of the registered "Potato Corner" word mark and logo mark. Dkt. No. 1 ¶¶ 1–2, 32–35.[3] Defendants attack SPAVI's ownership of the marks from a variety of angles, contending that (1) PCJV is the first user of the marks in the United States, (2) the contractual arrangements between Cinco and PCJV defeat SPAVI's claim of ownership, (3) Cinco confirmed PCJV's right to use the marks in the state court proceedings, (4) Cinco's assignment of rights to SPAVI was an invalid assignment in gross, and (5) Cinco lost its rights to the marks through naked licensing.

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of an October 16, 2012 PCJV board meeting to argue that the parties agreed that there would be no royalties due, but that purported agreement predated the AJVA signed the following day, which included no such term. To the contrary, the AJVA anticipated royalties of at least 30 percent of the income PCJV received from franchisees, and it contained an integration clause negating any prior agreement. *See* Dkt. No. 1-4 at 7 ("This Agreement shall constitute the entire agreement between the Parties and shall supersede any previous agreements, written or otherwise . . . ."). To the extent Defendants rely on the unexecuted draft license agreement signed only by Koren, which left blank spaces for the royalty amount and stated, "I think we have to charge a minimum fee of 1% of all fees collected for this to really look like a License Agreement," it was not a final agreement. In any event, for purposes of Defendants' Rule 12(b)(6) motion, the Court accepts as true SPAVI's allegation that CINCO and PCJV were operating pursuant to a revocable implied license. For purposes of SPAVI's preliminary injunction motion, moreover, Defendants have not shown that allegation to be untrue.

[3] SPAVI argues that the Court's analysis can stop there because Defendants' challenges to ownership are affirmative defenses that cannot be determined on a pleading challenge under Rule 12(b)(6). This argument has some support. *See Ferrero S.p.A v. Imex Leader, Inc.*, No. 8:17-CV-02152-DOC-KESx, 2018 WL 11346538, at *8 (C.D. Cal. May 8, 2018) (finding that trademark registration creates an ownership presumption and that "[o]vercoming this presumption is a factual defense that must be raised and proven by Defendants"). Even assuming Defendants' arguments are procedurally proper, however, they do not undermine the plausibility of SPAVI's claim to own the marks.

Defendants first argue that SPAVI does not own valid U.S. trademarks that can be asserted against them because PCJV is the senior user of the marks in the United States and neither SPAVI nor Cinco ever used them domestically. This argument fails. As Defendants' own authority (cited in their reply) explains, "[a] licensee's use [of a trademark] inures to the benefit of the licens[or]-owner of the mark and the licensee acquires no ownership rights in the mark itself. This is the rule at common law and has been codified in the Lanham Act § 5." *Kabushiki Kaisha Megahouse v. Anjar Co. LLC*, No. 2:14-CV-00598-CAS, 2014 WL 5456523, at *5 (C.D. Cal. Oct. 20, 2014) (quoting 2 McCarthy on Trademarks and Unfair Competition § 18:45.50); *see also* 15 U.S.C. § 1055 ("Where a registered mark . . . is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant . . . . If first use of a mark by a person is controlled by the registrant . . . with respect to the nature and quality of the goods or services, such first use shall inure to the benefit of the registrant . . . .").

In *Kabushiki*, the plaintiff had authorized the defendant to use a mark to sell games in the United States, and the defendant eventually registered the mark and claimed ownership of it. The court held that the plaintiff had plausibly alleged ownership of the mark through prior use in the United States "by its licensees, which inured to plaintiff's benefit," and therefore denied the defendant's motion to dismiss even through the defendant's mark had attained incontestable status. 2014 WL 5456523, at *5. SPAVI's claim is even stronger than the *Kabushiki* plaintiff's, because Defendants have not registered the Potato Corner marks. The complaint plausibly alleges that PCJV's use of the Potato Corner name and marks in the United States was authorized by Cinco pursuant to "an unwritten, revocable, at-will license," Dkt. No. 1 ¶ 3, and that all parties acknowledged Cinco's ownership of the marks. Accepting these allegations as true, PCJV's use of the marks *was* use by Cinco, indirectly, that inured to the benefit of Cinco as the registered owner of the marks. 15 U.S.C. § 1055.

Second, Defendants argue that the AJVA between Cinco and PCJV renders SPAVI's allegations of ownership implausible. Defendants rely heavily on *Sengoku Works Ltd. v. RMC Int'l, Ltd.*, 96 F.3d 1217 (9th Cir. 1996), in which the court addressed how circumstances including an agreement about trademark rights between a foreign manufacturer and the U.S. distributor of its products may overcome the presumption that the manufacturer owns the trademark. Even assuming that *Sengoku* is relevant in a case that does not involve a manufacturer–distributor relationship, the AJVA does not undermine the plausibility of SPAVI's allegations of ownership. Neither SPAVI nor Cinco is a party to the AJVA (although the latter had indirect involvement through its subsidiary PCI). But even if SPAVI could be deemed a party to the AJVA as the successor-in-interest to Cinco, the AJVA plainly acknowledged Cinco's ownership of the marks by requiring PCJV to license the Potato Corner intellectual property including trademarks from Cinco. Dkt. No. 1-4 at 4 ("The Company agrees to license the 'POTATO CORNER' intellectual property rights from Cinco."). Defendants have not shown that any rights PCJV may have obtained from Cinco through the AJVA deprive SPAVI of ownership of the registered trademarks at issue, which the AJVA acknowledged were owned by Cinco, and which Cinco subsequently sold to SPAVI.

Defendants' third argument fares no better: Defendants have not shown that any admissions by Cinco in the state court proceedings or any rulings by the state court are at odds with SPAVI's allegations of ownership—even assuming SPAVI is bound by those statements or rulings, which SPAVI disputes.[4] Defendants mischaracterize the record and argue for a construction of the AJVA that assumes that PCJV must have owned the trademarks because there was no license agreement executed. This argument is unpersuasive. The fact that Koren successfully prevented the majority owners of PCJV from ousting him as president and never executed a license agreement with Cinco as required under the AJVA does not establish that Cinco agreed to PCJV's ownership of the trademarks registered in Cinco's name. Moreover, Defendants' assertion that Cinco "opted to forego" a licensing agreement, Dkt. No. 41-1 at 15, is inconsistent with SPAVI's allegations—accepted as true for purposes of Rule 12(b)(6)—that Koren on behalf of PCJV refused to negotiate a reasonable license with either Cinco or SPAVI. Dkt. No. 1 ¶¶ 43–44.

Nor did Cinco represent that the AJVA itself gave PCJV ownership or control of the trademarks, as Defendants suggest. SPAVI's claim to ownership does not derive from any contractual rights created under the AJVA but rather from ownership of the registered trademarks, purchased from Cinco. Defendants have not identified any representations by Cinco or orders by the state court that are inconsistent with SPAVI's theory of ownership. As explained above, the AJVA recognized Cinco's ownership of the marks, and Defendants cite nothing in the AJVA to the contrary, nor any authority for their conclusory assertion that

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[4] Defendants' invocation of res judicata for the first time in their reply—a procedurally improper argument—fails for the same reasons. Even assuming SPAVI was bound by rulings in the state court litigation to which it was not a party, it does not appear (on the face of the complaint or otherwise) that the state court adjudicated ownership of the trademarks.

