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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

FREECYCLESUNNYVALE, a California
unincorporated association,
Plaintiff/Counterclaim
Defendant,

No. C 06-00324 CW

v.

THE FREECYCLE NETWORK, INC., an
Arizona corporation,
Defendant/Counterclaimant.

ORDER GRANTING IN
PART PLAINTIFF'S
MOTION TO DISMISS
AND DENYING IT IN
PART AND DENYING
MOTION TO STRIKE

_____ /

Plaintiff and Counterclaim-Defendant FreecycleSunnyvale moves to dismiss Defendant and Counterclaimant The Freecycle Network, Inc.'s amended federal counterclaims against it and to strike Defendant's amended State law counterclaim. Defendant opposes the motion. The matter was decided on the papers. Having considered the parties' papers the Court grants in part Plaintiff's motion to dismiss and denies it in part, and denies the motion to strike.

United States District Court
For the Northern District of California

BACKGROUND

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2 In this case, Plaintiff FreecycleSunnyvale brings claims for
3 declaratory judgment of non-infringement of trademarks and tortious
4 interference with business relations. As the Court noted in its
5 order on the original motion to dismiss the counterclaims,
6 Plaintiff is a non-profit organization with its principal place of
7 business in Sunnyvale, California. Defendant is an Arizona non-
8 profit organization with its principal place of business in Tuscon,
9 Arizona. Its purpose is to promote recycling by providing support
10 and acting as a central organizing point for local community-based
11 recycling efforts throughout the United States and abroad.
12 Defendant alleges that it "is the sole owner of the inherently
13 distinctive and famous trademarks 'FREECYCLE' and 'The Freecycle
14 Network,' and the inherently distinctive 'The Freecycle Network'
15 logo (collectively referred to as the 'Marks'), which it has been
16 using exclusively and continuously since at least May 1, 2003."
17 Amended Counterclaims ¶ 67.

18 In its original answer, Defendant brought counterclaims for
19 (1) direct and contributory trademark infringement under §§ 32(1)
20 and 43(a) of the Lanham Act, 15 U.S.C. §§ 1114 and 1125(a); (2)
21 unfair competition under the Lanham Act; and (3) unfair competition
22 under California Business and Professions Code §§ 17200 and 17500.
23 The Court granted in part Plaintiff's motion to dismiss the federal
24 counterclaims and denied it in part, granting Defendant leave to
25 amend. The Court denied Plaintiff's motion to strike the State law
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1 counterclaims.¹

2 In deciding the first motion to dismiss the counterclaims, the
3 Court found that Defendant failed to state a claim for direct
4 infringement under § 32(1) of the Lanham Act because the statute
5 limits standing to individuals with federally registered marks.
6 Therefore, the Court dismissed the § 32(1) claim without prejudice
7 to renewal in the event the Patent and Trademark Office (PTO)
8 approves registration of the Marks² and granted Defendant leave to
9 amend the claim to state a claim for direct infringement under
10 § 43(a)(1) of the Lanham Act, which does not require registration
11 of the Marks.

12 With respect to Defendant's counterclaim for contributory
13 infringement under § 43(a) of the Lanham Act, the Court found that
14 Defendant failed to allege that Plaintiff induced infringement of
15 the Marks rather than simple "use of the marks." Therefore, the
16 Court instructed Defendant that to go forward with its contributory
17 infringement claim, it must "allege either that Plaintiff has
18 intentionally induced a third party or parties to infringe the
19 Marks or that Plaintiff directly controls and monitors the
20 instrumentality used by others to infringe the Marks." July 25,
21 2006 Order at 9.

22 The Court found that Defendant's federal unfair competition
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24 ¹For a detailed summary of the original counterclaims and
25 Defendant's allegations, see the Court's July 25, 2006 order. For
26 a detailed summary of Plaintiff's allegations, see the Court's
27 April 4, 2006 order.

27 ²Proceedings before the PTO are currently stayed pending
28 resolution of this case.

