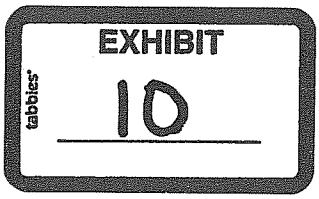

Southwest Windpower, Inc., Plaintiff/Counter-Defendant, vs. Imperial Electric, Inc., Defendant/Counter-Plaintiff.

No. CV-10-8200-SMM

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF ARIZONA

2011 U.S. Dist. LEXIS 15140

February 4, 2011, Decided
February 4, 2011, Filed

COUNSEL: **[*1]** For Southwest Windpower Incorporated, named as: Southwest Windpower, Inc., Plaintiff: Dan W Goldfine, Snell & Wilmer, Phoenix, AZ; Nicole Elizabeth Sornsin, Sean James O'Hara, Snell & Wilmer LLP, Phoenix, AZ.

For Imperial Electric Incorporated, named as: Imperial Electric, Inc., Defendant: Jeffrey William Johnson, Sean Kealii Enos, Schmeiser Olsen & Watts LLP, Mesa, AZ.

For Imperial Electric Incorporated, named as: Imperial Electric, Inc., Counter Claimant: Jeffrey William Johnson, Sean Kealii Enos, Schmeiser Olsen & Watts LLP, Mesa, AZ.

For Southwest Windpower Incorporated, named as: Southwest Windpower, Inc., Counter Defendant: Dan W Goldfine, Snell & Wilmer, Phoenix, AZ; Nicole Elizabeth Sornsin, Sean James O'Hara, Snell & Wilmer LLP, Phoenix, AZ.

JUDGES: Stephen M. McNamee, United States District Judge.

OPINION BY: Stephen M. McNamee

OPINION

ORDER

Before the Court is Plaintiff/Counter-Defendant Southwest Windpower, Inc.'s ("Southwest") Motion to Dismiss Defendant/Counter-Plaintiff Imperial Electric, Inc.'s ("Imperial") Counterclaims (Doc. 23). Imperial responded (Doc. 25),[1] Southwest replied (Doc. 27), and the matter is now fully briefed.[2]

1 Imperial submitted with its Response extrinsic evidence outside of the pleadings. **[*2]** (Doc. 25, Ex. A.) When a court considers extrinsic evidence on a motion to dismiss, the court typically must treat the motion as one for summary judgment. *Fed. R. Civ. P. 12(b)*; *San Pedro Hotel Co., Inc. v. City of L.A., 159 F.3d 470, 477 (9th Cir. 1998)*; *Hal Roach Studios, Inc. v. Richard Feiner & Co., 896 F.2d 1542, 1555 n.19 (9th Cir. 1990)*. Here, because neither party requested that Southwest's Motion to Dismiss be converted into a summary judgment motion, and because the Court does not rely on the materials attached to Imperial's Response in deciding Southwest's Motion, the Court will treat it as a motion to dismiss.

2 Neither party requested oral argument related to this Motion to Dismiss. (Docs. 23, 25.) Accordingly, the Court finds the pending motions suitable for decision without oral argument. See *L.R. Civ. 7.2(f)*.

BACKGROUND

Southwest, a manufacturer of wind turbines, brought

suit on October 11, 2010 alleging that Imperial, a seller and installer of wind turbines, falsely represented itself as an authorized dealer of Southwest's products as part of a "bait-and-switch scheme" to promote and sell competing goods and services online and elsewhere. (Doc. 1.) Imperial filed three **[*3]** counterclaims on December 3, 2010. (Doc. 20.) Counterclaims I and II seek (1) "Declaratory Judgment of Non-Infringement" and (2) "Declaratory Judgment that Imperial is not Engaging in Unfair Competition." (Doc. 20 at 15.) Counterclaim III alleges Unfair Competition under Lanham Act § 43(a), on grounds that Southwest made false statements regarding Southwest's warranty coverage for products not purchased, installed, or serviced by Southwest's authorized dealers and also regarding the suitability of using Southwest's products in conjunction with products Southwest did not produce. (Doc. 20 at 15-17.)

On December 27, 2010, Southwest filed a Motion to Dismiss Imperial's three counterclaims pursuant to *Rule 12(b)(6) of the Federal Rules of Civil Procedure*. (Doc. 23 at 3.) Southwest also asserts that the heightened pleading requirements of *Rule 9(b)* provides grounds for dismissal of Counterclaim III. (Doc. 23 at 3-4.) Imperial contends that it meets all relevant pleading requirements, and in the alternative, argues that if the Court dismisses its counterclaims, it should be without prejudice and with leave to amend. (Doc. 25 at 2.)

