



Contributory Trademark Infringement: An Issue for Web Hosts

By James Billings-Kang – November 3, 2011

The Internet has spawned a vast, continually growing landscape of interconnectivity that links a multitude of entities and builds relationships on a global scale. Embedded in this interconnectivity is the possible extension of liability on one entity as a result of the actions of another. Perhaps one new trend is holding web hosts liable for assisting e-commerce businesses in the sale of counterfeit goods. For instance, a federal jury in South Carolina recently ordered a web host to pay 27 times more than the actual trademark infringer who had used the web host's server in its sale of counterfeit goods. *Roger Cleveland Golf Co., Inc. v. Prince*, 2010 WL 5019260 (D. S.C. Dec. 3, 2010). At issue in *Cleveland Golf* was trademark infringement by counterfeiting—a problem that has catapulted to new levels since the advent of the Internet. In fact, according to one estimate, counterfeiting equates to a \$600 billion-a-year global industry. Ambrose Clancy, "[Faking It: Nothing Phony About Profits in the Knockoff Business](#)," *Long Island Business News*, July 2, 2009.

Roger Cleveland Golf

Christopher Prince hired Bright Builders to develop a website for his golf club-counterfeiting business that was "your one stop shop for the best COPIED and ORIGINAL golf equipment on the internet." Over the course of the website's development, Bright Builders engineered search engine optimization into the site—essentially "embedding keywords, such as Plaintiff's federally registered trademarks, into metadata within [Prince's] websites." *Roger Cleveland Golf v. Prince*, 2010 WL 5019260 at *2 (D.S.C. Dec. 3, 2010). Additionally, Bright Builders mentored Prince, even providing him with a Help Team and, at times, coaching him about the website's development and advising him on how to run his business and what vendors to work with.

Upon discovering that the golf clubs sold on Prince's website—[copycatclubs.com](#)—were counterfeits of its own clubs, the plaintiff, Roger Cleveland Golf, initially sued only Prince. The plaintiff contended that Prince had violated the Lanham Act and South Carolina's Unfair Trade Practices Act. Further investigation led Roger Cleveland Golf to add Bright Builders as a codefendant for its assistance with the website, thereby claiming that Bright Builders was contributorily liable for the trademark infringement, among other claims.

The court denied Bright Builders' motion for summary judgment, with the jury ultimately finding Bright Builders liable for willfully committing contributory trademark infringement and awarding \$770,750 to Roger Cleveland in damages, while Prince was hit with a relatively minimal \$28,250 damage award.

Contributory Trademark Infringement

Under the Lanham Act, which governs federally registered trademark-infringement claims, a trademark is a word, name, symbol, or device used to distinguish an entity's good from goods manufactured or sold by others. 15 U.S.C. § 1127 (2006). To state a claim for trademark infringement, the plaintiff must prove a "trademark use"—in other words, the plaintiff must prove that the defendant used the mark "in commerce" and "in connection with the sale, offering for sale, distribution or advertising of goods and services." See *Gov't Employees Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700, 702 (E.D. Va. 2004); see also 15 U.S.C. § 1114, 1125(a). Additionally, trademark users must prove "valid trademark, ownership of the trademark, and likelihood of confusion." Jerome Gilson, *Trademark Prot. & Practice* 11.07 [2] (2004). As to a finding of likelihood of confusion, courts will make a factual determination based on a variety of factors, including strength of the mark, proximity of the goods, similarity of the marks, and evidence of actual confusion, among others. *Playboy Enters., Inc. v. Netscape Commc'ns Corp.*, 354 F.3d 1020, 1026 & n.24 (9th Cir. 2004).

Originally, the doctrine of contributory trademark infringement included only an inducement standard and applied strictly in situations involving manufacturers or distributors. See, e.g., *Societe Anonyme de la Distillerie de la Liqueur Benedictine de L'Abbaye de Feccamp v. W. Distilling Co.*, 42 F. 96 (E.D. Mo. 1890). Over the years, courts have modified this doctrine with insights from the common law of torts. In 1982, the U.S. Supreme Court expanded the doctrine such that a party may be contributorily liable for the direct trademark infringement of another if it (a) "intentionally induces another to infringe a trademark" or (b) "continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

The *Inwood* test later permeated the landlord setting by the Seventh Circuit in 1992, *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143 (7th Cir. 1992), and by the Ninth Circuit in 1996, *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996). Both cases stand for the proposition that, when the operators of a flea market or swap meet know or have reason to know that its vendors are committing trademark infringement, they could be contributorily liable for the infringement. The rationale lay in "treat[ing] trademark infringement as a species of tort," pointing to the common-law rule that landlords were responsible for torts committed on their premises if they know or have reason to know that the tenant will act tortiously. *Hard Rock Cafe*, 955 F.2d at 1148–49.

Application of the *Inwood* Test in the Internet Age

With the advent of the Internet, courts have wondered how to apply traditional legal doctrines in a modern setting. No doubt the Internet has created more opportunities for trademark infringement, with a widespread impact never seen before. No longer is an infringement scaled within a single brick-and-mortar setting; now, the world has become the setting for any

infringement present on the Internet, thereby increasing the likelihood that others may be contributorily liable for the infringement of third parties.