1 claim was insufficiently plead because it failed to indicate on
2 which theory of liability, false association or false advertising,
3 the claim was based. The Court instructed Defendant "to identify
4 the particular prong or prongs of § 43(a)(1) which Plaintiff is
5 alleged to have violated." Id. at 11. Further, the Court noted
6 that Defendant had not established that it had a competitive
7 relationship with Plaintiff and that, absent such a relationship,
8 "Defendant may fail to state a claim for false advertising." Id.
9 In addition to its argument that Defendant failed to state a
10 claim, Plaintiff argued that Defendant failed to allege facts
11 sufficient to show "that the Marks are inherently distinctive or
12 have acquired distinctiveness" and therefore failed to plead an
13 essential element of the claim. The Court instructed Defendant to
14 "specifically allege whether the Marks have inherent or acquired
15 distinctiveness." Id. at 12.

16 Finally, the Court declined to strike Defendant's State law
17 counterclaim as a "strategic lawsuit against public participation"
18 (SLAPP) because there appeared to be some legal basis and some
19 showing of fact to support the claim. However, the Court ordered
20 Defendant "to file amended pleadings which, in addition to
21 specifying the specific legal basis or bases for the § 17200 claim,
22 allege acts sufficient, if proved, to substantiate the underlying
23 claim of an illegal, unfair or fraudulent practice." The Court
24 left open the possibility for Plaintiff to "file a renewed special
25 motion to strike." Id. at 17.

26 Defendant filed its amended answer and counterclaims on August
27 8, 2006. Plaintiff moves to dismiss the amended counterclaims and
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1 renews its motion to strike the State unfair business practice
2 claim under the anti-SLAPP statute.

3 LEGAL STANDARD

4 As stated in the Court's order regarding the first motion to
5 dismiss, a motion to dismiss for failure to state a claim will be
6 denied unless it is "clear that no relief could be granted under
7 any set of facts that could be proved consistent with the
8 allegations." Falkowski v. Imation Corp., 309 F.3d 1123, 1132 (9th
9 Cir. 2002), citing Swierkiewicz v. Sorema N.A., 534 U.S. 506
10 (2002).

11 DISCUSSION

12 I. Inherently Distinctive

13 Plaintiff moves to dismiss all of Defendant's trademark-
14 related counterclaims on the ground that Defendant has failed to
15 provide fair notice of the basis for its allegation that the term
16 "freecycle" is inherently distinctive. Plaintiff argues that there
17 are three categories and related theories of inherently distinctive
18 trademarks and that it is entitled to know under which theory
19 Defendant intends to proceed.

20 In its previous order, the Court found that "because inherent
21 and acquired distinctiveness are different legal theories that
22 potentially involve different factual bases, Plaintiff is entitled
23 to notice of whether the Marks are alleged to possess inherent
24 distinctiveness." July 25, 2006 Order at 12. Therefore, the Court
25 advised Defendant that it must "specifically allege whether the
26 Marks have inherent or acquired distinctiveness." Id. Defendant
27 has done so, alleging, "The Freecycle Network is the sole owner of
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1 the inherently distinctive and famous trademarks . . . and the
2 inherently distinctive 'The Freecycle Network' logo." Amended
3 Counterclaims ¶ 67. The Court finds that this statement is
4 sufficient to put Plaintiff on notice of the claims against it and
5 the grounds upon which those claims rest. Therefore, the Court
6 denies Plaintiff's motion to dismiss the trademark-related
7 counterclaims on this ground.

8 II. Lanham Act: Infringement Counterclaim

9 Plaintiff argues that Defendant has failed to state a claim
10 for trademark infringement and contributory infringement in its
11 allegations that Plaintiff has encouraged others to use the Mark.
12 However, Plaintiff's argument is based on a mischaracterization of
13 Defendant's counterclaim. Plaintiff states that "the fundamental
14 basis for TFN's infringement and unfair competition counterclaims
15 is that FreecycleSunnyvale used 'freecycle' as a generic term."
16 Reply at 2 (citing Amended Counterclaims ¶ 75). However, the
17 amended counterclaims allege that Plaintiff "has willfully and
18 intentionally induced third parties to infringe the Marks by
19 encouraging others to misuse the Marks in the form of verbs,
20 adjectives, gerunds, and participles . . . so that this misuse will
21 result in the Marks being rendered generic . . . [and] for the
22 specific purpose of rendering them unregistrable." Amended
23 Counterclaims ¶¶ 75-77.

