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8
 9 **UNITED STATES DISTRICT COURT**
 10 **NORTHERN DISTRICT OF CALIFORNIA**
 11 **OAKLAND DIVISION**

12
 13 FREECYCLESUNNYVALE, a California
 unincorporated association,

14 Plaintiff,

15 v.

16 THE FREECYCLE NETWORK, INC., an
 17 Arizona corporation,

18 Defendant.

CASE NO. C 06-00324 CW

**DEFENDANT THE FREECYCLE
 NETWORK, INC.'S MEMORANDUM
 IN SUPPORT OF MOTION TO
 DISMISS COMPLAINT UNDER RULE
 12(b)(6)**

Date: March 31, 2006
 Time: 10:00 a.m.
 Place: Courtroom 2 (Oakland)
 Judge: Honorable Claudia Wilkin

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1
2 **MEMORANDUM OF POINTS AND AUTHORITIES**

3 **I. INTRODUCTION**

4 The Freecycle Network, Inc. (hereinafter "The Freecycle Network") promotes the laudable
5 goal of reusing unused equipment and supplies. Unfortunately, when The Freecycle Network
6 sought federal trademark protection for its logo and the mark FREECYCLE to further the goals of
7 this endeavor, Plaintiff objected to this course of action. Furthermore, Plaintiff began to disobey
8 the rules membership in The Freecycle Network, and reluctantly The Freecycle Network
9 eventually decided to end the relationship between itself and Plaintiff. The Freecycle Network, in
10 order to police its trademarks, requested that Plaintiff cease using the FREECYCLE mark and
11 logo. Plaintiff responded by creating a tempest in a second-hand teapot by filing an opposition to
12 The Freecycle Network's trademark application with the U.S. Patent and Trademark Office, and
13 by bringing this action in District Court (the "Complaint").
14

15 This Court should dismiss Plaintiff's claims for declaratory judgment because Plaintiff's
16 complaint fails to state a factual basis for the existence of an actual case or controversy under the
17 Declaratory Judgment Act. 28 U.S.C. ¶ 2201 (hereinafter "the Act"). Plaintiff's tortious
18 interference claim should also be dismissed because Plaintiff failed to allege facts sufficient to
19 show that third party Yahoo! Inc. wrongfully breached a contract between itself and Plaintiff,
20 failed to allege facts sufficient to show monetary damages, and because there is no subject matter
21 jurisdiction over the claim.
22

23
24 **II. STATEMENT OF ISSUES**

- 25 1. Does Plaintiff's complaint allege a claim under the Declaratory Judgment Act?
26 2. Does Plaintiff's complaint allege a claim for tortious interference with business
27 relations?

III. FACTUAL AND PROCEDURAL BACKGROUND

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2
3 The Freecycle Network is an umbrella organization designed to coordinate the activities of
4 local recycling efforts or gifting of unused equipment and supplies throughout the United States
5 and other countries. The Freecycle Network began operation in May, 2003 to promote the
6 formation of local gifting groups whose members could recycle functional, but unneeded, office,
7 exercise, computer, and other items otherwise destined for landfills, by giving such items away
8 locally for free. Complaint at ¶ 16. Apparently, Plaintiff began to promote the same goals as The
9 Freecycle Network in the local community of Sunnyvale, California. Complaint at ¶ 17. In that
10 regard, the instant action arises from the relationship between The Freecycle Network and Plaintiff
11 in their mutual recycling efforts. *See* Complaint at ¶¶ 1-2.

12
13 Members of the local Sunnyvale group, as moderated by the Plaintiff as a volunteer,
14 recycled goods and promoted reuse by giving them away in Sunnyvale, with The Freecycle
15 Network providing support and coordinating the efforts of Plaintiff with other, similarly situated
16 local groups throughout the country. Plaintiff set up an internet web site using free hosting
17 services offered by Yahoo!, Inc., to promote the service in Sunnyvale. Complaint at ¶18. Plaintiff
18 began to use the FREECYCLE mark and the distinctive FREECYCLE logo on its free Yahoo!
19 Groups web site under specific rules which govern all member organizations of The Freecycle
20 Network.

21
22 Plaintiff continued to use the FREECYCLE mark until it was asked to cease using the
23 mark due to violations of the rules. On two separate occasions The Freecycle Network asked
24 Plaintiff to cease using the mark due to the failure to abide by the rules The Freecycle Network
25 required of all member organizations. On November 21, 2005, Yahoo! Inc. apparently suspended
26 Plaintiff's free internet web site, citing a possible violation of Yahoo!'s Terms of Service.
27

1 Complaint at ¶ 34. Shortly thereafter, Plaintiff secured a new, free, web site with Yahoo! Groups
2 under the name "sunnyvalefree" that is in operation today. See Request for Judicial Notice, filed
3 herewith, Exhibit 2.

