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In a decision issued on September 9, 2011, the Ninth Circuit Court of Appeals explained how web hosting – leasing server space, bandwidth, and Internet Protocol addresses to customers with websites – can sometimes result in liability for “contributing” to the website owner’s trademark and copyright infringement.

Well known luxury fashion company Louis Vuitton Malletier, S.A. owns many trademarks and copyrights protecting its brand and reputation. While policing its intellectual property, Louis Vuitton discovered websites based in China selling counterfeit “Louis Vuitton” products. Those websites used IP addresses assigned to Managed Solutions Group (MSG). MSG leased servers, bandwidth, and IP addresses to Akanoc Solutions, Inc., an entity managed by Steven Chen.

Akanoc, in turn, leased the server space, bandwidth, and IP addresses to its customers who operated the infringing websites. Louis Vuitton sent 18 Notices of Infringement demanding the removal of the infringing content from the servers, but received no response.

Louis Vuitton sued MSG, Akanoc, and Chen for contributory trademark and copyright infringement. The jury returned a verdict for Louis Vuitton, holding all defendants liable for “willful” contributory infringement of 13 trademarks and 2 copyrights, and awarding over \$32 million in statutory damages. In post-trial motions, the district court discarded the jury verdict only against MSG, holding that MSG did not sell domain names or operate the servers – it only owned and leased the hardware operated by Akanoc and Chen. Both sides appealed.

In its decision, the Ninth Circuit provided important guidelines shaping the boundaries of “contributory” trademark and copyright infringement:

- The Court upheld the lower court’s rejection of the verdict against MSG, holding: “We agree with the district court that no evidence presented at trial showed that MSG operated the servers that hosted the direct infringers’ websites.”
- The Court upheld the jury’s finding of liability against Akanoc and Chen.

As to contributory *trademark* infringement, the Court rejected Akanoc and Chen’s contention that they were not sufficiently connected with the infringing websites to be found liable. The Court held:

“[W]ebsites are not ethereal; while they exist, virtually, in cyberspace, they would not exist at all without physical roots in servers and internet services. As the district court held, [Akanoc and Chen] ‘physically host websites on their servers and route

internet traffic to and from those websites. This service is the Internet equivalent of leasing real estate.’ ... Stated another way, Appellants had direct control over the ‘master switch’ that kept the websites online and available.”

The Court also rejected Akanoc and Chen’s argument that the jury failed to find their conduct was “intentional.” The Court held that a finding of intent was not required. It is enough to show the defendants “provided their services with actual or constructive knowledge that the users of their services were engaging in trademark infringement.”

As to *contributory* copyright infringement, the court rejected similar arguments by Akanoc and Chen. The Court found that Akanoc and Chen “substantially assisted” the infringement – “there is no question that providing direct infringers with server space satisfies that standard.” The Court also held that an express finding of “intent” was unnecessary (“intent may be imputed as a result of a service provider’s knowing failure to prevent infringing actions”), and upheld the jury’s finding of “willfulness” that led to enhanced damages. “A finding of willfulness in the copyright context can be based on either intentional behavior or merely reckless behavior.”

- The Court confirmed that contributory infringers were subject to statutory damages, but reduced the amount of the jury’s award. The Court explained that maximum damages were set at a specific statutory amount per infringed mark (trademark) and per infringed work (copyright) – not by the “number of separate infringements” or the number of infringers. The jury’s award against Akanoc and Chen doubled the statutory maximum amount. Thus, the Court reduced the award, and clarified that Akanoc and Chen were jointly and severally liable for the award.