



***LOUIS VUITTON MALLETIER V. AKANOC
SOLUTIONS INCORPORATED: WHY ISPS
SHOULD BE HELD LIABLE FOR
KNOWINGLY HOSTING WEBSITES THAT
SELL COUNTERFEIT PRODUCTS***

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Courts of the United States have routinely neglected to hold Internet Service Providers (“ISPs”) liable for contributory copyright and trademark infringement.¹ However, on August 28, 2009, in *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, eight jurors out of the Northern District of California found two ISPs liable for \$32.4 million in damages to French luxury retailer Louis Vuitton (“LV”) for neglecting to remove websites that sold LV’s counterfeit products.²

The precedential force of the *Louis Vuitton* verdict provides companies with a renewed opportunity to prevent the sale of counterfeit products over the Internet, yet cautions ISPs that host websites selling these infringing goods. Moreover, the *Louis Vuitton* verdict establishes a dichotomy between how the courts in the Ninth and Second Circuits consider this infringing activity.

This comment will briefly explore the evils of the counterfeit luxury industry and will further explain why the *Louis Vuitton* verdict and other Ninth Circuit decisions should represent the future trend of how courts consider this issue as increasingly more merchandise is sold and purchased online.

¹ See, e.g., *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 501-18 (S.D.N.Y. 2008), *aff’d in part, rev’d in part*, 600 F.3d 93 (2d Cir. 2010) (remanding plaintiff’s false advertising claim).

² Verdict at 9, 13, *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, No. C 07-03952 JW (N.D. Cal. Aug. 28, 2009) [hereinafter “Verdict”].

BUYING AND SELLING COUNTERFEITS OVER THE INTERNET: NOT A VICTIMLESS CRIME

“The Internet is no longer a niche technology – it is mass media and an utterly integral part of modern life.”³ According to a 2008 survey by the Nielsen Company, over 85% of the world’s online population has made an Internet purchase, marking a 40% increase over the last two years.⁴ Additionally, the Nielsen survey determined over half of Internet users regularly purchase items online and also make a minimum of one purchase per month.⁵ Notably, the number of consumers purchasing clothing, shoes and accessories experienced the highest increase over the two-year period, jumping from 20% to 36%.⁶

The dramatic increase in online shopping for clothing, shoes and accessories has directly coincided with the increase in production of, and demand for, counterfeit luxury goods. Since 1993, counterfeiting of all goods from luxury items to DVDs to pharmaceuticals has increased 1,700%.⁷ The International Anti-Counterfeiting Coalition (“IACC”), based in Washington, D.C., estimated up to 7% of global trade, or \$600 billion, is counterfeit.⁸ “[C]ounterfeiting costs American businesses \$200 billion to \$250 billion annually and is directly responsible for the loss or more than 750,000 jobs in the United States.”⁹

³ THE NIELSEN COMPANY, TRENDS IN ONLINE SHOPPING: A GLOBAL NIELSEN CONSUMER REPORT 1 (Feb. 2008), available at <http://th.nielsen.com/site/documents/GlobalOnlineShoppingReportFeb08.pdf> (statement of Jonathan Carson, President of Nielsen International Online).

⁴ *Id.*

⁵ *Id.*

⁶ *Id.* at 3.

⁷ DANA THOMAS, DELUXE: HOW LUXURY LOST ITS LUSTER 274 (2007) [hereinafter THOMAS, DELUXE] (citing statistics generated by Indicam, an anti-counterfeiting coalition based in Italy).

⁸ *Id.*

⁹ Dana Thomas, *The Fake Trade*, HARPER’S BAZAAR, Jan. 1, 2008, at 71, available at http://fakesareneverinfashion.com/shops_flip_popup_v2.asp?xml=content/flippers/bazo8/2008/pages.xml&tit=2008.