24 Therefore, Plaintiff's citation to cases where courts have
25 found a "non-trademark use of a mark" is unconvincing. Those cases
26 involved fair use of trademarks rather than targeted efforts to
27 render a trademark generic. For example, in New Kids on the Block

1 v. New America Pub. Inc, 971 F.2d 302, 307 (9th Cir. 1992), the
2 Ninth Circuit held that a newspaper's use of a band's name in a
3 survey about the band was fair use of the trademarked band name.
4 The court noted that "it is often virtually impossible to refer to
5 a particular product for purposes of comparison, criticism, point
6 of reference or any other such purpose without using the mark" and
7 cited as an example, a mechanic that would like to advertise that
8 he or she works on a specific brand of car. Id. at 306-07. In
9 that situation, the mechanic's use of the automaker's trademark
10 would be to describe his or her services rather than to suggest a
11 connection with the automaker. Id.

12 In contrast, Defendant has not alleged and Plaintiff has not
13 claimed that it is using the Mark as a point of comparison or to
14 criticize Defendant. Rather, Defendant has alleged that Plaintiff
15 is encouraging others to infringe the Mark in a way that will
16 render it unregistrable. Defendant can prove consistent with the
17 allegations in the amended counterclaims that Plaintiff has induced
18 others to infringe the Marks. Therefore, Defendant has plead a
19 cause of action for contributory infringement.

20 Further, Defendant alleges that Plaintiff's own use of the
21 term and logo "is likely to cause confusion, to cause mistake, or
22 to deceive," which is a standard allegation of trademark
23 infringement. Amended Counterclaims at ¶ 74. In other words,
24 Defendant alleges that Plaintiff is using the mark in the very
25 manner that trademark law was developed to avoid. See New Kids on
26 the Block, 971 F.2d at 307 (distinguishing cases of infringement
27 from non-infringement "where the use of the trademark does not
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1 attempt to capitalize on consumer confusion or to appropriate the
2 cachet of one product for a different one").

3 Therefore, the Court denies Plaintiff's motion to dismiss the
4 trademark-based claims for a failure to plead a cognizable legal
5 theory. However, Plaintiff also argues, and the Court agrees, that
6 Defendant's allegation that Plaintiff "directly controls, monitors
7 and holds a position of power as a moderator of a Website which
8 encourages others to use The Freecycle Network's Marks without
9 permission" is insufficient to state a claim for contributory
10 infringement under the "supplies a product" theory of liability.
11 Defendant may not proceed on that theory.

12 III. Lanham Act: Unfair Competition Counterclaim

13 In deciding the first motion to dismiss, the Court found that
14 Defendant's federal unfair competition counterclaim was deficient
15 because it failed to identify whether the claim rested on
16 § 43(a)(1)(A) or (B) or both, and because claims based on those
17 sections "may rest on different factual bases." July 25, 2006
18 Order at 11. Therefore, the Court dismissed Defendant's
19 counterclaim for unfair competition pursuant to the Lanham Act and
20 granted Defendant "leave to amend to identify the particular prong
21 or prongs of § 43(a)(1) which Plaintiff is alleged to have
22 violated." Id. The Court also noted that a party must allege a
23 competitive relationship in order to bring a claim for false
24 advertising under § 43(a)(1)(B) and observed "ambiguity in the
25 pleading regarding whether Plaintiff and Defendant are
26 competitors." Id. at 10.

27 Plaintiff argues broadly that Defendant's federal unfair
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1 competition counterclaim should again be dismissed "for failing to
2 provide fair notice." Motion to Dismiss at 21. However,
3 Plaintiff's argument focuses only on its allegation that Defendant
4 has failed to plead a competitive relationship between the parties.
5 In deciding the original motion to dismiss, the Court instructed
6 Defendant that it must clarify that relationship in order to meet
7 the standing requirement for a claim under § 43(a)(1)(B).
8 Defendant alleges that Plaintiff's activities make it "a competitor
9 of The Freecycle Network." Amended Counterclaims ¶ 87.

10 The Court finds that Defendant's pleading regarding the
11 competitive relationship is sufficient to satisfy the federal
12 notice pleading requirement and therefore denies Plaintiff's motion
13 to dismiss Defendant's counterclaims under § 43(a)(1)(A) and (B).

