

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

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

FREECYCLESUNNYVALE, a California
unincorporated association,

No. C 06-00324 CW

Plaintiff,

v.

ORDER DENYING IN
PART AND GRANTING
IN PART
DEFENDANT'S
MOTION TO DISMISS

THE FREECYCLE NETWORK, INC., an
Arizona corporation,

Defendant.

_____ /

Defendant The Freecycle Network, Inc. moves to dismiss Plaintiff's complaint on the grounds that the complaint fails to state a claim upon which relief may be granted. Plaintiff FreecycleSunnyvale opposes the motion. The matter was heard on March 31, 2006. Having considered the papers filed by the parties and oral argument on the motion, the Court DENIES Defendant's motion in part and GRANTS it in part, with leave to amend.

BACKGROUND

The following facts are taken from Plaintiff's complaint. "Freecycling" is a practice by which a person with an unwanted

United States District Court
For the Northern District of California

1 item, a "freecycler," gives the item away rather than destroying it
2 or sending it to a landfill. Organizations that promote
3 freecycling use email distribution lists to assist freecyclers to
4 announce the items they no longer want. Many freecyclers announce
5 the availability of the items they wish to give away by, for
6 example, sending an email message to an email distribution list.
7 Many of the email distribution lists freecyclers use are hosted by
8 Yahoo! as part of its Yahoo! Groups online service.

9 Plaintiff, founded in October, 2003, provides support and
10 assistance to local freecyclers through its online group service
11 account hosted on Yahoo!. Plaintiff entered into a contract with
12 Yahoo!, whereby it received Yahoo!'s online services to assist
13 freecyclers in the Sunnyvale, California area in freecycling items,
14 in exchange for its compliance with Yahoo!'s conditions. Plaintiff
15 formed a Yahoo! group with the name "FreecycleSunnyvale."

16 Defendant, founded in May, 2003 with its principal place of
17 business in Arizona, provides nation-wide assistance to local
18 freecycling organizations that wish to create internet fora for
19 freecycling.

20 Defendant, and freecyclers generally, treated freecycling as
21 the common or generic name for giving something away to another for
22 free. Initially, Defendant provided support for Plaintiff and
23 granted permission for Plaintiff to create a graphic logo reading
24 "FreecycleSunnyvale" as long as it was used for non-commercial
25 purposes under specific rules which govern all organizations
26 belonging to its network.

27 On August 27, 2004, Defendant submitted an application to
28

1 register the mark "freecycle" and its graphic logo on the Principal
2 Register in the United States Patent and Trademark Office (PTO).
3 That application is still pending.

4 On November 1, 2005, Defendant sent an email message to
5 Plaintiff, informing Plaintiff that the Freecycle name and logo
6 were trademark-protected. The email demanded that Plaintiff cease
7 its use of the Freecycle name and logo. On November 5, 2005,
8 Plaintiff responded, stating that the term freecycle is a generic
9 one, and reminding Defendant that it had granted Plaintiff a
10 license to use a graphic logo derived from Defendant's logo, so
11 long as it was not used for commercial purposes. On November 14,
12 2005, Defendant responded, demanding that Plaintiff remove from its
13 Yahoo! online group service account all mention of the term
14 freecycle and the Freecycle logo within forty-eight hours, or it
15 would file with Yahoo! a trademark and copyright infringement
16 report.

17 On or about November 21, 2005, Defendant sent a communication
18 to Yahoo!, falsely asserting that Plaintiff's use of the freecycle
19 term and the logo constituted trademark infringement of its
20 registered term "freecycle" and of its logo. On November 21, 2005,
21 Yahoo! then terminated its contract with Plaintiff, ceasing to
22 provide online services.

23 The termination of its Yahoo! Group rendered Plaintiff unable
24 to assist freecyclers in freecycling items. Plaintiff therefore
25 suffered harm as a direct and proximate result of Defendant's false
26 assertions that Plaintiff's use of the word freecycle and/or the
27 graphic logo Defendant had licensed to Plaintiff for non-commercial
28

1 use infringed Defendant's trademark rights in that term and/or that
2 logo. On January 18, 2006, Plaintiff filed an opposition to the
3 Defendant's trademark application.