SPAVI is estopped from interpreting the AJVA in a manner that precludes Defendants from continuing to use the trademarks. As noted above, the state court litigation involved ownership and control of PCJV, but Defendants have not identified any order by the state court holding that PCJV, rather than Cinco (or SPAVI), owned the trademarks that are now registered in SPAVI's name. Defendants' circular arguments assume their ownership of the trademarks and do not undermine the plausibility of SPAVI's allegations of ownership.

Fourth, Defendants argue that Cinco's assignment of the trademarks to SPAVI was an impermissible assignment in gross—i.e., an assignment of a trademark without the accompanying goodwill. *See Mister Donut of Am., Inc. v. Mr. Donut, Inc.*, 418 F.2d 838, 842 (9th Cir. 1969) ("The law is well settled that there are no rights in a trademark alone and that no rights can be transferred apart from the business with which the mark has been associated."). But the complaint does not allege that Cinco assigned only its trademarks to SPAVI while withholding the associated goodwill. *Cf., e.g.*, Dkt. No. 1 ¶ 98 ("Defendants' actions demonstrate intentional, willful, and malicious intent to trade on the goodwill associated with SPAVI's trademarks and service marks and cause SPAVI great and irreparable harm."). Nor is it evident, as Defendants assume, that Cinco obtained no goodwill in the United States from the expansion of its brand through PCJV's use—with Cinco's permission—of Cinco's registered trademarks. Defendants have not shown that SPAVI alleges an impermissible assignment in gross requiring dismissal of its claims.

Finally, Defendants assert that SPAVI's claims fail because Cinco engaged in a naked license of its trademarks before transferring the marks to SPAVI. Under the naked license theory, when a trademark owner "fails to exercise adequate quality control" over its licensee, it may be found to have abandoned the trademark. *Barcamerica Int'l USA Tr. v. Tyfield Importers, Inc.*, 289 F.3d 589, 596 (9th Cir. 2002). "[T]he proponent of a naked license theory faces a stringent standard of proof," *id.* (cleaned up), and Defendants cite no authority dismissing a claim on a pleading challenge based on a naked license argument. In any event, it is not evident from SPAVI's pleading that it—or Cinco—abandoned the marks through naked licensing. To the contrary, the complaint plausibly alleges that Cinco was actively involved in the entry into the U.S. market and was thwarted from further control by Koren's court-sanctioned entrenchment as president of PCJV—which Cinco actively litigated against for more than half a decade. Dkt. No. 1 ¶¶ 36–61. These allegations do not compel the conclusion that Cinco abandoned its trademarks by engaging in naked licensing.

In sum, SPAVI has plausibly alleged that it owns the marks registered in its name, and none of Defendants' arguments to the contrary—even if properly before the Court in this posture—is availing. As this is Defendants' sole challenge to the merits of SPAVI's claims against PCJV, PCIT, and Koren, they have not shown that they are entitled to dismissal under Rule 12(b)(6).

3.

Defendants also make a brief argument that SPAVI has sued numerous entities that do not use, control, or claim ownership in the trademarks at issue—some of which Defendants claim are defunct—and seek either dismissal of those defendants or an order for a more definite statement.[5] Defendants invoke both Rule 12(b)(6) and Rule 12(e) in connection with this argument, without discussing either legal standard. In opposition, SPAVI addresses only Rule 12(e) and argues that "each of the named Defendants, many of which are entities owned and controlled by Koren that sublicensed the [intellectual property from] PCJV, are specifically identified in the Complaint with allegations explaining their relevance to SPAVI's causes of action." Dkt. No. 46 at 21.

The allegations to which SPAVI cites do not adequately identify the alleged wrongdoing of each defendant named in the complaint. Apart from Koren, PCJV, and PCIT, the complaint groups the remaining 12 defendants together as the "Koren Affiliates" and contains only a single paragraph for each one describing its role at a high level. Dkt. No. 1 ¶ 19. Some of these entities are alleged to be entities owned by Koren that operate Potato Corner franchises; others are alleged to "claim[] rights to use Potato Corner intellectual property"; and others are merely alleged to be controlled by Koren with no explanation of any wrongdoing. *Id.* SPAVI also alleges that "PCJV and PCIT are alter egos of each other and Koren, as well as each, some, or all of the Koren Affiliates." *Id.* ¶ 21.

It is not clear that inclusion of any of the Koren Affiliates is necessary for SPAVI to obtain the central relief it seeks, although Defendants have not shown a basis for precluding SPAVI from suing them. Defendants are correct, however, that the conclusory allegations identifying the Koren Affiliates, unsupported by any allegations about specific acts they have taken, is insufficient to state a

[5] Defendants also note the inclusion of more than 10 Doe defendants in the caption of the complaint and seek dismissal of Does 11–100. Because all Doe defendants were automatically dismissed on November 8 by operation of the Court's case management order, Dkt. No. 29 at 1, this issue is moot.

plausible claim against them. *See Iqbal*, 556 U.S. at 678 (conclusory allegations devoid of factual enhancement insufficient to state plausible claim). It is not even clear that SPAVI intends to allege that each Koren Affiliate has engaged in trademark infringement; for example, Defendant Potato Corner LA Group, LLC is merely alleged to be a company that "is owned, operated, and controlled by Koren," with no allegations of any use of intellectual property. *Id.* ¶ 19.

Accordingly, the Court dismisses SPAVI's claims against the Koren Affiliates—Defendants Potato Corner LA Group, LLC; NKM Capital Group, LLC; J&K Americana, LLC; J&K Culver, LLC; J&K Lakewood, LLC; J&K Oakridge, LLC; J&K Valley Fair, LLC; J&K Capital 2, LLC; J&K Ontario, LLC; J&K PC Trucks, LLC; J&K Consultants Group, LLC; and GK Capital Group, LLC—for failure to state a claim. If SPAVI wishes to pursue its claims against some or all of these defendants, it may file a First Amended Complaint (FAC) that explains the factual basis for each defendant's liability. *See* Fed. R. Civ. P. 15(a)(2) ("The court should freely give leave [to amend] when justice so requires.").

III.

In connection with their motion to dismiss, Defendants also include a one-page argument that two additional parties—Cinco and PC International Pte Ltd (PCIPL)—must be joined under Rule 19, which provides:

> A person who is subject to service of process and whose joinder will not deprive the court of subject-matter jurisdiction must be joined as a party if:
>
> (A) in that person's absence, the court cannot accord complete relief among existing parties; or
>
> (B) that person claims an interest relating to the subject of the action and is so situated that disposing of the action in the person's absence may:
>
> (i) as a practical matter impair or impede the person's ability to protect the interest; or
>
> (ii) leave an existing party subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations because of the interest.

Fed. R. Civ. P. 19(a)(1).

Defendants argue that Cinco should be joined to accord complete relief and avoid the risk of repetitive litigation because "Cinco is the central witness to what Cinco separately sold to Plaintiff and Koren." Dkt. No. 41-1 at 20–21. Defendants cite no authority requiring joinder of a party under Rule 19 based on that party's status as a witness, and, on this record, there is no basis to find that Cinco claims an interest in the subject matter of this case or is necessary for complete relief. It appears that Cinco sold its trademarks to SPAVI and no longer has an interest either in the marks or in PCJV. Thus, Defendants' motion is denied as to Cinco.