4 The Freecycle Network filed for federal trademark protection on the term FREECYCLE on
5 August 27, 2004. Complaint Ex. 1. Plaintiff filed an opposition to The Freecycle Network's
6 trademark application with the Patent and Trademark Office ("PTO") on January 18, 2006. See
7 Request for Judicial Notice, filed herewith, Exhibit 1. The Freecycle Network's federal trademark
8 application for the FREECYCLE mark, as of February 10, 2006, is on hold pending the outcome
9 of an opposition proceeding before the Trademark Trial and Appeal Board. ("TTAB"). Plaintiff
10 filed the instant action with this court on the same day as the opposition before the PTO,
11 requesting declaratory judgment of non-infringement on The Freecycle Network's yet-to-be issued
12 federal trademark, among others, and alleging tortious interference with business relations under
13 California state law. Complaint at ¶¶ 36-49.

14 IV. ARGUMENT

15 A. Plaintiff Has No Grounds for Declaratory Judgment

16 Courts perform a two-part analysis before hearing a case alleged under the Declaratory
17 Judgment Act, 28 U.S.C. §§ 2201(a) *et seq.* Principle Life Ins. Co. v. Robinson, 394 F.3d 665,
18 669 (9th Cir. 2004). First, the court must determine whether there is an actual case or controversy
19 within its jurisdiction, and second, the court must determine whether to exercise its jurisdiction.
20 See Brillhart v. Excess Ins. Co., 316 U.S. 491, 495 (1942); *see also* American States Ins. Co. v.
21 Kearns, 15 F.3d 142, 143 (9th Cir. 1994). Plaintiff's complaint in this action fails on both parts of
22 the test.
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1 **1. There is No Actual Case or Controversy Under the Declaratory**
 2 **Judgment Act Because Plaintiff Failed to Plead Facts Sufficient to**
 3 **Show a "Real and Reasonable Threat of Litigation"**

4 The test for determining the existence of an actual case or controversy under the
 5 Declaratory Judgment Act is identical to the test for determining an actual case or controversy
 6 under Article III of the Constitution. Kearns, 15 F.3d at 143. First, "the declaratory plaintiff must
 7 have a real and reasonable apprehension of litigation," and second "the declaratory plaintiff must
 8 have engaged in a course of conduct which brought it into adversarial conflict with the declaratory
 9 defendant." Windsurfing Intern. Inc. v. AMF Inc., 828 F.2d 755, 757 (Fed. Cir. 1987). A real and
 10 reasonable apprehension of litigation is found in the trademark context when defendant "has
 11 charged plaintiff with infringement or has threatened plaintiff with infringement litigation, either
 12 directly or indirectly." J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR
 13 COMPETITION § 32:51 (4th ed.).

14 Plaintiff has not alleged facts sufficient to satisfy the "reasonable apprehension of
 15 litigation" test laid out above. Although Plaintiff's makes a conclusory statement that The
 16 Freecycle Network threatened litigation, the complaint fails to state how this threat was made,
 17 whether it was implicit or explicit, when the threat was made, or any other facts sufficient to give
 18 The Freecycle Network fair notice on this element of Plaintiff's claim. Complaint at ¶ 9. Aside
 19 from this naked allegation of a threatened lawsuit, the only facts alleged to purportedly ground a
 20 reasonable apprehension of litigation are two email letters sent by The Freecycle Network to
 21 Plaintiff. Complaint at ¶¶ 29, 31. These letters include a request that Plaintiff cease using the
 22 term FREECYCLE and the FREECYCLE logo, and state that noncompliance may result in a
 23 Terms of Service ("TOS") violation to Yahoo!. See Complaint Exh. 7, 9. The letters did not
 24 explicitly (or implicitly) mention litigation, and in fact invited Plaintiff to work with The
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1 Freecycle Network in a mutually beneficial manner. *Id.* Requesting that Plaintiff cease using the
2 marks because it failed to abide by the rules, and extending an invitation to work together, cannot
3 be interpreted to give Plaintiff a reasonable apprehension of litigation.