While every product under the sun is counterfeited, luxury fashion is one of the most popular, because luxury fashion is simple and inexpensive to duplicate, and even easier to market.¹⁰ Furthermore, people actually want to purchase counterfeit luxury items.¹¹ “[T]he reach and anonymity of the Internet have made it easy for auctioneers, B2B exchanges, general eCommerce sites, spammers, and others to sell counterfeit products globally.”¹² Indeed, according to International Anti-Counterfeiting Coalition (“IACC”) reports, “counterfeiting has increased over 10,000% in the last 20 years, from an estimated \$5 billion annually in the early 1980s to \$600 billion today.”¹³ Internet sales of counterfeit goods accounts for more than 5 to 7% of total global counterfeiting trade.¹⁴

Despite the increasing demand for counterfeit luxury merchandise, what many Americans do not understand is that the buying and selling of counterfeit luxury products is not a victimless crime. In fact, the high demand for counterfeit merchandise has expanded the counterfeit trade into a global industry controlled by “violent crime syndicates that also deal in narcotics, weapons, child prostitution, human trafficking, and terrorism.”¹⁵ Dana Thomas, author and writer for Newsweek, explained what she witnessed during a raid of a Chinese sweatshop where counterfeit luxury goods were produced:

No one utter[ed] a word, not a sound, as I recall the raid that went on with Chinese police in a tenement in Guangzhou and what we discovered

¹⁰ THOMAS, DELUXE, *supra* note 7, at 275.

¹¹ *Id.*

¹² *Luxury Goods Manufacturer Blocks Auctions of Counterfeits Totalling \$6 Million Annually*, MARKMONITOR.COM, 2 (2009), http://www.markmonitor.com/download/cs/cs_luxurygoods.pdf.

¹³ *Id.*

¹⁴ *The Spread of Counterfeiting: Knock-offs Catch On*, ECONOMIST, Mar. 6, 2010, at 91, available at http://www.economist.com/node/15610089?story_id=E1_TVGTDDRJ.

¹⁵ THOMAS, DELUXE, *supra* note 7, at 275.

when we walked in: two dozen sad, tired, dirty children, ages 8 to 14, making fake Dunhill, Versace, and Hugo Boss handbags on old, rusty sewing machines. It was like something out of Dickens, *Oliver Twist* in the 21st Century.¹⁶

Still, another investigator described his horrific experience encountered during a sweatshop raid:

I remember walking into an assembly plant in Thailand a couple of years ago and seeing six or seven little children, all under ten years old, sitting on the floor assembling counterfeit leather handbags. . . . The owners had broken the children's legs and tied the lower leg to the thigh so the bones wouldn't mend. [The owners] did it because the children said they wanted to go outside and play.¹⁷

Special Agent Robert Schoch, head of the Los Angeles bureau of the U.S. Immigration and Customs Enforcement Office of Investigation cautioned, "[n]o one should think of piracy and counterfeiting as minor crimes. . . . In today's world, [pirates and counterfeits] pose a serious threat to public safety and the economy."¹⁸ According to the IACC, the FBI believes the terrorists responsible for the 1993 World Trade Center bombing were financed by the sale of counterfeit clothing out of New York.¹⁹ Moreover, according to a United Kingdom based anti-counterfeiting group, one of the suspects in the 2004 Madrid train bombings is a known counterfeiter.²⁰ Furthermore, profits

¹⁶ Dana Thomas, *The Fight Against Fakes; Child Labor, Terrorism, Human Trafficking: Buying Counterfeit Designer Goods is Hardly Harmless*, HARPER'S BAZAAR, Jan. 1, 2009, at 69, available at http://www.harpersbazaar.com/magazine/feature-articles/the-fight-against-fakes-0109_?click=main_sr [hereinafter Thomas, *Fight Against Fakes*].

¹⁷ THOMAS, DELUXE, *supra* note 7, at 288.

¹⁸ Thomas, *Fight Against Fakes*, *supra* note 16.

¹⁹ THOMAS, DELUXE, *supra* note 7, at 275.