PCIPL's role was not explained in the briefing. Defendants asserted without further explanation that PCIPL "claims ownership of various Potato Corner marks" and requested judicial notice of applications PCIPL evidently filed with the PTO in May 2023. *Id*. at 21; Dkt. No. 41-9. At the hearing, SPAVI explained that PCIPL is a wholly owned subsidiary of SPAVI that is used to house trademarks. Defendants responded that they want PCIPL to be bound by res judicata and do not know whether it would be bound by a judgment in this case. Without more, Defendants have not shown that joinder of PCIPL is required under Rule 19, and their motion is denied. The parties shall meet and confer further on this issue, and the denial of Defendants' motion is without prejudice to their renewing the motion if SPAVI disputes that PCIPL would be bound by a judgment in this case and Defendants can establish a need for PCIPL's involvement.

IV.

The Court next turns to SPAVI's motion for a preliminary injunction—first, providing a brief overview of the additional evidence that informs its analysis or differs materially from the allegations; second, applying the four-factor test in *Winter v. Nat. Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008), to the relevant facts; third, discussing the proper scope of preliminary relief; and fourth, addressing an appropriate bond amount.

A.

The parties have produced nearly 1,000 pages of evidence in connection with the motion, and Defendants also cite exhibits filed in connection with other motions.[6] The evidence is largely consistent with the allegations recited above.

[6] Defendants purport to do so "[i]n keeping with a judicious approach." Dkt. No. 48 at 3. Relying on previously filed evidence without attaching it to a new motion does not reduce the burden on the Court; to the contrary, it requires more work to

In support of its motion, SPAVI produces evidence of three U.S. trademarks registered by Cinco and assigned to SPAVI: the logo mark and "Potato Corner" character mark discussed above, as well as a character mark for the phrase "World's Best Flavored French Fries." Dkt. Nos. 44-10–44-15.

In their brief opposing a preliminary injunction, Defendants rely heavily on the JVA and AJVA, which the Court has already discussed in connection with the motion to dismiss. Defendants focus on three provisions of those agreements. First, § 2(d) of each agreement stated that "[n]either Party shall assign any of its rights or obligations under this Agreement, nor his/its member interests in [PCJV] without the prior written consent of the other Party" and provided a formula for the payment required if a party wanted to exercise its right of first refusal to purchase another party's membership interest. Dkt. No. 1-3 at 3; Dkt. No. 1-4 at 3. While Defendants contend that Cinco breached this provision by selling the U.S. marks to SPAVI, the Court finds § 2(d) largely irrelevant to the instant dispute. In particular, Defendants have not shown that Cinco's registered trademarks were "rights or obligations under [the AJVA]" that could not be sold to SPAVI; rather, they were Cinco's property independent of the JVA and AJVA. Nor does SPAVI claim to have obtained any of Cinco's contractual rights under the JVA or AJVA; the rights it seeks to enforce are conferred by law to the owner of a registered trademark and are not derived from the JVA or AJVA.

Second, § 3(g) required PCJV to enter into a master license agreement with Cinco, which among other things would require PCJV to pay to Cinco 30 percent of the licensing, franchise, and royalty fees it received from sub-franchising the Potato Corner brand. Dkt. No. 1-3 at 4–5; Dkt. No. 1-4 at 4–5. It is undisputed that PCJV never executed the required master license agreement, although both Cinco and SPAVI attempted to negotiate a license with Koren. The parties offer competing accounts of the negotiations and who is to blame for their failure, but there is no evidence that PCJV ever obtained a written license to use the trademarks. Defendants produce evidence that the draft license agreement discussed above—which left the fees blank and included language that "I think we have to charge a minimum fee of 1% of all fees collected for this to really look like

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review. The Court also observes that Defendants' briefing is replete with exaggerated arguments and attacks on SPAVI—much of which is excessively emphasized with italics and bold font—that go beyond the limits of appropriate zealous advocacy. This rhetoric would be unhelpful even if the arguments were correct, and it is counterproductive where, as here, many of the arguments overstate the record or are otherwise unsupported.

a License Agreement"—was prepared by DLA Piper, which performed legal services for both Cinco and PCJV and its affiliates. Dkt. No. 48-2 ¶¶ 3–4. It is undisputed, however, that Cinco never signed the draft agreement (which in any event was incomplete). It is also undisputed that PCJV never paid Cinco the 30 percent of licensing and franchise fees it received from its sub-franchisees—or any portion thereof—in violation of the terms contemplated in the JVA and AJVA. Dkt. No. 44-3 ¶ 44.

Third, Defendants invoke § 5(b) of the AJVA, which required the parties to "use their best efforts to cooperate for the success of the business of the Company" and "to perform all acts and execute and deliver all documents or instruments required or necessary to fully implement" the contemplated transactions. Dkt. No. 1-4 at 7. It is not clear on this record that Cinco violated this provision (or that any violation was not excused); it is at least equally plausible that the parties' failure to execute a written master license agreement was due to Koren's unwillingness to pay reasonable royalties. But even if a factfinder were to conclude that Cinco violated § 5(b), Defendants have not explained why that would defeat SPAVI's ownership of the marks rather than merely giving Defendants a potential cause of action against Cinco (to the extent any such claim has not been released).

Notwithstanding the fact that the draft agreement signed by Koren was never executed by Cinco, PCJV repeatedly represented—both in the state litigation and in required public disclosures filed with the California Department of Business Oversight—that it had a written license agreement to use the Potato Corner marks. The parties have produced, in whole or in part, four annual Franchise Disclosure Documents (FDDs) filed by PCJV. The 2011 FDD states that Cinco registered the Potato Corner mark with the PTO; that "[u]nder a License Agreement with Cinco dated October 1, 2020, Cinco has licensed us to use the Marks and to sublicense them to our franchise owners" for a total of 50 years; that Cinco can terminate the agreement upon PCJV's breach; and that "Cinco has the right to approve all proposed uses of the Marks." Dkt. No. 48-3 at 24. The 2017, 2018, and 2021 FDDs all contain similar language. Dkt. No. 44-23 at 34; Dkt. No. 44-25 at 42; Dkt. No. 48-4 at 39–40.[7]

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[7] Defendants argue that the 2018 FDD is an admission by Cinco that a 50-year license existed because it was filed by the Cinco group, DLA Piper, and an individual who now works for SPAVI during the brief period when Koren was not in control of PCJV. The FDD by its own terms is a statement by PCJV, not Cinco. *See, e.g.*, Dkt. No. 48-4 at 1 of 5 (FDD for "PCJV USA, LLC"); *id*. at 4 of 5

The state litigation ended in a May 2024 settlement that included Koren purchasing Cinco's interest in PCJV and PCIT through a Membership Interest Purchase Agreement (MIPA). Dkt. No. 37-20 at 18 of 34. Section 3.02 of the MIPA recited that the purchase agreement would not, among other things, "require any Permit, license, or Governmental Order" or "violate or conflict with, result in the acceleration of, or create in any party the right to accelerate, terminate, or modify any contract, lease, deed, mortgage, license, instrument, note, indenture, joint venture, or any other agreement, commitment, or legally binding arrangement . . . to which [Cinco was a party]." *Id.* at 21 of 34. When the MIPA was executed, Cinco had already sold its Potato Corner marks to SPAVI.