STANDARDS OF REVIEW

I. Motion to Dismiss Under *Federal Rule of Civil Procedure 12(b)(6)*

A **[*4]** pleading that states a claim for relief must contain "a short and plain statement of the claim showing that the pleader is entitled to relief." *Fed. R. Civ. P. 8(a)(2)*. If the plaintiff[3] fails to state a claim, the defendant may move in a written motion, separate from the responsive pleading, that the court dismiss the claim for failure to state a claim. *Fed. R. Civ. P. 12(b)(6)*. Even though a claim subject to dismissal for failure to state a claim is not required to provide "detailed factual allegations," in order for the plaintiff to meet its burden, it must present more than labels and conclusions, or a formulaic recitation of the elements of the asserted cause of action. *Bell Atl. Corp. v. Twombly, 550 U.S. 544, 555, 127 S. Ct. 1955, 167 L. Ed. 2d 929 (2007)*.[4] To survive a motion to dismiss for failure to state a claim, a plaintiff must state enough facts so that the claim is plausible on its face. *Id. at 570*. The Supreme Court does not require a heightened pleading standard, just enough facts to push the claim across the threshold of conceivable to plausible. Id.

3 Though Imperial as a Counter-Plaintiff filed counterclaims against Southwest as a Counter-Defendant, the general terms "plaintiff," "claims," and "defendant" **[*5]** are used throughout this Standards of Review section.

4 Prior to Twombly, the standard of review for a *Rule 12(b)(6)* motion was established by *Conley v. Gibson, 355 U.S. 41, 78 S. Ct. 99, 2 L. Ed. 2d 80 (1957)*. The Court in Conley held that a complaint may only be dismissed pursuant to *Rule 12(b)(6)* if "it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief." *Id. at 45-46*; *Parks Sch. of Bus., Inc. v. Symington, 51 F.3d 1480, 1484 (9th Cir. 1995)*. After Twombly, however, it was unclear if the new plausibility standard applied to all civil complaints or only to antitrust complaints. Recently, the Supreme Court clarified the scope of the Twombly holding by reiterating that it applied to all civil actions. *Ashcroft v. Iqbal, 129 S.Ct. 1937, 1953, 173 L. Ed. 2d 868 (2009)* ("Our decision in Twombly expounded the pleading standard for 'all civil actions.'").

The court will treat all allegations of material fact in the complaint as true and construe the complaint in the light most favorable to the plaintiff. *W. Mining Council v. Watt, 643 F.2d 618, 624 (9th Cir. 1981)*. But "conclusory allegations of law and unwarranted inferences are insufficient to defeat a motion to dismiss." **[*6]** *Ove v. Gwinn, 264 F.3d 817, 821 (9th Cir. 2001)* (citing *Associated Gen. Contractors v. Metro. Water Dist. of S. Cal., 159 F.3d 1178, 1181 (9th Cir. 1998))*. If the court finds that the plaintiff does not allege enough facts to support a cognizable legal theory, the court may dismiss the claim. *SmileCare Dental Group v. Delta Dental Plan of Cal., Inc., 88 F.3d 780, 783 (9th Cir. 1996)*. "Dismissal without leave to amend is improper unless it is clear, upon *de novo* review, that the complaint could not be saved by any amendment." *Polich v. Burlington N., Inc., 942 F.2d 1467, 1472 (9th Cir. 1991)* (citing *Kelson v. City of Springfield, 767 F.2d 651 (9th Cir. 1985))*. When exercising it discretion to deny leave to amend, "a court must be guided by the underlying purpose of *Rule 15* to facilitate decision on the merits,

rather than on the pleadings or technicalities." *United States v. Webb, 655 F.2d 977, 979 (9th Cir. 1981).*