4 Plaintiff now seeks a declaratory judgment of non-infringement
5 of trademarks, and claims that Defendant has tortiously interfered
6 with its contractual relations with Yahoo!, its online service
7 provider.

8 REQUEST FOR JUDICIAL NOTICE

9 Defendant requests that the Court take judicial notice of two
10 documents: (1) a copy of the Notice of Opposition filed by the
11 Plaintiff on January 18, 2006, in the United States PTO before the
12 Trademark Trial and Appeal Board, and (2) a copy of a SunnyvaleFree
13 Yahoo! online group service account as of February 22, 2006.

14 Plaintiff objects on the grounds that these facts were not alleged
15 in the complaint and therefore cannot be considered in this motion
16 to dismiss.

17 Under Rule 201 of the Federal Rules of Evidence, a court may
18 take judicial notice of facts that are not subject to reasonable
19 dispute because they are either generally known or capable of
20 accurate and ready determination. The Ninth Circuit has held that
21 a court may take judicial notice of records and reports of
22 administrative bodies. See Interstate Natural Gas Co. v. Southern
23 California Gas Co., 209 F.2d 380, 385 (9th Cir. 1953). The Ninth
24 Circuit has also held that a court may properly look beyond the
25 complaint to matters of public record. See Mack v. South Bay Beer
26 Distributors, 798 F.2d 1279, 1282 (9th Cir. 1986), abrogated on
27 other grounds by Astoria Federal Sav. and Loan Ass'n v. Solimino,

28

1 501 U.S. 104 (1991).

2 The Court will take notice of the Notice of Opposition to
3 Defendant's registration application because it is a report by the
4 PTO, an administrative body, and a matter of public record.

5 The opening page of an online group service account called
6 SunnyvaleFree is presumably offered to show that Plaintiff still
7 operates its business through Yahoo!, under a different name. The
8 Court will not take notice of this document. It is not the report
9 of an administrative body. Also, there is no proof from this
10 document that the page represented is attributable to Plaintiff.

11 DISCUSSION

12 I. Declaratory Relief

13 The Declaratory Judgment Act (DJA) permits a federal court to
14 "declare the rights and other legal relations" of parties to "a
15 case of actual controversy. 28 U.S.C. § 2201; see also Wickland
16 Oil Terminals v. Asarco, Inc., 792 F.2d 887, 893 (9th Cir. 1986).
17 The "actual controversy" requirement of the DJA is the same as the
18 "case or controversy" requirement of Article III of the United
19 States Constitution. American States Ins. Co. v. Kearns, 15 F.3d
20 142, 143 (9th Cir. 1993).

21 Under the DJA, a two-part test is necessary to determine
22 whether a declaratory judgment is appropriate. Principal Life
23 Insurance Co. v. Robinson, 394 F.3d 665, 669 (9th Cir. 2005).
24 First, the court must determine if there exists an actual case or
25 controversy within the court's jurisdiction. Id. Second, if so,
26 the court must decide whether to exercise its jurisdiction. Id.

27 A. Actual Case or Controversy

28

1 Defendant claims Plaintiff has not alleged facts sufficient to
2 satisfy the "reasonable apprehension of litigation" requirement
3 under the DJA. Further, Defendant claims that its cease and desist
4 request is insufficient to be considered a threat of a lawsuit
5 sufficient to trigger the DJA.

6 In Societe de Conditionnement en Aluminium v. Hunter
7 Engineering Co., Inc., 655 F.2d 938, 944 (9th Cir. 1981), the court
8 held that, rather than focus on an actual threat of litigation,
9 "[a] better way to conceptualize the case or controversy standard
10 is to focus on the declaratory judgment plaintiff. An action for a
11 declaratory judgment that . . . the plaintiff is not infringing, is
12 a case or controversy if the plaintiff has a real and reasonable
13 apprehension that he will be subject to liability if he continues
14 to manufacture his product." See also Chesebrough-Pond's, Inc. v.
15 Faberge, Inc., 666 F.2d 393 (9th Cir. 1982)(advocating a "flexible
16 approach that is oriented to the reasonable perceptions of the
17 plaintiff"); Principal Life, 394 F.3d at 671 (holding the
18 appropriate standard is whether "there is a substantial
19 controversy, between parties having adverse legal interests, of
20 sufficient immediacy and reality to warrant the issuance of a
21 declaratory judgment."). If the plaintiff is engaged in the
22 ongoing use of the allegedly infringed trademark, the showing of
23 apprehension "need not be substantial." See Societe, 655 F.2d at
24 944.