4 Furthermore, The Freecycle Network's request to cease and desist is insufficient to be
5 considered a threat of a lawsuit sufficient to trigger the Act. *See Xerox Corp. v. Apple Computer*
6 *Inc.*, 734 F.Supp 1542, 1546 (N.D. Cal. 1990) (declaratory judgment improper in copyright case
7 absent threat of litigation); *see also Dunn Computer Corp v. Loudcloud, Inc.*, 133 F.Supp.2d 823,
8 827 (E.D. Va. 2001) (cease and desist letter that does not threaten litigation does not create a case
9 or controversy under the Declaratory Judgment Act). District Courts typically look for actions
10 beyond a cease and desist letter before determining a reasonable threat of litigation exists. *Cf.*
11 *Chesebrough-Pond's, Inc. v. Faberge, Inc.*, 666 F.2d 393, 396-97 (9th Cir. 1982) (actual
12 controversy exists where defendant's letter laid out prima facie case for infringement, threatened
13 litigation, threatened to file opposition before PTO, and defendant responded to complaint with
14 counterclaim alleging infringement). The Freecycle Network's actions, as alleged in the
15 complaint, fail to rise to the level of a real and reasonable apprehension of liability and, therefore,
16 this Court should dismiss plaintiff's motion for declaratory judgment.

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20 **2. This Court Should Exercise Its Discretion to Not Entertain Plaintiff's**
21 **Declaratory Judgment Claim**

22 The Freecycle Network respectfully requests the Court to exercise its discretion, and not
23 entertain Plaintiff's declaratory judgment claim, as this case is not a case appropriate for the
24 Court's limited judicial resources. The Declaratory Judgment Act grants courts discretion to
25 dismiss a claim; under the Act courts "*may* declare the rights and other legal relations of any
26 interested party." 28 U.S.C. § 2201(a) (emphasis added). The Ninth Circuit instructs the district
27

1 courts to "balance concerns of judicial administration, comity, and fairness to the litigants" in
2 determining whether to hear a case under the Act. Chamberlain v. Allstate Ins. Co., 931 F.2d
3 1361, 1367 (9th Cir. 1991)(citing Brillhart, 316 U.S. at 495.)

4 The interests of judicial administration and fairness to the litigants strongly disfavor a grant
5 of jurisdiction. Plaintiff has already filed an opposition before the PTO and, having not exhausted
6 the administrative procedures, now seeks to bring the same argument to District Court. Pursuing
7 the matter in dual forums is inefficient and consumes limited judicial resources that could be put
8 to better use by the parties and this Court. The issue underlying Plaintiff's complaint involves the
9 suspension of a free Yahoo! Groups web page, used by a non-profit organization, whose members
10 exchange excess items for free; hardly a situation in which declaratory judgment is required to
11 preserve fair treatment towards the litigants. Plaintiff will not be harmed by any delay caused by
12 dismissal of its complaint. Furthermore, Plaintiff's defunct Yahoo! Group web site has already
13 been replaced by Plaintiff with a new, free, Yahoo! Group under the name "SunnyvaleFree" to
14 service the needs of the Sunnyvale recycling community. *See Request for Judicial Notice*,
15 attached herewith, Exhibit 2. For these reasons, The Freecycle Network requests the Court
16 exercise its discretion, and dismiss Plaintiff's declaratory judgment claim.
17
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20 **B. Plaintiff Fails to Allege the Elements of a Tortious Interference Claim**

21 Plaintiff's cause of action for tortious interference with business relations fails as a matter
22 of law because plaintiff has failed to allege each element of a tortious interference claim. "The
23 elements which a plaintiff must plead to state the cause of action for intentional interference with
24 contractual relations are (1) a valid contract between plaintiff and a third party; (2) defendant's
25 knowledge of this contract; (3) defendant's intentional acts designed to induce a breach of
26 disruption of the contractual relationship; (4) actual breach or disruption of the contractual
27

1 relationship; and (5) resulting damage." Pacific Gas & Electric Co. v. Bear Stearns & Co., 50
2 Cal.3d 1118, 1126 (1990). In addition, the act inducing a breach of contract must be wrongful.
3 Quelimane Co. v. Stewart Title Guaranty Co., 19 Cal.4th 26, 56 (Cal. 1998). Plaintiff's complaint
4 fails to allege each element of tortious interference in that it (1) does not allege that The Freecycle
5 Network's contact with third party Yahoo! was wrongful, and (2) does not allege facts from which
6 a pecuniary loss can be shown as all local group items posted are free, and all local volunteers are
7 unpaid as far as The Freecycle Network understands.
8