²⁰ *Id.* at 275-76.

from counterfeit products have extended to Hezbollah, various paramilitary groups in Northern Ireland, and Colombia's chief rebel army, FARC.²¹

Investigators have further linked counterfeiting with the attacks on September 11, 2001.²² Al Qaida training manuals that have been discovered reveal the terrorist organization advocates the sale of counterfeit merchandise as a method of raising capital to support Al Qaida.²³ One week after the September 11, 2001 attacks, "fifteen hundred counterfeit vender stalls – some purportedly owned and operated by al-Qaeda – at the Tri-Border Market in South America, where \$70 million of business is done in cash every day, closed shop."²⁴ Moreover, during a 2002 raid of a midtown Manhattan luggage shop that sold counterfeit luxury handbags, and was operated by a man of Middle Eastern descent, New York security expert Andrew Oberfeldt retrieved a flight manual and simulator program along with a reproduction of the technical schematics of a bridge.²⁵ Two weeks after the luggage shop raid, New Jersey police investigated an assault on a Lebanese member of an organized crime syndicate.²⁶ While searching this man's apartment, "authorities found fake drivers licenses and lists of suspected Al Qaeda terrorists – including the names of some workers in the handbag shop that had been raided."²⁷

Additionally, a raid of a midtown Manhattan souvenir shop uncovered a suitcase filled with counterfeit luxury watches and further revealed flight manuals for Boeing 767s with

²¹ *Id.* at 275.

²² *Id.* at 276.

²³ Int'l Counterfeiting Coal., *Facts on Fakes*, FERMILAB, 7, http://www.fnal.gov/directorate/OQBP/sci/sci_reference_docs/SCI%20Facts_on_fakes.pdf (last visited Apr. 14, 2011) [hereinafter *Facts on Fakes*].

²⁴ THOMAS, DELUXE, *supra* note 7, at 276.

²⁵ *Id.*

²⁶ *Facts on Fakes*, *supra* note 23, at 6.

²⁷ *Id.*

handwritten Arabic notes.²⁸ Magnus Ranstorp, former director for the Centre of the Study of Terrorism and Political Violence at the University of St. Andrews in Scotland explained, “[p]rofits from counterfeiting are one of the three main sources of income supporting international terrorism.”²⁹ Counterfeiting’s popularity with criminals and terrorists is perhaps attributed to “its low risks and high rewards.”³⁰ Hoping to dispel the myth that counterfeiting is a victimless crime, Senator Joseph Lieberman testified:

This evidence puts the lie to what I think is a commonly held belief that the trade of counterfeit goods is a victimless crime. If anyone suffers, it’s only a few people at the top of big corporations.

That is not true. . . . [P]rofits from counterfeit sales are used to finance terrorist activities, and this is anything but a victimless crime. This is a crime that finances random murder around the world, including, needless to say, the murder of Americans.³¹

While the demand for counterfeit products continues to rise, so too does the counterfeit industry’s effect on global criminal activity. The availability of these counterfeit products over the Internet, coupled with the minimal risks associated with selling these goods, mandates a larger spectrum of liability for ISPs that host websites that sell these items.

²⁸ *Id.*

²⁹ THOMAS, DELUXE, *supra* note 7, at 276.

³⁰ *Counterfeit Goods: Easy Cash for Criminals and Terrorists: Hearing Before the S. Comm. on Homeland Sec. & Gov’t Affairs*, 109th Cong. 3-4 (2005) (statement of Sen. Joseph Lieberman, Member, S. Comm. on Homeland Sec. & Gov’t Affairs).

³¹ *Id.* at 4.

CONTRIBUTORY COPYRIGHT INFRINGEMENT GENERALLY

“Contributory infringement originates in tort law and stems from the notion that one who directly contributes to another’s infringement should be held accountable.”³² “In other words, the common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor, is applicable under copyright law.”³³ Thus, “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a ‘contributory’ infringer.”³⁴ “Contributory copyright infringement is a form of secondary liability with roots in the tort-law concepts of enterprise liability and imputed intent.”³⁵ Contributory copyright liability will be found if a defendant: (1) had *knowledge* about a third party’s infringing acts and (2) “induces, causes, or *materially contributes* to the infringing conduct.”³⁶

First, knowledge may be actual or constructive. Actual knowledge is found when a defendant’s conduct or statements demonstrate knowledge of specific instances of direct infringement.³⁷ Constructive knowledge is found if evidence demonstrates a defendant should have known about the direct infringement.³⁸ Ordinarily, “the copyright holder must ‘provide

³² *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (further citation omitted).