Beginning shortly before it acquired the Potato Corner marks, SPAVI attempted to negotiate a license agreement with PCJV for use of the marks. Those efforts continued for two years, including in-person meetings and numerous written communications. *See, e.g.*, Dkt. No. 44-4 ¶¶ 34–70. In June 2023, Koren proposed terms that included a royalty fee to SPAVI of 0.6 percent of gross sales made by PCJV's franchisees, with a carveout for the stores directly owned by Koren. *Id.* ¶¶ 52–53; Dkt. No. 44-30 at 3–4 of 5. SPAVI considered those rates far too low and, after further attempts to negotiate were unsuccessful, concluded in May 2024 that Koren had abandoned the negotiations. Dkt. No. 44-4 ¶ 70. Accordingly, SPAVI on May 31 sent Defendants a letter terminating any license to use SPAVI's Potato Corner marks effective immediately and demanding that they cease such use. Dkt. No. 44-38.

SPAVI values its global Potato Corner brand, including its trademarks and goodwill, at approximately $55 million. Dkt. No. 44-4 ¶ 19. It is undisputed that PCJV franchises about 36 Potato Corner outlets in the United States, about one third of which are directly owned by Koren, while the other two thirds are operated by third parties pursuant to franchise agreements with PCJV. *See, e.g.*, Dkt. No. 1 ¶ 3; Dkt. No. 37-8 ¶ 1. Since filing this suit, SPAVI has negotiated with some of the third-party franchisees and expects to enter into short-term direct licenses with some of them. Dkt. No. 44-9 ¶ 13. One of those franchisees reported that Koren

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("Cinco has granted us an exclusive 20 year license . . ."). To the extent some of the individuals involved in filing the document had dual roles with Cinco, the record does not establish that they were speaking on behalf of Cinco rather than PCJV when they filed the FDD in PCJV's name. In any event, the evidence is uncontroverted that the agreement to which the FDD refers was an incomplete draft that was never executed by Cinco.

"is currently and actively developing a fast-food outlet chain that would compete with Potato Corner," *id.* ¶ 17, although the foundation for this assertion is unclear.

In their September 22 application for a temporary restraining order (which the Court denied), Defendants represented that they would run out of proprietary spices and other inventory necessary to run their businesses within two weeks. Dkt. No. 37. Since then, SPAVI has visited multiple franchise locations in the United States and learned that they were using proprietary spices that had passed their "use by" date, in violation of SPAVI's quality standards. Dkt. No. 44-7 ¶¶ 15–20. Defendants do not deny this, although Koren states in his declaration that the seasonings stay fresh longer in the United States than they do in the Philippines and that Defendants have obtained spices from a new U.S. supplier who has recreated the seasoning flavors. Dkt. No. 48-1 ¶¶ 9–10.

SPAVI contends that its inability to control the quality of food being sold by Defendants and their franchisees, along with Defendants' continued assertions of ownership of the marks at issue, will lead to irreparable harm.[8] For his part, Koren asserts that the Potato Corner franchise in the United States is his life's work, that the franchisees are loyal to Defendants, and that issuing a preliminary injunction would "end Potato Corner USA and effectively cause the loss of hundreds of jobs," destroy relationships with customers and franchisees, and cause regulatory problems with state franchising authorities. *Id.* ¶¶ 3, 14.

B.

"A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest." *Winter v. Nat. Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008). In the Ninth Circuit, a preliminary injunction may issue where there are "serious questions going to the merits" and a "hardship balance that tips sharply toward the plaintiff," provided the other two elements of the *Winter* test are also met. *All. for the Wild Rockies v. Cottrell*, 632 F.3d 1127, 1132 (9th Cir. 2011). In determining whether to issue a preliminary injunction, a district court may consider evidence outside the normal rules of evidence, *Johnson v. Couturier*,

[8] SPAVI also raises concerns about Defendants' appropriation and misuse of information SPAVI considers to be trade secrets. Because SPAVI's complaint does not allege claims for misappropriation of trade secrets, the Court need not address those facts at this juncture.

572 F.3d 1067, 1083 (9th Cir. 2009),[9] and has "discretion to weigh [the] evidence," *Cherokee Inc. v. Wilson Sporting Goods Co.*, No. 2:15-CV-04023 BRO, 2015 WL 3930041, at *3 (C.D. Cal. June 25, 2015); *see also Nat'l Wildlife Fed'n v. Nat'l Marine Fisheries Serv.*, 422 F.3d 782, 794 (9th Cir. 2005) (explaining that the Ninth Circuit is "very deferential" to district courts' findings of fact on motions for preliminary injunction and reviews for clear error). Each of the four *Winter* factors is considered below.

1.

In arguing likelihood of success on the merits, SPAVI addresses only the elements of its first claim—for trademark infringement in violation of 15 U.S.C. § 1114—although the other claims largely overlap with it. A claim of trademark infringement under § 1114 requires the plaintiff to demonstrate: (1) ownership of a valid mark, and (2) that the defendant's use of the mark is likely to cause confusion or mistake or to deceive consumers. *Reno Air Racing Ass'n., Inc. v. McCord*, 452 F.3d 1126, 1134 (9th Cir. 2006).

a.

The evidence supports SPAVI's claim to ownership. It is undisputed that Cinco registered the three marks at issue with the PTO and then transferred ownership of those registered marks to SPAVI. Each of Defendants' arguments seeking to overcome these undisputed facts fails.

First, Defendants invoke res judicata, which bars relitigation of claims when an earlier suit (1) involved the same claim or cause of action as the later suit, (2) reached a final judgment on the merits, and (3) involved identical parties or privies. *Mpoyo v. Litton Electro-Optical Sys.*, 430 F.3d 985, 987 (9th Cir. 2005). SPAVI was not a party to the state court litigation over control of PCJV, nor does it appear to be in privity with Cinco as to that litigation, which involved only contractual rights that SPAVI does not claim to possess. But even assuming that SPAVI stands in the shoes of Cinco, Defendants have not shown that the state court adjudicated ownership of the registered Potato Corner marks—let alone in a final judgment on the merits.

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[9] SPAVI objects to numerous statements in the declarations of Koren and his counsel. Dkt. No. 51. While some of the objections have merit, they are largely immaterial. Because the Court's analysis does not turn on the evidence to which SPAVI objects, the objections are denied as moot.

Nor is it clear that Cinco (let alone SPAVI) should have sought a ruling on the issue of ownership in the state litigation, given that (1) PCJV has long taken the position—including through public filings continuing through the state court litigation—that Cinco owned the Potato Corner marks and that PCJV was a licensee, (2) the JVA and AJVA at the center of the state court litigation acknowledged Cinco's ownership of the marks and provided that PCJV would need to obtain a license and pay royalties for use of the marks, and (3) PCJV actively negotiated for a license to use the marks—first with Cinco and then with SPAVI—during the pendency of the state court litigation. *Cf. Commc'ns Telesystems Int'l v. California Pub. Util. Comm'n*, 196 F.3d 1011, 1015–16 (9th Cir. 1999) ("Res judicata, or claim preclusion, bars courts from hearing claims that should have been raised and resolved in earlier litigation between the same parties."). Indeed, the settlement agreement in the state litigation (which Defendants produced in connection with their application for a temporary restraining order) clearly distinguished between the issues of ownership of PCJV and ownership of the marks; it included Cinco's representation that SPAVI had "acquired all of the Potato Corner intellectual property, and, as such became the licensor to PCN and PCI Trading," but that "SPAVI did not acquire any ownership rights" in PCJV or PCIT. Dkt. No. 37-20. The settlement agreement also acknowledged that "SPAVI and Koren have attempted to negotiate the terms of a license, including payment terms, which negotiations have been unsuccessful to date." *Id*. Thus, Defendants' attempt to frame the state litigation as encompassing ownership of the marks because it involved "Koren's right to control the 'Potato Corner' U.S. franchise system" is contradicted by the record. Dkt. No. 48 at 12.

