

1 MAYER BROWN LLP
 IAN N. FEINBERG (SBN 88324)
 2 ifeinberg@mayerbrownrowe.com
 ERIC B. EVANS (SBN 232476)
 3 eevans@mayerbrownrowe.com
 Two Palo Alto Square, Suite 300
 4 3000 El Camino Real
 Palo Alto, CA 94306-2112
 5 Telephone: (650) 331-2000
 Facsimile: (650) 331-2060

6 Attorneys for Plaintiff
 7 FREECYCLESUNNYVALE

8 **UNITED STATES DISTRICT COURT**
 9 **NORTHERN DISTRICT**
 10 **OAKLAND DIVISION**

12 FREECYCLESUNNYVALE,
 a California unincorporated association,

13 Plaintiff,

14 v.

15 THE FREecycle NETWORK,
 16 an Arizona corporation,

17 Defendant.

Case No. C06-00324 CW

**FREECYCLESUNNYVALE'S REPLY
 RE SUPPLEMENTAL MOTION FOR
 SUMMARY JUDGMENT**

[FED. R. CIV. P. 56]

18 AND RELATED COUNTERCLAIMS
 19

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

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. ARGUMENT	1
A. Sunnyvale Is Entitled to Summary Judgment Because TFN Granted It a Naked License to Use TFN’s Purported Marks for Non-Commercial Purposes	2
B. Sunnyvale Is Entitled to Summary Judgment Because the Ninth Circuit Held That Non-Trademark Use of a Trademark Is Not Trademark Infringement.....	2
C. Summary Judgment and Injunctive Relief on Sunnyvale’s Tortious Interference Claim are Proper Issues for Its Supplemental Motion.....	6
III. CONCLUSION.....	9

1 **I. INTRODUCTION**

2 This Court's granting of Sunnyvale's naked licensing motion establishes that Sunnyvale's
3 trademark use of the purported freecycle marks were licensed and therefore not trademark
4 infringement. The Ninth Circuit case establishes that Sunnyvale's other uses of the purported
5 freecycle marks are not actionable. Together, they dispose of the entire case.

6 Sunnyvale established, in its original motion, that its *trademark use* of TFN's purported
7 marks to promote freecycling is covered by a naked license and that TFN is estopped from
8 asserting any after-recaptured rights against Sunnyvale. Sunnyvale's *licensed trademark use* of
9 TFN's purported marks to promote freecycling therefore is not and cannot be trademark
10 infringement. The Ninth Circuit Case¹ establishes that Sunnyvale's other uses of TFN's
11 purported marks are not trademark uses and are thus not actionable:

12 (1) "The Lanham Act itself, however, contains no provision preventing the use of a
13 trademarked term in its generic sense" (Ninth Circuit Case at *5);

14 (2) "The Lanham Act does not "prevent an individual from expressing an opinion that a
15 mark should be considered generic" (*id.* at *6); and

16 (3) "The Lanham Act does not "prevent an individual from . . . encouraging others to use
17 the mark in its generic sense" (*id.*).

18 The fact that the Arizona Case² involved a principal of Sunnyvale, not Sunnyvale itself, is of no
19 moment. Sunnyvale does not argue that the Ninth Circuit Case is *res judicata* but it is surely
20 collateral estoppel against TFN. And even if it were not, it would nonetheless eliminate the legal
21 basis of TFN's remaining claims against Sunnyvale.

22 **II. ARGUMENT**

23 At the September 27, 2007, hearing on Sunnyvale's naked licensing motion, this Court
24 ordered Sunnyvale to submit a motion addressing (1) the impact of the Ninth Circuit Case on this
25 case and (2) the effect of summary judgment in Sunnyvale's favor on its standing to pursue this
26 case. Sunnyvale did so, confining its arguments to issues not already addressed in its earlier

27 ¹ *The Freecycle Network, Inc. v. Tim Oey*, — F.3d —, 2007 WL 2781902 (9th Cir. Sep. 26,
2007).

28 ² Case No. 06-cv-00173-RCC (filed Apr. 4, 2006).