9
10 **1. Plaintiff Fails to Allege a Wrongful Act**

11 California state law requires that the plaintiff in a cause of action for intentional
12 interference with contractual relations allege, in part, that The Freecycle Network's actions are
13 wrongful. Quelimane Co., 19 Cal.4th at 55. California follows the Second Restatement of Torts
14 approach to determining whether an action that induces interference with contract is wrongful. *Id.*
15 at 56. "If the actor is not acting criminally nor with fraud or violence or other means wrongful in
16 themselves but is endeavoring to advance some interest of his own, the fact that he is aware that he
17 will cause interference with the plaintiff's contract may be regarded as such a minor and incidental
18 consequence and so far removed from defendant's objective that as against the plaintiff the
19 interference may be found to be not improper." *Id.* (quoting Rest. 2d Torts, § 766, com. j). Thus,
20 actions that are in pursuit of a legitimate business objective, such as protecting a trademark, are
21 not considered wrongful.
22

23
24 Plaintiff's complaint does not allege that The Freecycle Network acted with criminal,
25 violent, or fraudulent intent in allegedly contacting Yahoo! about Plaintiff's misuse of The
26 Freecycle Network's trademark. Instead, Plaintiff's own exhibits indicate that The Freecycle
27 Network's alleged contact was motivated by a desire to advance its legitimate interest in and
28

1 requirement to police the FREECYCLE trademark. *See Complaint* Exh. 7, 9. This is precisely the
2 type of situation contemplated by the Restatement as not improper. To hold otherwise would
3 indicate that whenever a trademark holder contacts an internet service provider about a potential
4 trademark issue, and the contact results in termination of a contract, the contracting party could
5 sue the trademark holder for tortious interference. Plaintiff's cause of action for tortious
6 interference should therefore be dismissed because The Freecycle Network's alleged actions are
7 not wrongful as pled.
8

9 10 **2. Plaintiff Fails to Allege a Factual Basis for Monetary Damages**

11 The presence of damages is a pleading requirement in a cause of action for tortious
12 interference with business relations. *Quelimane*, 19 Cal.4th at 55. The Restatement states that one
13 who wrongfully interferes with a contract between two parties is "subject to liability to the other
14 for the pecuniary loss resulting to the other from the failure of the third person to perform the
15 contract." *Rest. 2d Torts*, § 766. Plaintiff's complaint does not state any facts from which the
16 existence of pecuniary damages can be drawn.
17

18 As noted above, the contract at issue between Plaintiff and Yahoo! was a contract for a free
19 Yahoo! Group web page. *Complaint* at ¶¶ 14-15. Plaintiff used this contract to promote its local
20 area group of gifting unused items away. Given these facts, the complaint only alleges that The
21 Freecycle Network interfered with a (free) contract for (free) internet services provided by
22 Yahoo!, which Plaintiff used to organize a (free) service whose volunteer members gave items
23 away, for free. Nowhere in the complaint does Plaintiff allege the loss of a single dollar due to
24 The Freecycle Network's actions. *See Complaint* at ¶¶ 29-35. For this reason alone, because the
25 complaint fails to indicate how plaintiff could have suffered any pecuniary loss as a result of The
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1 Freecycle Network's actions, Plaintiff's cause of action for tortious interference should be
2 dismissed.

3
4 **3. This Court Lacks Jurisdiction Over Plaintiff's Tortious Interference
5 Claim**

6 The Freecycle Network notes that Plaintiff's cause of action for tortious interference with
7 business relations must also be dismissed in the event this Court dismisses plaintiff's cause of
8 action declaratory judgment. A plaintiff bears the burden of establishing jurisdiction in federal
9 court. Rio Prop's, Inc. v. Rio Int'l Interlink, 284 F.3d 1007, 1019 (9th Cir. 2002). Plaintiff claims
10 federal subject matter jurisdiction for the declaratory judgment claim because the claim arises
11 under federal law, and claims supplemental jurisdiction for the tortious interference claim based
12 on the close relation between the tortious interference and declaratory judgment claims.
13 Complaint at ¶¶ 3-4. As Plaintiff's declaratory judgment claim fails as a matter of law,
14 supplemental jurisdiction does not exist, and the tortious interference claim must be dismissed for
15 a lack of subject matter jurisdiction. See Herman Family Revocable Trust v. Teddy Bear, 254
16 F.3d 802, 806 (9th Cir. 2001) (District court dismissing federal claims for lack of jurisdiction must
17 also dismiss state claims brought under supplemental jurisdiction).
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V. CONCLUSION

For the above stated reasons, The Freecycle Network respectfully requests that the Court dismiss this Complaint.

DATED: February 22, 2006

PERKINS COIE LLP

By _____/s/
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