Defendants next reurge some of the arguments in their motion to dismiss, invoking *Sengoku* and arguing that SPAVI (or Cinco) is not the senior user of the intellectual property. As the Court explained above, it is not clear that *Sengoku* is particularly relevant—let alone the exclusive controlling authority that Defendants make it out to be—given that this case does not involve a manufacturer-distributor relationship. In any event, based on the record before the Court, SPAVI is likely to be able to prove that Cinco actively entered the U.S. market and continually used the trademarks registered in its name. That it did so indirectly, through PCJV (in which it was the majority owner), does not undermine its ownership of the marks and associated goodwill. *Kabushiki*, 2014 WL 5456523, at *5 (licensee's use of mark inures to the benefit of the licensor-owner); *accord* 15 U.S.C. § 1055. SPAVI is also likely to be able to prove, consistent with the terms of the JVA and AJVA and Defendants' public representations, that the parties agreed that Cinco was the owner of the Potato Corner marks and that PCJV needed a license—which would require the payment of fees to Cinco—to be able to use the marks. Dkt. No. 1-3 at 4–5; Dkt. No. 1-4 at 4–5. Defendants' contrary arguments are at odds with the weight of the evidence in the record.

In a single sentence, Defendants also conclusorily invoke a series of defenses to ownership: abandonment (either by assignment in gross or a naked license), acquiescence, estoppel, and unclean hands "by virtue of Plaintiff's torts and Cinco's breach of contract." Dkt. No. 48 at 15–16. Defendants cite no evidence in support of these defenses, but merely assert that "[t]hese equitable doctrines are all supported by the record and apply in this case." *Id*. at 16. As discussed above, Defendants have not shown that the assignment in gross or naked license doctrines apply here,[10] nor that Cinco breached its agreements by assigning the marks to SPAVI. No claims have been alleged against SPAVI or Cinco in this action, including under a tort or contract theory. While the Court need not make a final determination at this time, Defendants' conclusory arguments do not undermine the Court's determination that SPAVI is likely to establish ownership of the marks on this record.

b.

The second element of SPAVI's trademark infringement claim requires it to show use of its marks by the defendant that is likely to cause confusion. While the parties do not distinguish among Defendants, the Court considers only Koren, PCJV, and PCIT—as to whom SPAVI has stated plausible claims for relief in its complaint. It is undisputed that these defendants are using Potato Corner branding both in connection with the stores operated directly by Koren and by purporting to license use of the marks by third-party franchisees.

"Where a licensee persists in the unauthorized use of a licensor's trademark, courts have found that the continued use alone establishes a likelihood of consumer confusion." *Pop-A-Shot Enter. LLC v. EastPoint Sports Ltd., LLC*, No. 2:23-CV-08841-HDV, 2023 WL 8170796, at *3 (C.D. Cal. Nov. 6, 2023) (collecting cases); *accord 2Die4Kourt v. Hillair Cap. Mgmt., LLC*, No. 8:16-CV-01304-JVS, 2016 WL 4487895, at *6 (C.D. Cal. Aug. 23, 2016) ("Courts regularly find a likelihood

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[10] In addition to Defendants' failure to show an assignment in gross based on the pleadings, the evidence on SPAVI's motion for preliminary injunction shows that Cinco sold the goodwill associated with its marks to SPAVI. Dkt. No. 44-13 at 4 of 9.

of consumer confusion when, as here, former licensees continue to use trademarks without authorization.") (collecting cases), *aff'd*, 692 F. App'x 366 (9th Cir. 2017).

Defendants argue that PCJV, not SPAVI or Cinco, created the goodwill in the minds of U.S. consumers and that there is no evidence that consumers associate the use of the Potato Corner marks in the United States with SPAVI. Once again, this argument lacks support in the law or in the evidentiary record. As to the law, the goodwill developed by a trademark licensee generally inures to the benefit of the licensor. *E.g.*, 15. U.S.C. § 1055; McCarthy § 18:52. As to the facts, PCJV has consistently represented—both to its sub-franchisees and to the public through its FDDs—that it was licensing the marks belonging to Cinco (which have now been sold to SPAVI). Dkt. No. 48-3 at 24; Dkt. No. 44-23 at 34; Dkt. No. 44-25 at 42; Dkt. No. 48-4 at 39–40. It appears self-evident that Defendants' continued use of the Potato Corner marks—including the exact logo mark registered and used by SPAVI worldwide—is likely to suggest to consumers an ongoing affiliation with the global brand. *See Church of Scientology Int'l v. Elmira Mission of the Church of Scientology*, 794 F.2d 38, 44 (2d Cir. 1986) ("A licensee or franchisee who once possessed authorization to use the trademarks of its licensor or franchisor becomes associated in the public's mind with the trademark holder. When such party . . . loses its authorization yet continues to use the mark, the potential for consumer confusion is greater than in the case of a random infringer."). Defendants produce no evidence suggesting that customers believe PCJV is unrelated to the global Potato Corner brand.

Accordingly, SPAVI appears to be able to establish that Defendants' continued use of SPAVI's registered trademarks is likely to cause confusion. SPAVI is therefore likely to succeed on the merits of its trademark infringement claim under § 1114.

2.

SPAVI has also satisfied the second *Winter* factor by showing that it is likely to suffer irreparable harm in the absence of an injunction. In 2020, the Lanham Act was amended to impose a rebuttable presumption of irreparable harm once a plaintiff establishes a likelihood of success on the merits on a trademark infringement claim. 15 U.S.C. § 1116(a); *AK Futures LLC v. Boyd St. Distro, LLC*, 35 F.4th 682, 694 (9th Cir. 2022) ("By statute, [the plaintiff] is entitled to a rebuttable presumption of irreparable harm on its trademark claim because the company has shown it will likely succeed on the merits."). Moreover, the record establishes that Defendants' continued use of the Potato Corner marks—both on their own and by purporting to license third-party franchisees to use the marks—precludes SPAVI from controlling its brand and the reputation associated with it. It is undisputed that Defendants have switched to a new supplier of seasonings and that at least some franchisees are using products that have passed their use-by dates. While Defendants dispute the harmfulness of those developments, it is SPAVI's prerogative to decide the standards it believes are necessary to uphold the quality of its brand. Even before the statutory presumption, the Ninth Circuit recognized that "loss of control over business reputation" can constitute irreparable harm. *Herb Reed Enterprises, LLC v. Fla. Ent. Mgmt., Inc.*, 736 F.3d 1239, 1250 (9th Cir. 2013). SPAVI also persuasively argues that ongoing uncertainty about ownership of the brand causes confusion in the market and interferes with SPAVI's ability to take action against other potential infringers, such as a new "Potato Bro" kiosk with branding that resembles SPAVI's marks that is beginning to sell french fries a block from one of Koren's Potato Corner outlets. Dkt. No. 44-7 ¶¶ 6–11.