1 motion on naked licensing. *See, e.g.*, Supplemental Motion at 5 (“The Ninth Circuit has now
2 held that its acts—to the extent not covered by this naked license—infringed no right under the
3 Lanham Act.”); *id.* at 6 (“Sunnyvale did not use TFN’s Purported Marks in commerce outside
4 the scope of the naked license.”).

5 TFN’s opposition interprets this restraint as deception: “misquoting the opinion,” “clearly
6 improper,” “intentional misquotations and/or incorrect citations.” Opp’n at, *e.g.*, 3, 5. But
7 TFN’s accusations and arguments are simply wrong. Sunnyvale’s naked license means that its
8 trademark use of the purported freecycle marks was not trademark infringement. And the Ninth
9 Circuit Case settled the question of whether Sunnyvale’s other uses of the purported freecycle
10 marks are actionable—they are not. *Id.* at *5.

11 **A. Sunnyvale Is Entitled to Summary Judgment Because TFN Granted It a**
12 **Naked License to Use TFN’s Purported Marks for Non-Commercial**
13 **Purposes.**

14 There is no doubt that TFN nakedly licensed Sunnyvale and thus is estopped from
15 asserting any “recaptured” rights against Sunnyvale: “Failure to exercise such control and
16 supervision for a significant period of time may estop the trademark owner from challenging the
17 use of the mark and business which the licensee has developed during the period of such
18 unsupervised use.” *Miller v. Glenn Miller Productions*, 318 F. Supp. 2d 923, 945 (C.D. Cal.
19 2004). And there is likewise no doubt that Sunnyvale’s license from TFN is as naked as any
20 license has ever been. Sunnyvale acted in reliance on this naked license, using the licensed
21 marks to help its members freecycle items “during the period of . . . unsupervised use” between
22 October 2003 and late 2005. Naked Licensing Motion at 6-13. TFN has produced no fact or
23 authority to free it from this estoppel. Accordingly, this motion deals with whether Sunnyvale’s
24 other uses of the purported freecycle marks, those not covered by the naked license, are
25 actionable.

26 **B. Sunnyvale Is Entitled to Summary Judgment Because the Ninth Circuit Held**
27 **That Non-Trademark Use of a Trademark Is Not Trademark Infringement.**

28 The Ninth Circuit Case held that there is no Lanham Act claim for using a trademarked
term in a non-trademark (*e.g.*, in a generic) way, expressing an opinion that a mark should be

1 considered generic, or encouraging others to use the mark in a non-trademark (e.g. generic) way.
2 2007 WL 2781902, at *5-6. It therefore disposed of any claim based on mere generic use of a
3 mark or on encouraging others to make generic use of a mark. *Id.*

4 TFN argues that the Ninth Circuit decision binds only the parties before it and therefore it
5 is not applicable here. This is nonsense. First, while it is at least arguably not *res judicata* here,
6 it surely collaterally estops TFN from asserting the same claim even against a different party.
7 Second, and more important, it is binding precedent on all district courts in the Northern District,
8 not just in this case. And it holds that, as a matter of law, “encouraging others to misuse the
9 [m]arks in the form of verbs, adjectives, gerunds, and participles,” “encouraging others to misuse
10 the [m]arks so that this misuse will result in the [m]arks being rendered generic,” and
11 “encouraging others to misuse the [m]arks for the specific purpose of rendering them
12 unregistrable,” is not actionable. Answer and Amended Counterclaims (“AA&C”) ¶¶ 75-77.
13 The Ninth Circuit’s holding is not limited to claims formally labeled “trademark disparagement.”
14 It applies equally to Sunnyvale’s declaratory judgment claim and TFN’s trademark infringement
15 and unfair competition counterclaims to the extent they are based on allegations of generic use of
16 the word freecycle.

17 TFN argues that the Ninth Circuit Case “did not adjudicate any of [Sunnyvale’s] claims
18 against [TFN], nor did it adjudicate any of [TFN’s] claims against [Sunnyvale]” and that “there
19 is a clear factual and legal distinction between Tim Oey *the person* and [Sunnyvale], the
20 *California unincorporated association that offers recycling services that are in direct*
21 *competition³ to those offered by [TFN].”* Opp’n at 3, 5 (emphasis in original); *see also id.* at 7.
22 Again, this confuses *res judicata*, which Sunnyvale has not asserted, with collateral estoppel and
23 law of the Circuit, which Sunnyvale does assert.