II. Motion to Dismiss Under *Federal Rule of Civil Procedure 9(b)*

Fraud claims must meet the heightened pleading standard of *Rule 9(b)*, which requires that a party "state with particularity the circumstances constituting fraud." *Fed. R. Civ. P. 9(b)*. The circumstances surrounding **[*7]** the alleged fraud must "be 'specific enough to give defendants notice of the particular misconduct . . . so that they can defend against the charge and not just deny that they have done anything wrong.'" *Kearns v. Ford Motor Co., 567 F.3d 1120 (9th Cir. 2009)* (quoting *Bly-Magee v. California, 236 F.3d 1014, 1019 (9th Cir. 2001))*. "Averments of fraud must be accompanied by 'the who, what, where, and how' of the misconduct charged." *Vess v. Ciba-Geigy Corp., 317 F.3d 1097, 1106 (9th Cir. 2003)* (quoting *Cooper v. Pickett, 137 F.3d 616, 627 (9th Cir. 1997))*. A plaintiff alleging fraud is required to "'set forth more than the neutral facts necessary to identify the transaction.'" *Kearns, 567 F.3d at 1124* (quoting *In re GlenFed, Inc. Sec. Litig., 42 F.3d 1541, 1548 (9th Cir. 1994))*. *Rule 9(b)* exists "to deter the filing of complaints as a pretext for the discovery of unknown wrongs, to protect [defendants] from the harm that comes from being subject to fraud charges, and to prohibit plaintiffs from unilaterally imposing upon the court, the parties and society enormous social and economic costs absent some factual basis." *Bly-Magee, 236 F.3d at 1018*. Dismissal under *Rule 9(b)* is the functional **[*8]** equivalent of a *Rule 12(b)(6)* dismissal for failure to state a claim. *Vess, 317 F.3d at 1107*. Accordingly, a plaintiff alleging fraud must state enough facts so that the claim is plausible on its face. *Twombly, 550 U.S. at 570*.

DISCUSSION

I. Motion to Dismiss Imperial's Declaratory Judgment Counterclaims (I and II)

In its Motion to Dismiss, Southwest contends that Imperial's Declaratory Judgment counterclaims are improper because they allege matters already pending before the Court. (Doc. 23 at 4.) Imperial responds that its Declaratory Judgment counterclaims are necessary to ensure the resolution of all issues raised in Southwest's Complaint (Doc. 1). (Doc. 25 at 11-12.)

The Declaratory Judgment Act provides courts with discretion to either grant or dismiss a counterclaim for declaratory judgment. See *Wilton v. Seven Falls Co., 515 U.S. 277, 288, 115 S. Ct. 2137, 132 L. Ed. 2d 214 (1995)*; *Gov't Emps. Ins. Co. v. Dizol, 133 F.3d 1220, 1223 (9th Cir. 1998)* ("The [Declaratory Judgment] Act 'gave the federal courts competence to make a declaration of rights; it did not impose a duty to do so.'") (quoting *Pub. Affairs Assocs., Inc. v. Rickover, 369 U.S. 111, 112, 82 S. Ct. 580, 7 L. Ed. 2d 604 (1962))*. Several district courts within the Ninth Circuit have **[*9]** found that counterclaims for declaratory relief are improper if "'repetitious of issues already before the court via the complaint o[r] affirmative defenses.'" *Infa-Lab, Inc. v. KDS Nail Int'l, No. 0701270, 2008 U.S. Dist. LEXIS 91516, 2008 WL 4793305, at *3 (E.D. Cal. Oct. 24, 2008)* (quoting *Berger v. Seyfarth Shaw, LLP, No. 07-05279, 2008 U.S. Dist. LEXIS 93496, 2008 WL 2468478, at *2 (N.D. Cal. June 17, 2008))*. Courts in other jurisdictions have also concluded that if the factual and legal issues in the claim and counterclaim are the same, it is appropriate to dismiss the counterclaim. See *Knights Armament Co. v. Optical Sys. Tech., Inc., 568 F. Supp. 2d 1369, 1375 (M.D. Fla. 2008)* ("Because the parties' rights with respect to trademarks will be decided by the infringement claims at hand, there is no need for [defendant's counterclaims for] declaratory judgment." *Pettrey v. Enter. Title Agency, Inc., No. 05-1504, 2006 U.S. Dist. LEXIS 83957, 2006 WL 3342633, at *3 (N.D. Ohio Nov. 17, 2006)* (citing *Aldens, Inc. v. Packel, 524 F.2d 38, 51-52 (3d Cir. 1975)*; *United States v. Zanfei, 353 F. Supp. 2d 962, 964 (N.D. Ill. 2005))*.

Imperial seeks a declaration from the Court that it: (1) "has not infringed and is not infringing any valid and enforceable trademark rights of **[*10]** [Southwest] in violation of § 32 of the Lanham Act, *15 U.S.C. § 1114*" (Doc. 20 ¶ 46) and (2) "has not engaged in, and is not engaging in, unfair competition with respect to [Southwest's] trademark rights and with respect to designation of origin, descriptions, and representations of fact in connection with its goods or services in violation of § 43(a) of the Lanham Act, *15 U.S.C. § 1125(a)* (Doc. 20 ¶ 48)." Meanwhile, Southwest alleges in its Complaint: (1) trademark infringement under *§ 32* of the Lanham Act, *15 U.S.C. § 1114* and (2) unfair competition under § 43(a) of the Lanham Act, *15 U.S.C. § 1125(a)*. (Doc. 1 at 6-7.) It is clear from this comparison of Southwest's claims and Imperial's counterclaims that Imperial's counterclaims are "'repetitious of issues already before the [C]ourt via the complaint'" that will

necessarily be disposed of by Southwest's claims. *Infa-Lab, Inc., 2008 U.S. Dist. LEXIS 91516, 2008 WL 4793305, at *3* (quoting *Berger, 2008 U.S. Dist. LEXIS 93496, 2008 WL 2468478, at *2*. Therefore, the Court will exercise its discretion to dismiss Counterclaims I and II with prejudice.