Defendants first argue that SPAVI cannot show a risk of irreparable harm because it "delayed nearly three years since announcing a transaction[,] in which time it could have fully litigated Koren's control of the U.S. marks." Dkt. No. 48 at 18. To be sure, a long and unreasonable delay in seeking injunctive relief may "impl[y] a lack of urgency and irreparable harm." *Oakland Trib., Inc. v. Chron. Pub. Co.*, 762 F.2d 1374, 1377 (9th Cir. 1985). But SPAVI had no reason to file this lawsuit when it purchased the marks in 2022. Until recently, Defendants consistently represented that they were using the marks as licensees and that Cinco owned the marks. They also negotiated at length, first with Cinco and then with SPAVI, to attempt to reach agreement on appropriate license terms. It was not until May 2024 that SPAVI concluded Koren had abandoned negotiations and decided to revoke Defendants' implied license and proceed with this litigation. SPAVI then reasonably attempted to shield the third-party franchisees from the impact of Defendants' infringement by trying to negotiate separate licenses before seeking injunctive relief. And it was not until early October 2024 that SPAVI discovered that Defendants and their franchisees were using expired ingredients.[11]

[11] Defendants argued at the hearing that their use of expired ingredients—along with the precautions they employ when using them—is longstanding and does not reflect changed circumstances. Even if Defendants' practice of using expired spices is longstanding, the uncontroverted evidence before the Court is that SPAVI did not learn of the practice until October 2024, and that it promptly sought relief upon that discovery.

Dkt. No. 47-7 ¶¶ 15–19. SPAVI filed this motion on October 10, just days later. On this record, Defendants have not shown that SPAVI's delay in seeking injunctive relief rebuts the statutory presumption of a risk of irreparable injury.

Nor have Defendants otherwise rebutted the presumption. They rely principally on *Herb Reed*, which was decided before the Lanham Act was amended to add the presumption of irreparable harm. The cited proposition—that "[t]hose seeking injunctive relief must proffer evidence sufficient to establish a likelihood of irreparable harm," 736 F.3d at 1251—is no longer good law in the context of Lanham Act claims. *See* 15 U.S.C. § 1116(a) (plaintiff "shall be entitled to a rebuttable presumption of irreparable harm . . . upon a finding of likelihood of success on the merits . . . in the case of a motion for a preliminary injunction"). Moreover, Defendants have not produced evidence to rebut either the statutory presumption or SPAVI's showing that Defendants' continued use of the Potato Corner marks, particularly in conjunction with their change to a new supplier and use of old ingredients, interferes with SPAVI's ability to protect its brand uniformity and quality or to respond to other infringers.

3.

The balance of hardships is the closest factor on this record. Defendants produce evidence that the issuance of a preliminary injunction "would end Potato Corner USA and effectively cause the loss of hundreds of jobs," as well as interfere with franchisee and customer relationships. Dkt. No. 48-1 ¶ 14. Defendants' credibility on this point is limited by the fact that their prior predictions of irreparable harm turned out to be greatly exaggerated. When seeking a temporary restraining order less than two months ago, Defendants claimed that not ordering SPAVI to supply its seasonings to Defendants "risks individual U.S. Potato Corner franchises closing, breaching leases and firing employees." Dkt. No. 37-1 at 17. In his supporting declaration, Koren stated that not receiving the seasonings "would shut franchises down, essentially put[ting] them out of the Potato Corner business." Dkt. No. 37-8 ¶ 54. The Court denied Defendants' application, and there is no evidence that any franchises closed or fired any employees as a result. To the contrary, Koren now states in his latest declaration that "[t]he temporary logistic problem Plaintiff created when it opted to . . . not honor our last purchase order is something that will only make us stronger." Dkt. No. 48-1 ¶ 10. Nevertheless, even if Defendants have once again exaggerated the scale of the consequences, the Court finds that enjoining Defendants from using the Potato Corner marks will likely cause some irreparable harm to their business in the form of lost goodwill with customers and franchisees. Still, the balance of hardships weighs in favor of SPAVI for two reasons.

First, as discussed further below, the Court does not intend to grant the full scope of injunctive relief sought by SPAVI. While an order precluding Defendants from competing with SPAVI in any way would force Defendants out of business, it is not clear that merely enjoining them from using the marks will do so. While it would require some adjustments, Defendants have not shown that operating under a different name would force them to fire hundreds of employees and close their locations.[12]

Second, even if the consequences for Defendants were more dire, their predicament is largely of their own making. The fact that they have successfully profited from the use of SPAVI's marks in the past without paying royalties does not entitle them to continue infringing in perpetuity. *See 2Die4Kourt*, 692 F. App'x at 369 (affirming preliminary injunction even though defendant "presented evidence demonstrating that it likely will be forced to shut down, terminate its employees, and default on its obligations" because "the harm complained of results from [the] defendant's allegedly infringing conduct"). Here, like the district court that was affirmed in *2Die4Kourt*—another case involving a licensee that continued to use trademarks without paying the royalties due—"[t]he Court will not withhold an injunction on equitable grounds to save [PCJV] when its business model is based on intentional trademark infringement. Indeed, a denial of injunctive relief here would reward [PCJV] for its misconduct." 2016 WL 4487895, at *10.

Accordingly, the balance of equities supports the issuance of a preliminary injunction.

4.

The final *Winter* factor—the public interest—also supports injunctive relief. "An injunction that prevents consumer confusion in trademark cases . . . serves the public interest." *Am. Rena Int'l Corp. v. Sis-Joyce Int'l Co.*, 534 F. App'x 633, 636 (9th Cir. 2013) (citing *Internet Specialties W., Inc. v. Milon–DiGiorgio Enters., Inc.*, 559 F.3d 985, 993 (9th Cir. 2009)). Defendants cite no contrary

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[12] It is also not clear on this record that SPAVI is unwilling to license Defendants to continue to use SPAVI's marks in return for royalty payments—if Defendants are willing to return to the negotiating table.

authority or evidence, instead returning to their incorrect assertion that the state court constrained Cinco's interest in the marks.

Having met its burden as to all four factors required for injunctive relief, SPAVI is entitled to a preliminary injunction.

C.

Neither side meaningfully addresses the scope of the injunction SPAVI seeks, but the Court finds SPAVI's proposed order, Dkt. No. 44-54, overbroad in four respects, and narrows it accordingly.

First, having found that SPAVI's complaint states a claim only against Koren, PCJV, and PCIT, the Court limits the direct application of the injunction to those defendants. This distinction may be academic; if SPAVI is correct that the Koren Affiliates are controlled by Koren, then they will be indirectly enjoined from using SPAVI's marks by an injunction that binds Koren and those in active concert with him. Nevertheless, SPAVI has not shown that it is entitled to injunctive relief directly against the Koren Affiliates.

Second, SPAVI seeks to enjoin Defendants from misappropriating trade secrets and other information related to the Potato Corner brand. But SPAVI's complaint does not allege trade secret misappropriation, and SPAVI has shown likelihood of success on the merits only as to trademark infringement. SPAVI has not identified any legal basis to enjoin Defendants from misusing confidential information based on the claims in the complaint—and the Court expresses no opinion as to whether such a claim would be successful on the record before it.