24 It is of course literally true that Oey and Sunnyvale are distinct persons. But Sunnyvale’s
25 liability in this action is, at least in part, necessarily dependent on Oey’s liability in the Arizona
26 Case. The claims in both actions arise, at least in part, from the same transactions and

27 _____
28 ³ As demonstrated above, Sunnyvale’s use of TFN’s purported marks in connection with its
freecycling services is covered by its naked license from TFN.

1 occurrences, and Sunnyvale does not contest that it, as an unincorporated association, is liable
 2 for Oey's actions when he acted as its agent, promoting freecycling and expressing his opinion
 3 that freecycle was a generic term. Cal. Corp. Code § 18250; Cal. Civ. Code § 2330; *Heiman v.*
 4 *Workers' Comp. Appeals Bd.*, 149 Cal. App. 4th 724, 741, 57 Cal. Rptr. 3d 56, 68 (2007)
 5 (holding unincorporated association liable for acts of agent). And it is a long-established rule of
 6 California agency law that:

7 if the defendant's responsibility is necessarily dependent upon the
 8 culpability of another who was the immediate actor, and who, in an
 9 action against him by the same plaintiff for the same act, has been
 10 adjudged not culpable, the defendant may have the benefit of that
 judgment as an estoppel, even though he would not have been
 bound by it had it been the other way.

11 *Charles H. Duell, Inc., v. Metro-Goldwyn-Mayer Corp.*, 128 Cal. App. 376, 383, 17 P.2d 781,
 12 784 (1932).

13 Since Sunnyvale's culpability for Oey's statements is "necessarily dependent" on Oey's,
 14 there is nothing "improper" about its use of quotations from the Ninth Circuit Case, despite
 15 TFN's attempts to suggest otherwise. Opp'n at 3, 4- 5, 7. Sunnyvale's "substitution of Oey's
 16 name for its own" (Opp'n at 5) was simply a reflection of this necessary dependence. Moreover,
 17 the Ninth Circuit's rejection of a Lanham Act remedy for genericide is not limited to the parties
 18 before it. It applies to all parties within its jurisdiction.

19 TFN simply willfully misreads Sunnyvale's argument. In its supplemental motion at 5,
 20 Sunnyvale argues that "The Ninth Circuit has now held that its acts—to the extent not covered
 21 by this naked license—infringed no right under the Lanham Act." In its opposition at 5, TFN
 22 removes the crucial proviso "to the extent not covered by this naked license" to argue that
 23 Sunnyvale overstated the holding of the Ninth Circuit Case.

24 TFN also argues that Sunnyvale engaged in contributory trademark infringement or
 25 induced others to infringe TFN's purported marks:

26 75. Counterdefendant has willfully and intentionally induced
 27 third parties to infringe the Marks by encouraging others to misuse
 the Marks in the form of verbs, adjectives, gerunds, and participles.
 28

1 76. Counterdefendant has further willfully and intentionally
2 induced third parties to infringe the Marks by encouraging others
3 to misuse the Marks so that this misuse will result in the Marks
4 being rendered generic.

5 77. Counterdefendant has further willfully and intentionally
6 induced third parties to infringe the Marks by encouraging others
7 to misuse the Marks for the specific purpose of rendering them
8 unregistrable.

9 AA&C ¶¶ 75-77; *see also id.* ¶¶ 80-81 (“deliberate and willful”). TFN’s contributory
10 infringement theory fails for two reasons.

11 First, the Ninth Circuit held that the facts TFN alleged, if true, give TFN no Lanham Act
12 remedy, because the Act contains “no provision preventing the use of a trademarked term in its
13 generic sense.” 2007 WL 2781902, at *5. Using the word freecycling to describe freecycling is
14 simply *not* trademark infringement. *Id.* There is no infringement for Sunnyvale to contribute *to*.
15 *Perfect 10, Inc. v. Visa Int’l Service Ass’n*, 494 F.3d 788, 807 (9th Cir. 2007) (holding that
16 contributory trademark infringement requires that defendant intentionally induce a primary
17 infringer to infringe). Moreover, the Ninth Circuit held that “[t]he Lanham Act does not prevent
18 an individual from . . . encouraging others to use the mark in its generic sense.” Ninth Circuit
19 Case, 2007 WL 2781902, at *6. TFN’s contributory infringement theory therefore fails:
20 encouraging others to use a mark so that this use results in the mark being rendered generic is not
21 trademark infringement. *Id.* “TFN’s mere disagreement with Oey’s opinion and frustration with
22 his activities cannot render Oey liable under the Lanham Act.” *Id.*