II. Motion to Dismiss Imperial's Lanham Act Counterclaim (III)

A. Whether Counterclaim III Is "Grounded in Fraud"

Southwest argues for dismissal **[*11]** of Imperial's Counterclaim III because the allegations contained therein are based on fraud but fail to meet the heightened pleading requirements of *Federal Rule of Civil Procedure 9(b)*. (Doc. 23 at 6-7.) Imperial disputes that Counterclaim III is required to meet *Rule 9(b)*'s heightened pleading. (Doc. 25 at 4.) As noted above, *Rule 9(b)* provides: "[i]n alleging fraud or mistake, a party must state with particularity the circumstances constituting fraud or mistake." *Fed. R. Civ. P. 9(b)*. The Ninth Circuit has examined *Rule 9(b)* and held:

> In cases where fraud is not a necessary element of a claim, a plaintiff may choose nonetheless to allege in the complaint that the defendant has engaged in fraudulent conduct. In some cases, the plaintiff may allege a unified course of fraudulent conduct and rely entirely on that course of conduct as the basis of a claim. In that event, the claim is said to be 'grounded in fraud' or to 'sound in fraud,' and the pleading of that claim as a whole must satisfy the particularity requirement of *Rule 9(b)*.
>
> In other cases, however, a plaintiff may choose not to allege a unified course of fraudulent conduct in support of a claim, but rather to allege some fraudulent **[*12]** and non-fraudulent conduct. In such cases, only the allegations of fraud are subject to *Rule 9(b)*'s heightened pleading standards.

Vess, 317 F.3d 1097, 1103-04 (9th Cir. 2003). To establish a fraud claim in Arizona "a plaintiff must show that the defendant made a false, material representation that he knew was false or was ignorant of its truth, with the intention that the hearer of the representation act on it in a manner reasonably contemplated, that the hearer was ignorant of the representation's falsity, rightfully relied on the truth of the representation, and sustained consequent and proximate damage." *Haisch v. Allstate Ins. Co., 197 Ariz. 606, 5 P.3d 940, 944 (Ariz. Ct. App. 2000)* (citing *Echols v. Beauty Built Homes, Inc., 132 Ariz. 498, 647 P.2d 629, 631 (Ariz. 1982))*.

Several district courts in the Ninth Circuit have held that allegations under Lanham Act § 43 can be grounded in fraud. See *Pestube Sys., Inc. v. Hometeam Pest Def., No. 05-2382, 2006 U.S. Dist. LEXIS 34337, 2006 WL 1441014, at *4-5 (D. Ariz. May 24, 2006)* (applying *Rule 9(b)* to plaintiff's Lanham Act claim that was "grounded in fraud"); *Collegenet, Inc. v. Xap Corp., No. 031229, 2004 U.S. Dist. LEXIS 21059, 2004 WL 2303506, at *5-6 (D. Or. Oct. 12, 2004)*, adopted as modified, 2005 WL 708406 (D. Or. 2005) **[*13]** (Lanham Act unfair competition claim grounded in fraud as "allegations are such that plaintiff is alleging a unified course of fraudulent conduct and relies entirely on that course of conduct as the basis of the claim."). Here, Counterclaim III encompass the elements of fraud under Arizona law. See *Haisch, 5 P.3d at 944*. Specifically, Imperial alleges that Southwest: (1) "in bad faith" (2) "made false or misleading descriptions and representations of fact" (3) "likely to cause confusion, or to cause [a] mistake, or to deceive" others (4) in order to "influence purchasing decisions," (5) thereby harming Imperial. (Doc. 20 ¶¶ 50-55, 59.) These allegations set forth a unified course of alleged fraudulent conduct that form the basis of Counterclaim III. (Doc. 20 ¶¶ 49-60.); see *Vess, 317 F.3d at 1103-04*. The Court therefore finds that Counterclaim III is "grounded in fraud" and that *Rule 9(b)*'s particularity requirement applies. See *Vess, 317 F.3d at 1103-04*.