Third, the proposed order enjoins the parties from advising, supporting, or otherwise assisting any existing or potential competitor of the Potato Corner brand. *Id*. at 4. SPAVI cites no authority for this requested relief. The Lanham Act prohibits the use of another's mark to unfairly compete in a manner that causes customer confusion. It does not prohibit competition generally. On this record, SPAVI has not shown that the likelihood of prevailing on its trademark infringement claim entitles it to an injunction preventing Defendants from competing with it.

Finally, SPAVI has proven ownership of three registered marks: the logo mark, the Potato Corner word mark, and the "World's Best Flavored French Fries" mark. But SPAVI seeks an injunction prohibiting the use of unspecified "other trademarks, service marks, [and] commercial symbols"—along with other information that falls entirely outside the realm of trademark protection. *Id*. at 3. On this record, SPAVI has not identified any other trademarks—beyond the three mentioned—that are entitled to protection and at risk of infringement. The Court therefore limits its injunction to the three marks whose registration and ownership SPAVI has established.

At the hearing, SPAVI requested the inclusion of language prohibiting the use of marks that are "confusingly similar" to the registered marks. SPAVI's proposed order did not include this request, although it sought to prohibit Defendants from using "substantially similar intellectual property." Dkt. No. 44-54 at 3. In the absence of any suggestion of a potentially infringing name Defendants will seek to use or any explanation of what names SPAVI would consider to be infringing, the Court declines to opine on what might constitute a "confusingly similar" or "substantially similar" mark—or to subject Defendants to contempt liability if they select a name that the Court later determines is too similar to "Potato Corner." Of course, regardless of the scope of preliminary injunctive relief, it is not in Defendants' interest to select a name that will subject them to further litigation or liability and may require a second rebranding. If Defendants wish to use a name that might arguably be considered confusingly or substantially similar to "Potato Corner," it may be in their interest to first confirm whether SPAVI would consider the name infringing. The Court expects SPAVI to be forthright in response to any such inquiry so that all parties can avoid unnecessarily expanding the scope and expense of this litigation.

D.

"The court may issue a preliminary injunction . . . only if the movant gives security in an amount that the court considers proper to pay the costs and damages sustained by any party found to have been wrongfully enjoined or restrained." Fed. R. Civ. P. 65(c). "The district court is afforded wide discretion in setting the amount of the bond, and the bond amount may be zero if there is no evidence the party will suffer damages from the injunction." *Conn. Gen. Life Ins. Co. v. New Images of Beverly Hills*, 321 F.3d 878, 882 (9th Cir. 2003) (internal citation omitted). The party affected by the injunction has an "obligation [to] present[] evidence that a bond is needed, so that the district court is afforded an opportunity to exercise its discretion in setting the amount of the bond." *Id.* at 883; *see also Walczak v. EPL Prolong, Inc.*, 198 F.3d 725, 733–34 (9th Cir. 1999) (affirming imposition of $100,000 bond where district court determined that enjoined party's evidence of $2 million in harm was not credible).

The parties devoted scant attention to this issue in their briefing. SPAVI requested a "minimal" bond without suggesting an amount, Dkt. No. 44 at 21, while Defendants requested "at least a $100 million bond," based on the value Koren ascribes to "Potato Corner USA," including "future potential growth." Dkt. No. 48 at 21. At the hearing, Defendants presented contradictory arguments, contending both that the injunction would put them out of business and that it would cost them at least $2 million to change their name, including hiring attorneys to work with the franchisees and regulators to get the new name in place. For its part, SPAVI suggested at the hearing that the bond should be set at $20,000 based on bonds ordered in other trademark cases.

Defendants have not produced evidence of the costs associated with rebranding to support their arguments at the hearing, and the Court is mindful that their previous predictions of irreparable harm if denied a temporary restraining order proved to be greatly exaggerated. There is nothing to suggest that the most obvious direct costs of compliance with the injunction—changing signage and uniforms to avoid use of the marks—will cost more than a few thousand dollars. Defendants produce no evidence of the legal costs of complying with regulatory requirements for changing their names, nor have they attempted to quantify the decrease in goodwill or lost business that will result from ceasing use of SPAVI's marks. While these costs are not trivial, Defendants have not shown that a bond of more than $100,000 is required to compensate them in the event the injunction is later determined to be wrongful. On this record, the Court finds a bond of $100,000 to be appropriate.

V.

Defendants' motion to dismiss is granted in part, and SPAVI's claims against the Koren Affiliates are dismissed for failure to state a claim, with leave to amend. If SPAVI wishes to pursue its claims against the Koren Affiliates, it shall file an FAC no later than November 22, 2024. The motion to dismiss is otherwise denied.

SPAVI's motion for preliminary injunction is granted in part, for the reasons explained above. The Court therefore ORDERS as follows:

During the pendency of this action and until further order of the Court, Defendants Guy Koren, PCJV USA, LLC, and PCI Trading, LLC, along with their agents, officers, employees, attorneys, and all persons who are in active concert or participation with them, including but not limited to franchisees of the "Potato

Corner" brand in the United States that do not have authorization or a license from SPAVI permitting their use of the Potato Corner marks, are enjoined from directly or indirectly using, advertising, marketing, promoting, or distributing the following protected marks:

- The "Potato Corner Logo Mark" registered as a service mark on the Principal Register of the U.S. Patent and Trademark Office (U.S. Reg. No. 3760041);

- The "POTATO CORNER Standard Characters Mark" registered as a service mark on the Principal Register of the U.S. Patent and Trademark Office (U.S. Reg. No. 5900257); and

- The "WORLD'S BEST FLAVORED FRENCH FRIES Mark," registered as a service mark on the Principal Register of the U.S. Patent and Trademark Office (U.S. Reg. No. 6088456).

SPAVI no later than November 19, 2024 shall deposit in the Court's registry either a cash bond or a surety bond in the amount of $100,000 and file a notice that the bond has been deposited. Failure to post the bond by the required date may result in vacatur of this preliminary injunction.

The motion for a preliminary injunction is denied to the extent it seeks relief beyond what is provided herein.

Date: November 14, 2024

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Stanley Blumenfeld, Jr.
United States District Judge

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

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| SHAKEY'S PIZZA ASIA VENTURES, INC., Plaintiff, v. PCJV USA, LLC et al., Defendants. | Case No. 2:24-cv-04546-SB-AGR<br><br>ORDER RE EX PARTE APPLICATION FOR RECONSIDERATION OR MODIFICATION OF PRELIMINARY INJUNCTION [DKT. NO. 58] |

Plaintiff moved to preliminarily enjoin Defendants from using Plaintiff's registered trademarks on October 10, 2024. Dkt. No. 44. Defendants opposed the motion on October 18. Dkt. No. 48. The Court issued a tentative opinion granting the motion on November 7 and heard argument the next day. Dkt. Nos. 54, 55. On November 14, the Court preliminarily enjoined Defendants from using the marks. Dkt. No. 56. Six days later, Defendants filed an ex parte application for reconsideration of the order or, in the alternative, to increase the amount of the bond and stay the case pending either settlement negotiations or an appeal. Dkt. No. 58. The application includes more than 250 pages of new evidence. *Id.*; Dkt. No. 59.