23 Second, TFN’s contributory infringement theory also fails because TFN cannot show that
24 Sunnyvale, through Oey, acted “knowing or having reason to know that [another party] is acting
25 or will act tortiously.” *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th 1996)
26 (quoting Restatement (Second) of Torts § 877(c). Oey merely stated, like the Ninth Circuit held,
27 that “there has been no formal determination that TFN has trademark rights in the term
28 ‘freecycle.’” 2007 WL 2781902, at *4. Because this statement is true, Oey cannot have
intended to induce others to act tortiously.

 Finally, TFN has radically misjudged its burden. This is not a motion to dismiss.
Sunnyvale has produced evidence and argument that its use of the word freecycle to promote

1 freecycling was covered by a naked license and that use of a trademarked word in a generic
2 sense is not trademark infringement. TFN “may not rest upon the mere allegations or denials” of
3 its pleading, but “must set forth *specific* facts showing that there is a genuine issue for trial.”
4 Fed.R.Civ.P. 56(e) (emphasis added). TFN has produced no such facts supporting its
5 contributory infringement theory.

6 **C. Summary Judgment and Injunctive Relief on Sunnyvale’s Tortious**
7 **Interference Claim are Proper Issues for Its Supplemental Motion.**

8 Sunnyvale understood that this Court’s September 27, 2007 minute order directed
9 Sunnyvale to address all of the claims not expressly resolved by its naked licensing motion.
10 Accordingly, Sunnyvale included its tortious interference claim in its supplemental motion,
11 since the Ninth Circuit Case had removed all doubt that Sunnyvale would prevail on that claim.
12 Because Sunnyvale expressly waived its right to recover damages for TFN’s tortious interference
13 in its complaint, Amend. Compl. ¶ 55, the only possible triable issue, damages, is not in this
14 case. More important, this claim likely will be rendered moot if this Court enters judgment that
15 Sunnyvale was nakedly licensed, and directs TFN to request that Yahoo! transfer ownership of
16 the freecyclesunnyvale Yahoo! group back to Sunnyvale.

17 Nonetheless, TFN argues that because it did not know the precise parties to the contracts
18 governing the Yahoo! group freecyclesunnyvale, it lacked knowledge of Sunnyvale’s contract
19 and could not have interfered with it. But tortious interference requires only “defendant’s
20 knowledge of the *contract*,” not of its every detail. *PG&E Co. v. Bear Stearns & Co.*, 50 Cal. 3d
21 1118, 1126, 270 Cal. Rptr. 1 (1990) (emphasis added). In fact,

22 it is not necessary that the actor appreciate the legal significance of
23 the facts giving rise to the contractual duty, at least in the case of
24 an express contract. If he knows those facts, he is subject to
25 liability even though he is mistaken as to their legal significance
and believes that the agreement is not legally binding or has a
different legal effect from what it is judicially held to have.

26 Restatement (Second) of Torts § 766 comment i); *see Korea Supply Co. v. Lockheed Martin*
27 *Corp.*, 29 Cal. 4th 1134, 1155, 131 Cal. Rptr. 2d 29 (2003) (recognizing and extending

28

1 California's reliance on Restatement (Second) of Torts §766 to determine scienter requirement
2 for tortious interference with contract).

