



## Ninth Circuit Finds that Trademark Owner Did Not Exercise Adequate Quality Control Under an Implied License

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We previously highlighted the importance of quality control in trademark licensing.<sup>1</sup> In most cases, an express, written trademark license governs the trademark owner's duty to exercise quality control and also provides the method and manner in which the goods sold under the licensed trademark will be inspected. But what happens when no such express license exists?

The Ninth Circuit recently addressed this issue in *FreecycleSunnyvale v. The FreeCycle Network*, No. 4:06-cv-00324 (9th Cir. Nov. 24, 2010).<sup>2</sup> Even where an express license does not exist, a trademark owner still has an obligation to control the use of its marks. Although the absence of a written agreement itself is not fatal, a trademark owner must establish firm standards for use of its trademarks and ensure that those standards are maintained.

In the spring of 2003, TFN popularized the concept of "freecycling," or donating unwanted items to others rather than disposing of them. This practice is primarily conducted through online groups including Yahoo!, Google and other similar forums. TFN had been using the trademarks FREECYCLE, THE FREECYCLE NETWORK and a logo ("FREECYCLE Marks")<sup>3</sup> and licensed them to others.

In October 2003, TFN implicitly authorized FreecycleSunnyvale ("FS") to use its FREECYCLE Marks as part of its online network. For reasons unknown, in 2005, the parties ended up in a dispute in

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<sup>1</sup> <http://blog.pattishall.com/2010/10/18/trademark-owners-must-exercise-sufficient-control-over-the-quality-of-licensed-merchandise-or-risk-losing-rights-in-their-valuable-brands>.

<sup>2</sup> The decision is available for free online at [http://scholar.google.com/scholar\\_case?case=12529714868909116811](http://scholar.google.com/scholar_case?case=12529714868909116811).

<sup>3</sup> TFN had used the FREECYCLE Marks since 2003 and at the time of the appeal, federal registrations of the trademarks were pending with the United States Patent and Trademark Office.



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federal court regarding FS's use of the FREecycle Marks. FS moved for summary judgment alleging that TFN had abandoned its trademarks because it engaged in naked licensing when it implicitly authorized FS to use its trademarks without either (1) the right to control or (2) the exercise of actual control FS's use of the FREecycle marks. The district court granted summary judgment in favor of FS and TFN appealed.

Typically, the absence of an agreement with quality control provisions supports a finding of naked licensing.<sup>4</sup> Even where courts have excused the lack of a contractual right to control quality, the licensor is required to demonstrate *actual* control or supervision.<sup>5</sup>

Because no express agreement existed between the parties, TFN argued that it exercised actual control. TFN claimed that "standards" existed and had been implemented by some of its members, including (1) incorporation of Yahoo!'s services terms; (2) the non-commercial services requirement; (3) etiquette guidelines posted on its web site; and (4) the "Freecycle Ethos" web site, which established local policies and procedures for member groups.<sup>6</sup>

The Ninth Circuit found that none of these constituted adequate control over the use of the FREecycle Marks. The court held that the online service terms, policies and procedures were inadequate because they were voluntary and not all members utilized these web sites. Likewise, the court found that TFN's non-commercial requirement did not constitute an actual control in the trademark context. Finally, with respect to the "Freecycle Ethos," the court held these local rules were insufficient because they varied and, therefore, provided no consistency. Ultimately, the Ninth Circuit affirmed, finding that TFN engaged in naked licensing and consequently abandoned the FREecycle Marks. As a result, TFN could not stop FS's unauthorized use of the FREecycle Marks.

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<sup>4</sup> *Id.* at 18819 (quoting *Stanfield v. Osborne Industries, Inc.*, 55 F.3d 867, 871 (10th Cir. 1995) (granting summary judgment where license agreement lacked right to inspect or supervise licensee's operations and gave the licensee sole discretion to design the trademark)).

<sup>5</sup> *Id.* at 18820 (quoting *Stanfield*, 55 F.3d at 871 ("The absence of an express contractual right of control does not necessarily result in abandonment of a mark, as long as the licensor in fact exercised sufficient control over its licensee.")).

<sup>6</sup> *Id.*