B. Whether Imperial Has Met *Rule 9(b)*'s Heightened Pleading Standard

As noted, "[a]verments of fraud must be accompanied by 'the who, what, when, where, and how' of the misconduct charged." *Vess, 317 F.3d at 1106* (quoting *Cooper, 137 F.3d at 627*). **[*14]** Imperial contends that it has satisfied these *Rule 9(b)* requirements and cites an excerpt, incorporated by reference into Counterclaim III, alleging that "SWWP stated in a 2008 communication to Imperial that SWWP can 'void all

warranties on all Imperial Electric's sales and installations of Southwest Windpower's products if we need." (Doc. 25 at 4-5 (quoting Doc. 20 ¶ 27).) Imperial asserts that this statement satisfies *Rule 9(b)* because it "identified who made the statement (SWWP), to whom it was made (Imperial) approximately when it was made (2008), and how (a communication)." (Doc. 25 at 4-5.) Imperial further asserts that the remainder of Counterclaim III also meets *Rule 9(b)*'s heightened pleading standard. (Doc. 25 at 5.)

Imperial's allegation quoted above and the remainder of Counterclaim III do not satisfy *Rule 9(b)*. First, Imperial's identification of Southwest as the source of misrepresentations communicated to Imperial (Doc. 20 ¶ 37) along with other "dealers, customers, and the relevant market (Doc. 20 ¶ 51)" are insufficiently specific to comply with the "who" requirement of *Rule 9(b)*. See *Segal Co. v. Amazon.com, 280 F. Supp. 2d 1229, 1231 (W.D. Wash. 2003)* (granting motion **[*15]** to dismiss in part because reference to defendant's "representatives" fails to identify alleged wrongdoers); *Knights v. Crystal Dynamics, 983 F. Supp. 1303, 1315 (N.D. Cal. 1997)* (granting motion to dismiss in part because general allegation listing all defendants is insufficient). Second, Imperial's vague reference to only two time periods in its rather lengthy list of allegations: (1) "2008" as the year that Southwest allegedly communicated to Imperial that Southwest could void warranties related to Imperial's sales and (2) "for at least 3 months in 2009" as the period Southwest allegedly included unspecified false or misleading information related to its warranties (Doc. 20 ¶¶ 27, 30) are insufficient as to "when" because references to an entire year or a period of months do not sufficiently identify the time of the alleged wrongdoing. *Atl. Richfield Co. v. Ramirez, 176 F.3d 481 (9th Cir. 1999)* ("[A]lthough the complaint suggests that the misrepresentations occurred in 'late 1990' or 'early 1991' merely identifying a period spanning several months does not adequately identity the time of the misrepresentations."); *U.S. Concord, Inc. v. Harris Graphics Corp., 757 F. Supp. 1053 (N.D. Cal. 1991)* **[*16]** ("Allegations such as '[d]uring the course of discussions in 1986 and 1987,' 'in or about May through December 1987,' and 'May 1987 and thereafter' do not make the grade."). Third, Imperial's failure to identify the nature of the communication in which Southwest allegedly stated that it could void all warranties on Southwest's sales and installations is insufficient as to "where" and "how" under *Rule 9(b)*. (Doc. 20 ¶ 27.)

The remainder of Counterclaim III includes nothing that could satisfy "'the who, what, when, where, and how' of the misconduct charged" required under *Rule 9(b)*. *Vess, 317 F.3d at 1106* (quoting *Cooper, 137 F.3d at 627*). Because Imperial has failed to "state with particularity the circumstances constituting fraud," the Court will dismiss Counterclaim III. *Fed. R. Civ. P. 9(b)*. However, Imperial will be given leave to amend, as its conceivable that Imperial possesses facts that could be alleged with the level of specificity required by *Rule 9(b)*. See *Vess, 317 F.3d at 1107-08* ("[D]ismissals for failure to comply with *Rule 9(b)* **[*17]** should ordinarily be without prejudice. Leave to amend should be granted if it appears at all possible that the plaintiff can correct the defect.")

CONCLUSION

IT IS HEREBY ORDERED GRANTING Southwest's Motion to Dismiss (Doc. 23).

IT IS FURTHER ORDERED DISMISSING WITH PREJUDICE Imperial's Counterclaim I (Declaratory Judgment of Non-Infringement) and Counterclaim II (Declaratory Judgment that Imperial is not Engaging in Unfair Competition).

IT IS FURTHER ORDERED DISMISSING WITHOUT PREJUDICE Imperial's Counterclaim III (Unfair Competition - Lanham Act § 43(a)).

DATED this 4th day of February, 2011.

/s/ Stephen M. McNamee

Stephen M. McNamee

United States District Judge