3 TFN clearly knew the facts giving rise to the contractual duty: a Yahoo! group named
4 freecyclesunnyvale existed and it could only exist pursuant to a contract with Yahoo!.
5 Otherwise, it could not have accused it of "currently infringing on The Freecycle Network's
6 copyrights and trademarks" and asked that Yahoo! "take the appropriate action." Evans Decl. on
7 Suppl. Motion, Ex. C at YAH0445. And when it made this accusation, TFN had "recently
8 revamped the process by which users are instructed to create new Freecycle Groups using the
9 Yahoo! Groups system." *Id.* at YAH0443. So TFN knew that each Yahoo! group represented a
10 contract between Yahoo! and *someone* and it knew sufficient details of those contracts to draft a
11 form letter requesting that Yahoo! terminate them en masse. TFN's failure to investigate
12 further—or even identify its reasons for asking Yahoo! to terminate the accounts with any
13 specificity—cannot shield it from liability.

14 TFN's attempt to manufacture a disputed issue of material fact regarding the amount of
15 harm Sunnyvale suffered as a result of TFN's tortious interference is frivolous, because
16 Sunnyvale expressly waived any claim for damages. Moreover, TFN materially misstates Tim
17 Oey's deposition testimony when it claims that he "estimated that the 'freecyclesunnyvale'
18 Yahoo! Group gained hundreds of members after Yahoo!'s action." Opp'n at 12. In fact, Mr.
19 Oey testified that there were approximately 800 members of *another* Yahoo! group,
20 sunnyvalefree, a "replacement group" founded *after* Yahoo! terminated Sunnyvale's access to
21 the freecyclesunnyvale Yahoo! group:

22 12 Q And are there people that have joined
23 13 Sunnyvalefree as members?

24 14 A As members of Sunnyvalefree e-mail list,
25 02:41 15 there are others who have joined that list.

26 16 Q Today, how many are there?

27 17 A As of today, I think it's a little more
28 18 than 800, as best as I can recall.

1 Kobjalka Decl. on Opp'n, Ex. 5; *see also* Evans Decl. on Reply, Ex. A (Deposition of Lisanne
2 Abraham at 15:16-16:12 (describing creation of sunnyvalefree in response to deletion of
3 freecyclesunnyvale). TFN does not dispute that Yahoo!, at TFN's request, deleted the Yahoo!
4 group freecyclesunnyvale and it does not dispute that this deletion disrupted Sunnyvale's ability
5 to promote freecycling.

6 Finally, TFN argues that its interference was justified or "privileged." But the
7 "privilege" TFN asserts is not a blanket protection like the statutory litigation privilege. *See* Cal.
8 Civ. Code § 47(b). Instead, it is a narrow affirmative defense to tortious interference with
9 contract. *Savage v. PG&E Co.*, 21 Cal. App. 4th 434, 449, 26 Cal. Rptr. 2d 305, 315 (1993)
10 (holding that justification is affirmative defense). Justification or "privilege" is "the narrow
11 protection afforded to a party where (1) he has a legally protected interest, (2) in good faith
12 threatens to protect it, and (3) the threat is to protect it by appropriate means." *Richardson v. La*
13 *Rancherita*, 98 Cal. App. 3d 73, 81, 159 Cal. Rptr. 285, 289 (1979).

14 TFN cannot meet its burden on this narrow affirmative defense because it lacks an
15 essential element: a "legally protected interest." *Id.* TFN's efforts to register its trademarks and
16 "pursu[e] those that seek to damage its trademark rights" are not evidence that TFN *has* rights
17 under the Lanham Act—only that it wants this Court, and other bodies, to grant it those rights.
18 Sunnyvale has established that the naked license and the Ninth Circuit Case dispose of TFN's
19 trademark infringement claims—whether based on Sunnyvale's promotion of freecycling or on
20 using, or encouraging others to use, the word freecycle generically. If TFN has no legal right to
21 its purported marks, at least as against Sunnyvale, it has no legally protected interest and its
22 interference with Sunnyvale's contract is neither justified nor privileged. With this necessary
23 element lacking, no trier of fact could find for TFN on the affirmative defense of justification.

24 Because this is a summary judgment motion, and TFN offered no *evidence* creating a
25 triable issue of fact, summary judgment should be granted.

26 ///

27 ///

28 ///

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

III. CONCLUSION

For the reasons raised in its two motions, Sunnyvale respectfully requests that this Court enter its proposed order granting summary judgment.

Dated: November 15, 2007

MAYER BROWN LLP

By: /s/ Ian N. Feinberg
Ian N. Feinberg
Attorneys for Plaintiff
FREECYCLESUNNYVALE