25 The Ninth Circuit has held that less than a cease and desist
26 letter threatening a lawsuit can create a reasonable apprehension
27 of liability. In Chesebrough-Pond's, 666 F.2d at 397, the

1 defendant sent the plaintiff a letter requesting it withdraw an
2 application to register a trademark for a men's toiletry and
3 cosmetic line which the defendant asserted was similar to its own
4 product line. Id. at 395. The defendant stated that if the
5 plaintiff did not comply, it would file an opposition proceeding in
6 the PTO. Id. Although this letter did not threaten litigation,
7 the court nonetheless held that the plaintiff "had a real and
8 reasonable apprehension that such action would be taken," and
9 allowed the declaratory judgment claim to proceed. Id. at 397.

10 In Societe de Conditionnement, 655 F.2d at 940, two
11 manufacturers who made similar aluminum products were competing for
12 a contract with a buyer. One party threatened the buyer, stating
13 that if he purchased from the other company, he would sue the buyer
14 for patent infringement. Id. at 941. The Ninth Circuit held that
15 a threat of litigation made to a third party can be sufficient to
16 create reasonable apprehension that litigation is imminent, even
17 though the party was not specifically threatened with litigation.
18 Id. at 945. Thus, mere threats of litigation against third parties
19 can be enough to meet the reasonable-apprehension requirement.

20 Here, Plaintiff received two threatening emails from
21 Defendant. The first warned that Plaintiff should "please consider
22 this your official notice to stop using the trademark-protected
23 Freecycle name and logo, as well as any and all copyrighted texts,
24 graphics, rules, guidelines, title or its URL." Complaint, Exhibit
25 7. The second email was phrased more aggressively:

26 This is your second and final notification to
27 cease and desist using the trademark-protected
28 Freecycle (TM) name and logo, any confusingly

1 similar derivations thereof, and The Freecycle
2 Network's (TM) copyrighted texts/rules/
3 guidelines in your Yahoo group. Please do make
4 the necessary changes to your group name, group
5 URL, and applicable texts to avoid any
6 confusion with Freecycle services or delete the
7 group immediately. Realize that unauthorized
8 use of these protected materials is confusing
9 to the public and may be damaging the Freecycle
10 Network's reputation and goodwill. Moreover,
11 your unauthorized use is a violation of the
12 Yahoo Terms of Service, and a trademark and
13 copyright infringement report will be filed
14 with Yahoo if we cannot verify that these
15 materials have been removed with (sic) 48 hours
16 of the sending of this notice. . . . [A]ny
17 Freecycle mark, logo or name, as well as any
18 and all materials copyrighted by The Freecycle
19 Network must be removed before the end of the
20 48-hour period.

21 This second email invoked the language of trademark
22 infringement law and presented an ultimatum. Although a lawsuit
23 was not threatened, the language of the letter implies a harsh
24 response for failure to cease usage. Under the standard set forth
25 in Societe, based on reading these emails, Plaintiff could develop
26 a real and reasonable apprehension that it would be subject to
27 liability. As in Cheeseboro-Pond's, where a threat of filing an
28 opposition proceeding in the PTO was enough to create an
apprehension of liability, here, the threat of reporting Plaintiff
to Yahoo!, which effectively would shut down its primary network
for freecyclers, is enough to create a reasonable apprehension. In
fact, Defendant did report Plaintiff to Yahoo!, and Yahoo! did shut
it down. Therefore, Plaintiff had no opportunity to continue using
the term and logo.

Defendants cite Dunn Computer Corp. v. Loudcloud, Inc., 133 F.
Supp. 2d 823, 827 (E.D. Va. 2001) for the proposition that a cease-

1 and-desist letter without threat of litigation is insufficient
2 trigger the DJA. In that case, the court held that a cease-and-
3 desist letter that does not "explicitly threaten litigation" does
4 not create a case or controversy. Id. However, that case is not
5 binding on this Court. Moreover, here no threat of lawsuit was
6 necessary, because it is alleged that Defendant merely reported
7 Plaintiff to Yahoo!, which resulted in the shutting down of
8 Plaintiff's online service. This was the same result as would have
9 followed had Defendant filed suit and obtained an injunction
10 against Plaintiff.