14 IV. State Law Unfair Competition Counterclaim

15 Plaintiff renews its argument from the original motion that
16 Defendant's unfair competition counterclaim under California
17 Business and Professions Code § 17200 should be stricken as a SLAPP
18 suit under California Code of Civil Procedure § 425.16(b)(1). In
19 deciding that motion, the Court found that Defendant's counterclaim
20 arose out of acts subject to the SLAPP provisions and therefore
21 ordered Defendant "to file amended pleadings which, in addition to
22 specifying the specific legal basis or bases for the § 17200 claim,
23 allege facts sufficient, if proved, to substantiate the underlying
24 claim of an illegal, unfair or fraudulent practice." July 25, 2006
25 Order at 17. Plaintiff argues that Defendant has not complied with
26 the Court's order.

27 In its amended counterclaims, Defendant alleges that it is
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1 entitled to relief on each of the three bases for liability under
2 § 17200, stating that Plaintiff's "misuse of the Marks without
3 permission, its encouragement of others to misuse the Marks, and
4 its inducement of others to infringe the Mark" are illegal
5 practices, unfair and fraudulent. Amended Counterclaims ¶¶ 95-97.³
6 Further, Defendant has alleged facts which if proved would
7 substantiate the claims. For example, Defendant claims that
8 Plaintiff's alleged actions have caused Defendant "to suffer a loss
9 in reputation, goodwill, membership, and corporate sponsorship" and
10 alleges that these harms outweigh any benefit to Plaintiff. Id. at
11 96. Further, Defendant incorporates the allegations related to its
12 federal claims, which are sufficient to support its claims that
13 Plaintiff has acted illegally and in a manner that will confuse
14 consumers. Therefore, the Court denies Plaintiff's special motion

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16 ³Plaintiff also argues that Defendant should be held to a
17 heightened pleading standard based on California cases stating that
18 an individual bringing a suit challenged under the anti-SLAPP
19 statute "may not rely solely on its complaint, even if verified;
20 instead its proof must be made upon competent admissible evidence."
21 Reply at 8 (quoting Paulus v. Bob Lynch Ford, Inc., 139 Cal. App.
22 4th 659, 673 (2006)). However, the case that provides that anti-
23 SLAPP motions are available to litigants proceeding in federal
24 court specifically reiterates that "federal courts may not impose a
25 heightened pleading requirement in derogation of federal notice
26 pleading rules." Thomas v. Fry's Elecs., Inc., 400 F.3d 1206, 1207
27 (9th Cir. 2005) (per curiam). Requiring Defendant to produce
28 additional evidence to support its allegations would conflict with
the notice-pleading requirement of Federal Rule of Civil Procedure
8(a). See also, Empress LLC v. City & County of San Francisco, 419
F.3d 1052, 1056 (9th Cir. 2005) (holding that "a heightened
pleading standard should only be applied when the Federal Rules of
Civil Procedure so require"); Verizon, Inc. v. Covad Communs. Co.,
377 F.3d 1081, 1091 (holding that "[p]rocedural state laws are not
used in federal court if to do so would result in a direct
collision with a Federal Rule of Civil Procedure" and noting that
federal courts have "accordingly refused to apply certain
discovery-limiting provisions of the anti-SLAPP statute because
they would conflict with Fed. R. Civ. P. 56").

1 to strike Defendant's State law counterclaim as a SLAPP.

2 CONCLUSION

3 For the foregoing reasons, the Court GRANTS in part
4 Plaintiff's motion to dismiss and DENIES it in part (Docket No.
5 48). Plaintiff's special motion to strike is DENIED.⁴

6 IT IS SO ORDERED.

Claudia Wilken

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8 Dated: 10/3/06

9 CLAUDIA WILKEN
United States District Judge

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United States District Court
For the Northern District of California

⁴Plaintiff also moves pursuant to Federal Rule of Civil Procedure 12(f) to strike as immaterial and incorrect Defendant's allegations regarding its trademark registration application before the PTO. Defendant does not respond to the motion. However, the Court notes that Plaintiff did not move to strike identical allegations in the original answer and counterclaims. Rule 12(f) requires a party's motion to be made "within 20 days after the service of the pleading upon the party." Fed. R. Civ. P. 12(f). The Court DENIES Plaintiff's motion to strike.

Both parties move for judicial notice of the record of Defendant's application before the PTO (Docket Nos. 49, 52). The Court will take notice of the record because it is a report by the PTO, an administrative body, and a matter of public record. See Fed. R. Evid. 201; Interstate Natural Gas Co. v. Southern California Gas Co., 209 F.2d 380, 385 (9th Cir. 1953).