Appreciating the unique context of the Internet, the Ninth Circuit extended the *Inwood* test in this new setting but with a few modifications. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980 (9th Cir. 1999). The *Lockheed Martin* court understood that, unlike the traditional applications of the *Inwood* test in the past, present before the court was a dispute over a service—similar to the brick-and-mortar services provided in *Hard Rock Cafe* and *Fonovisa*. The plaintiff in *Lockheed Martin Corp.* contended that the defendant domain name registrar was responsible for those who registered domain names that contained the plaintiff’s mark.

Citing *Hard Rock Cafe*’s and *Fonovisa*’s emphasis on control when analyzing a services setting, the *Lockheed Martin* court ruled that contributory liability for trademark infringement hinged on “direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff’s mark . . .” *Lockheed Martin*, 194 F.3d at 984. The Third Circuit has since equated “direct control” with “central participation” in the infringement. *Basketball Mktg. Co., Inc. v. FX Digital Media, Inc.*, 257 Fed. App. 492, 495 n.5 (3d Cir. 2007).

The question of direct control was one such issue in *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.* The district court noted that, while denying the defendant web host’s motion for summary judgment on the contributory trademark infringement claim, the defendant had hosted sites that contained counterfeit goods and even routed traffic to and from these sites. Just as significant was the defendant’s ability to remove infringing materials and disable individual IP addresses. *Louis Vuitton*, 591 F. Supp. 2d 1098, 1111–12 (N.D. Cal. 2008). Interestingly, the court suggested that the test for “direct control” must rise to a level that satisfies the knowledge prong of the *Inwood* test; that is, the control was to such an extent that the defendant knew or had reason to know of the infringement. *Louis Vuitton*, 591 F. Supp. 2d at 1111.

As to the level of knowledge necessary to satisfy the second prong of the *Inwood* test, *Tiffany (NJ) Inc. v. eBay* pronounced that the plaintiff must prove that the defendant knew or had reason to know “specific instances of actual infringement.” *Tiffany (NJ) Inc. v. eBay*, 576 F. Supp. 2d 463, 510 (S.D.N.Y. 2008), *rev’d on other grounds*, 600 F.3d 93 (2d Cir. 2010). In other words, it is not enough for a defendant to possess a general knowledge of infringement. However, when a defendant suspects “wrongdoing and deliberately fail[s] to investigate,” that is considered willful blindness, which will inevitably satisfy the knowledge prong. *Id.* at 513. The court further elaborated that “willful blindness requires ‘more than mere negligence or mistake’ and does not lie unless the defendant knew of a high probability of illegal conduct and purposefully contrived to avoid learning of it. . . .” *Id.* at 515.

Trends and Preventative Measures

At first glance, the implications of *Roger Cleveland Golf* appear to be far-reaching. Nevertheless,

District Judge Margaret Seymour noted that Bright Builders, in response to the Amended Complaint, had filed a “one-and-a-half page motion, which argue[d]—without a single citation to any authority or facts in the record and without the benefit of any supporting affidavits or exhibits—that it should be dismissed as a defendant from this action.” As such, this was “reason alone to deny Bright Builders’ motion” for summary judgment. *Roger Cleveland*, 2010 WL 5019260, at *2–3.

Whether the *Roger Cleveland* ruling was a result of a procedural mishap remains unanswered, but the trend is that those claiming trademark infringement are now looking to hold the web hosts and Internet intermediaries liable as opposed to the direct infringers. See, e.g., *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 545 U.S. 913, 930 (2005). As such, Internet intermediaries should consider taking myriad preventative measures to shelter themselves from such allegations.

Inevitably, *Roger Cleveland* teaches us that the more intimate a web host is in its involvement with an e-commerce business, because of the potential imputation of constructive knowledge, the more vigilant it must be in addressing potential infringement issues. Although the *Tiffany v. eBay* court stated that the policing of sites for trademark infringement is not necessary, web hosts directly involved in the constant development of a website—whether through coding, strategic advising, implementing search engine optimization, and the like—should monitor for any hint of trademark violation, ultimately removing any page or website that includes such violations. If technologically possible, the web host should implement programs that detect violations by its clients. Further, notices of infringement may rise to the level of specific knowledge necessary to satisfy the *Inwood* test, thereby requiring the eventual removal of the suspected material after receipt of such notices. *eBay*, 576 F. Supp. at 516.

Any contract that legitimizes the web host–client relationship should include clauses that require the client to adhere to any trademark laws, in addition to an indemnity clause that demands the client to pay for any defense costs as a result of litigating the client’s infringement violations. Of course, to the extent that the client may not be solvent enough to cover the defense costs, the indemnity clause may be moot. In fact, Bright Builders had one such clause in its contract with Prince, which proved ineffective. A limitation-of-liability provision limited to the amount the client has paid to the web host may prove valuable, perhaps preventing such instances where a web host is required to pay 27 times more than the direct infringer.

Furthermore, the contract should include representations by the client that she has all the appropriate licenses to the trademarks used as well as any and all necessary intellectual property rights. In the end, though, any firm must exercise sound judgment and not—without acute analysis—passively include anything on a website that a client requests. When an e-commerce site conspicuously provides signs of counterfeiting in its URL designation, slogans, or product



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titles, to name just a few, the firm must immediately notify the client of a potential takedown and then, should the infringement persist, proceed with the takedown.

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