11 Defendant also cites Xerox Corp. v. Apple Computer Inc., 734
12 F. Supp 1542, 1546 (N.D. Cal. 1990), for the same proposition.
13 However, in that case, the plaintiff seeking a declaratory judgment
14 never received a cease-and-desist letter or any communication
15 requesting it to cease use of the copyrighted material in question.
16 Id. at 1544. Thus, both cases cited by Defendant are unpersuasive.
17 The motion to dismiss the claim for relief under the DJA on the
18 ground that there is no case or controversy is denied.

19 B. Exercise of Court's Discretion

20 Defendant argues that the Court should decline to exercise its
21 jurisdiction to hear this DJA claim because Plaintiff has already
22 filed an opposition before the PTO and has not exhausted its
23 administrative remedies.

24 Under the DJA, in addition to finding that there is an actual
25 case or controversy, the district court must decide whether to
26 exercise its discretion. Principal Life, 394 F.3d at 669. In
27 making this determination, the district court must consider the

1 factors set forth in Brillhart v. Excess Ins. Co., 316 U.S. 491,
2 495 (1942). The Ninth Circuit states, "The Brillhart factors
3 remain the philosophic touchstone for the district court. The
4 district court should avoid needless determination of state law
5 issues; it should discourage litigants from filing declaratory
6 actions as a means of forum shopping; and it should avoid
7 duplicative litigation." Government Employees Ins. Co. v. Dizol,
8 133 F.3d 1220, 1225 (9th Cir. 1998); see also Continental Cas. Co.
9 v. Robsac Industries, 947 F.2d 1367, 1371-73 (9th Cir. 1991). The
10 district court must "balance concerns of judicial administration,
11 comity, and fairness to the litigants." Chamberlain v. Allstate
12 Ins. Co., 931 F.2d 1361, 1367 (9th Cir. 1991)). Other relevant
13 considerations include:

14 whether the declaratory action will settle all
15 aspects of the controversy; whether the
16 declaratory action will serve a useful purpose
17 in clarifying the legal relations at issue;
18 whether the declaratory action is being sought
19 merely for the purposes of procedural fencing
20 or to obtain a 'res judicata' advantage; or
21 whether the use of a declaratory action will
22 result in entanglement between the federal and
23 state court systems. In addition, the district
24 court might also consider the convenience of
25 the parties, and the availability and relative
26 convenience of other remedies.

21 Kearns, 15 F.3d at 145.

22 This cause of action raises no State law issues, only federal
23 trademark issues. Also, there is no evidence that Plaintiff has
24 filed this declaratory action for the purposes of forum shopping.
25 There is no duplicative litigation, only a proceeding in the PTO,
26 which may take years to resolve. A declaratory judgment would
27 clarify the rights of the parties concerning the use of the

1 "freecycle" term and logo.

2 Plaintiff has a legitimate interest in clarifying its right to
3 use the term "freecycle." Plaintiff's business involves supporting
4 freecycling in the Bay Area, but currently it cannot operate its
5 original online group service account as "FreecycleSunnyvale"
6 because Defendant caused Yahoo! to revoke its contract with
7 Plaintiff for this internet service. Plaintiff's interest in
8 clarifying the right to use "freecycle" is especially important
9 given that Defendant claims Plaintiff violated its terms of use
10 regarding the "freecycle" name and logo without providing
11 information as to how Plaintiff has done so.

12 Defendant incorrectly claims that Plaintiff must first exhaust
13 administrative remedies by waiting for the results of its
14 opposition to the trademark application before filing this
15 declaratory relief action in district court. The PTO cannot decide
16 issues of trademark infringement; this is a matter that must be
17 decided in a court. See e.g. Goya Foods, Inc. v. Tropicana
18 Products, Inc., 846 F.2d 848, 853-54 (2d Cir. 1988)(outcome of PTO
19 proceeding does not affect legal determination of infringement
20 claim; district court must still independently decide validity and
21 priority of marks and likelihood of consumer confusion.).