Defendants seek relief under Rule 60(b)(6), which allows courts to relieve a party from an order for "any other reason [in addition to the reasons enumerated in Rule 60(b)(1)–(5)] that justifies relief," Fed. R. Civ. P. 60(b)(6), and under Local Rule 7-18, which permits reconsideration of an order based on the emergence of new material facts, a change in the governing law, or a manifest showing that the court failed to consider material facts presented to it. Relief under Rule 60(b) is "extraordinary" and "may be granted only upon an adequate showing of exceptional circumstances." *Stevens v. ITT Sys., Inc.*, 868 F.2d 1040, 1041 n.1 (9th

Cir. 1989); *see also Thomas v. Petro-Canada Am. Lubricants, LLC*, No. ED-21-CV-1106-JGB, 2023 WL 9687513, at *3 (C.D. Cal. Dec. 4, 2023) ("Courts in this district have interpreted Local Rule 7-18 to be coextensive with Rules 59(e) and 60(b).").

Defendants have not shown that the Court erred in granting injunctive relief to Plaintiff. Reframing their arguments yet again, Defendants' latest theory of ownership—that they obtained ownership of the marks through the settlement of the state court litigation—is at odds with the settlement agreement itself, which (as the Court noted in its order) included a representation that Plaintiff had "acquired all of the Potato Corner intellectual property, and, as such became the licensor to [Defendants]" and acknowledged that Plaintiff and Koren were negotiating a license. Dkt. No. 37-20 at 2. Nor have Defendants otherwise shown that the Court erred in concluding that Plaintiff is likely to succeed on the merits of its trademark infringement claims or that exceptional circumstances justify reconsideration.

In the alternative, Defendants seek modification of the injunction, both as to the time for compliance and as to the amount of the bond. For this relief, Defendants "bear[] the burden of establishing that a significant change in facts or law warrants revision of the injunction." *Hawaii v. Trump*, 871 F.3d 646, 654 (9th Cir. 2017) (cleaned up).

Defendants rely on newly submitted evidence about the regulatory and contractual difficulties in immediately ceasing all use of the Potato Corner marks. Defendants do not explain why they waited nearly six weeks after Plaintiff filed its preliminary injunction motion—and nearly six months after Plaintiff filed this trademark infringement action—to present this evidence to the Court through a request for reconsideration. Defendants have not shown that the information about the burdens of changing their brand constitutes "a significant change in facts" that warrants revision of the injunction. For example, they do not contend that any of the information is newly discovered evidence that they could not have timely obtained when opposing the requested preliminary relief. And while Defendants discuss what will be required to obtain approval from regulators and landlords to change their brand name, it is not clear whether they have even begun that process.[1] If Defendants act diligently and in good faith to fully comply with the

[1] Defendants represented in their correspondence with Plaintiff that they have taken steps to comply with the preliminary injunction by arranging meetings with their lawyers, commissioning review of franchise laws and leases, contacting their franchisees, taking down websites and social media accounts, changing emails,

Court's order as quickly as possible, then they will not be found in contempt if they can demonstrate that changing the names more quickly was impossible because of constraints outside their control. *See F.T.C. v. Affordable Media*, 179 F.3d 1228, 1239 (9th Cir. 1999) (upon showing that a party violated a court order, burden shifts to the contemnor to demonstrate inability to comply). But in the absence of evidence that Defendants have even begun that process, they have not shown on this record that modification of the injunction to give them additional time to comply is warranted.

Defendants also seek an increase in the bond amount, again based on newly filed evidence they neglected to produce before the Court ruled on the motion for a preliminary injunction. Defendants have not shown that this request warrants emergency treatment. There is no suggestion that Plaintiff lacks the ability to pay a larger amount if Defendants ultimately prevail, and no reason to stay enforcement of the injunction until the Court determines whether the bond amount should be increased. The Court therefore sets Defendants' request to modify the bond amount for hearing on December 20, 2024 at 8:30 a.m. Plaintiff's opposition is due December 2, and Defendants' reply, if any, is due December 6.

Finally, Defendants seek a stay of the injunction pending either (1) settlement negotiations, which they ask the Court to order, or (2) appeal. As to the former, the Court encourages the parties to attempt to resolve their dispute if possible, and the Court will stay its preliminary injunction if both parties jointly stipulate to do so in order to facilitate negotiations. But it appears from Defendants' submission that Plaintiff is no longer willing to negotiate a license agreement with Defendants. Dkt. No. 58-10 at 12–13.[2] Having determined that

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contacting mall operators, and receiving estimates for changing signage and branding. Dkt. No. 58-10 at 3. It is not clear, however, whether they have filed applications with the regulatory authorities or requested permission from landlords to cease use of the marks.

[2] The Court in its preliminary injunction order observed that Defendants' overly aggressive briefing at times went beyond the bounds of appropriate zealous advocacy. Dkt. No. 56 at 14 n.6. Defendants' ex parte application adopts a more appropriate tone. The attached correspondence between counsel, however, suggests that their relationship remains heated on both sides. The Court encourages the parties and counsel to consider how to redirect their conversations toward productive and professional cooperation.

Plaintiff is entitled to injunctive relief, the Court declines to stay that relief to force Plaintiff to enter negotiations it has determined would be fruitless.

Nor have Defendants showed that a stay is justified based on their anticipated appeal of the Court's order. A stay pending appeal "is not a matter of right, even if irreparable injury might otherwise result"; rather, it is an exercise of judicial discretion, which the party requesting a stay has the burden of showing is justified. *Nken v. Holder*, 556 U.S. 418, 433 (2009) (citations omitted). In determining whether to grant a stay pending appeal, courts consider four factors, which largely overlap with the factors governing issuance of a preliminary injunction: "(1) whether the stay applicant has made a strong showing that he is likely to succeed on the merits; (2) whether the applicant will be irreparably injured absent a stay; (3) whether issuance of the stay will substantially injure the other parties interested in the proceeding; and (4) where the public interest lies." *Id.* at 434 (quoting *Hilton v. Braunskill*, 481 U.S. 770, 776 (1987)); *see also Hilton*, 481 U.S. at 776 (noting that different rules govern the power of district courts and courts of appeals to stay an order pending appeal, but the standard is the same). Because Defendants have not shown that the Court erred in its findings on these factors in the preliminary injunction order—let alone made a "strong showing" that they are likely to succeed on the merits, they have not shown that a stay is warranted.

Accordingly, with the exception of the request to increase the bond amount, which is set for hearing as explained above, Defendants' ex parte application is denied.

Date: November 22, 2024

Stanley Blumenfeld, Jr.
United States District Judge

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

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U.S. COURT OF APPEALS

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| SHAKEY'S PIZZA ASIA VENTURES, INC, a Philippines corporation,<br><br>Plaintiff - Appellee,<br><br>v.<br><br>PCJV USA, LLC, a Delaware limited liability company; et al.,<br><br>Defendants - Appellants,<br><br>and<br><br>POTATO CORNER LA GROUP, LLC, a California limited liability company; et al.,<br><br>Defendants. | No. 24-7084<br><br>D.C. No.<br>2:24-cv-04546-SB-AGR<br>Central District of California,<br>Los Angeles<br><br>ORDER |

Before: S.R. THOMAS and SILVERMAN, Circuit Judges.

The motion to stay district court proceedings or to stay the district court's November 14, 2024 order granting a preliminary injunction (Docket Entry No. 5) is denied. *See Nken v. Holder*, 556 U.S. 418, 434 (2009) (defining standards in the context of staying lower court order or judgment and for stay pending appeal).

The existing briefing schedule remains in effect.