CLIENT ALERTS & INSIGHTS

Trademark Abandonment and Naked Licensing: The Failure to Supervise a Licensee Strips a Non-Profit's Trademark Rights

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In an important case involving "naked licensing," the practice of licensing a mark without restricting or supervising a licensee's use of the mark, the U.S. Court of Appeals for the Ninth Circuit recently held that a non-profit group called The Freecycle Network ("TFN") abandoned its marks by licensing them to FreecycleSunnyvale ("FS") without retaining oversight of FS's use of the marks. *FreecycleSunnyvale v. The Freecycle Network*, 9th Cir., No. 08-16382, 11/24/10. The Ninth Circuit held that the doctrine applied equally to non-profit entities, despite TFN's contention that the doctrine should be less stringent for non-profits.

"Freecycling" is a type of recycling where a person passes an unwanted item that they would otherwise dispose of to a person who will use that item, thereby reducing the volume of goods sent to landfills. TFN promotes freecycling by organizing local freecycling groups through Yahoo! or Google groups. After joining a local group, TFN members can freecycle with other members. Although FS was founded independently of TFN, it began using TFN's THE FREECYCLE NETWORK, FREECYCLE, and logo marks on its website in October 2003. TFN subsequently added FS to its list of local freecycling groups.

After permitting FS to use its marks for two years, TFN suddenly demanded that FS stop using TFN's marks. FS refused, whereupon TFN asked Yahoo! to terminate FS's Yahoo! group. Yahoo! terminated the group, prompting FS to seek a declaratory judgment that it did not infringe TFN's marks. The U.S. District Court for the Northern District of California granted summary judgment for FS after finding that TFN abandoned its marks by engaging in naked licensing.

On appeal, TFN argued it retained control over the marks based upon material posted on its website, its "Freecycle Ethos" policies, an email between TFN and FS, and the restrictions Yahoo! imposes on its groups. TFN's website contains etiquette guidelines and encourages members abide by its guiding principle - "Keep it Free, Legal & Appropriate for All Ages." Similarly, the Freecycle Ethos is an organization of local group leaders that helps decide TFN policies and procedures. TFN argued that the etiquette guidelines, the guiding principle, and the Freecycle Ethos constituted adequate quality control because a majority of the groups followed these measures. Additionally, TFN argued an email from TFN to FS prohibiting commercial use of TFN's marks demonstrated that TFN retained control over its marks. Finally, TFN argued that the restrictions Yahoo! imposes in its standard user agreement served as control measures because the agreement governs the use of Yahoo! services and prohibits users from nefarious conduct such as spamming or harassing others.

The Ninth Circuit rejected TFN's arguments on several grounds. First, the court found that TFN's etiquette guidelines, guiding principle, and Freecycle Ethos did not regulate the quality of the

services offered under its marks. In particular, the court reasoned that TFN's guiding principle and the Freecycle Ethos failed to control the quality of TFN's services because TFN nonetheless permitted local groups to adopt varying freecycling rules and policies. Similarly, the court determined that the non-commercial restriction also did not regulate the quality of the services bearing TFN's marks. Additionally, as the Yahoo! restrictions apply to every Yahoo! group, the court determined that the restrictions did nothing to assure the quality or consistency of the specific services offered under TFN's marks.

Second, the court found that TFN failed to supervise or inspect the quality of the services used in conjunction with its marks. The court based its finding on the fact that TFN did not have any contractual rights to inspect or supervise FS's use of the marks. Further, the court determined that TFN could not justifiably rely on its affiliation with FS to control the quality of the services because the parties were not in a close relationship. The parties were not in a close relationship because there was sparse communication between the parties, the affiliation only existed for two years, and the parties had no prior history or relationship apart from freecycling. Consequently, the court affirmed the finding that TFN abandoned its marks.

FreecycleSunnyvale serves as a reminder that trademark licensors must control the quality of the goods or services bearing their mark in order to avoid abandoning their marks. While the level of control required varies with the nature of the goods, the licensor's control must be sufficient to ensure a consistent quality, even if the licensor is a non-profit entity such as TFN. Thus, the ability to inspect and supervise the marks, as well as other means of control, continue to be critical to avoiding an abandonment claim.

Additional Information

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