22 Because the PTO cannot resolve infringement claims, it was
23 reasonable for Plaintiff to believe, irrespective of the PTO's
24 decision, that it was likely to be subject to litigation.
25 Furthermore, there is no indication of how long the application to
26 register the trademark will take, or if it will ever be granted.
27 Thus, Plaintiff is not acting incorrectly by bringing this action

28

1 for declaratory judgment. The Court exercises its jurisdiction to
2 hear this claim. Defendant's motion to dismiss the declaratory
3 judgment claim is denied.

4 II. Tortious Interference

5 Plaintiff's tortious interference claim is based on its
6 allegations that Defendant intentionally interfered with its then-
7 existing contract with Yahoo!, which caused Yahoo! to terminate
8 Plaintiff's online group service account. Defendant argues that
9 the claim should be dismissed because Plaintiff fails to allege the
10 required elements of a tortious interference claim, including
11 Defendant's wrongful act and a factual basis for monetary damages.

12 To state a cause of action for intentional interference with
13 contractual relations in California, a plaintiff must plead the
14 following elements: "(1) a valid contract between plaintiff and a
15 third party; (2) defendant's knowledge of this contract;
16 (3) defendant's intentional acts designed to induce a breach and
17 disruption of the contractual relationship; (4) actual breach or
18 disruption of the contractual relationship; and (5) resulting
19 damage." Pacific Gas & Electric Co. v. Bear Stearns & Co., 50
20 Cal.3d 1118, 1126 (1990).

21 A. Wrongful Act

22 Defendant claims that Plaintiff fails to allege a wrongful
23 act. The action of the defendant in inducing a breach of contract
24 must be wrongful, but "[i]ntentionally inducing or causing a breach
25 of an existing contract is . . . a wrong in and of itself."
26 Quelimane Co. v. Stewart Title Guaranty Co., 19 Cal. 4th 26, 55
27 (1998). Id. Later, whether the Defendant "can establish that it
28

1 had a legitimate business purpose which justified its actions [in
2 interfering in the contract] is, . . . a matter for trial." Id. at
3 56.

4 Under California law, Plaintiff must only allege that
5 Defendant intentionally interfered in its contract with Yahoo!.
6 Plaintiff alleged this in its complaint, and therefore has met its
7 burden.

8 B. Factual Basis for Money Damages

9 Defendant claims that Plaintiff fails to allege a factual
10 basis for money damages, a necessary element in a claim of tortious
11 interference under California law.

12 In causes of action for tortious interference with business
13 relations in California, damages must be plead. Quelimane, 19 Cal.
14 4th at 56. Defendant cites the Second Restatement of Torts for the
15 proposition that a party who wrongfully interferes with a contract
16 between two parties is liable for the resulting "pecuniary loss."
17 Rest. 2d Torts, § 766.

18 Plaintiff does not allege any monetary damages. Plaintiff
19 also cites the Second Restatement of Torts, for the proposition
20 that tortious interference can cause a broad array of damages,
21 including emotional distress and harm to the plaintiff's
22 reputation. At the hearing, Plaintiff indicated that it might seek
23 injunctive relief even if it alleged no damages. Defendant cites
24 no authority for the proposition that a plaintiff must prove, much
25 less plead, actual out-of-pocket monetary loss. However, Plaintiff
26 also has failed to allege emotional distress or reputational
27 damage, and the complaint does not seek injunctive relief. The

28

1 Court grants Defendant's motion to dismiss the tortious
2 interference claim, but grants leave to amend, for Plaintiff to add
3 allegations of damage and/or a request for injunctive relief.

4 CONCLUSION

5 For the foregoing reasons, the Court DENIES in part
6 Defendant's motion to dismiss for failure to state a claim, and
7 GRANTS it in part, with leave to amend. If Plaintiff files an
8 amended complaint, it must do so by April 7, 2006.

9 IT IS SO ORDERED.

10
11 Dated: 4/4/06



12
13 _____
14 CLAUDIA WILKEN
15 United States District Judge
16
17
18
19
20
21
22
23
24
25
26
27
28