³³ *Id.* (further citation and internal quotation omitted).

³⁴ *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (footnote omitted).

³⁵ *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 794-95 (9th Cir. 2007).

³⁶ *Gershwin*, 443 F.2d at 1162 (emphasis added) (footnote omitted).

³⁷ *See A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 (9th Cir. 2001).

³⁸ *See id.*

the necessary documentation to show there is likely infringement.”³⁹

Second, the Supreme Court of the United States has explained “inducement” exists if a defendant “infringes contributorily by intentionally inducing or encouraging direct infringement.”⁴⁰ Material contribution is found if a defendant “engages in ‘personal conduct that encourages or assists the infringement.’”⁴¹ Thus, knowingly supplying the “site and facilities” that enable the infringement to occur is a material contribution.⁴² In the Internet context, if “a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement.”⁴³ In *A & M Records v. Napster*, the United States Court of Appeals for the Ninth Circuit found material contribution when the defendant operated file-sharing software that enabled users to exchange copyrighted music files.⁴⁴ Computer system operators will be liable if the operators knew particular infringing materials existed on their systems and were able to take “simple measures” to prevent the infringement, yet continued to provide access to the infringing materials.⁴⁵

³⁹ *Id.* at 1021 (quoting *Religious Tech. Ctr. v. Netcom On-Line Comm’n Servs., Inc.*, 907 F. Supp. 1361, 1374 (N.D. Cal. 1995)).

⁴⁰ *Metro-Goldwin-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005) (citing *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

⁴¹ *Napster*, 239 F.3d at 1019 (quoting *Matthew Bender & Co v. West Publ’g Co.*, 158 F.3d 693, 706 (2d Cir. 1998)).

⁴² *See Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996).

⁴³ *Napster*, 239 F.3d at 1021 (citing *Netcom*, 907 F. Supp. at 1384).

⁴⁴ *Id.* at 1022.

⁴⁵ *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 797 (9th Cir. 2007) (further citation and internal quotation omitted).

CONTRIBUTORY TRADEMARK INFRINGEMENT GENERALLY

Though proving secondary copyright infringement may be an onerous task, proving secondary trademark infringement can often be even more difficult.⁴⁶ In order to prove contributory trademark infringement, a plaintiff must show a defendant “(1) ‘intentionally induced’ the primary infringer to infringe, or (2) continued to supply an infringing product to an infringer with knowledge that the infringer is mislabeling the particular product supplied.”⁴⁷ In *Inwood Labs, Inc. v. Ives Labs, Inc.*, the Supreme Court of the United States explained, if a defendant “[1] intentionally induces another to infringe a trademark, or [2] if [a defendant] continues to supply its product to one whom it *knows or has reason to know* is engaging in trademark infringement, the manufacturer or distributor is contributorially responsible for any harm done as a result of the deceit.”⁴⁸

Inwood concerned a trademark violation claim brought by Ives Laboratories (“Ives”), a prescription drug manufacturer against numerous generic drug manufacturers.⁴⁹ Ives manufactured a patented prescription drug and sold it to wholesalers in the form of a colored capsule with the registered trademark, CYCLOPLASMOL.⁵⁰ When Ives’ patent expired on CYCLOPLASMOL, many generic drug manufacturers advertised the drug and intentionally copied the CYCLOPLASMOL capsule’s appearance.⁵¹

Ives brought suit in federal district court claiming that some pharmacists distributed generic drugs that were labeled as

⁴⁶ *Id.* at 806 (further citation omitted).

⁴⁷ *Id.* at 807 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 855 (1982)).

⁴⁸ *Inwood*, 456 U.S. at 854 (emphasis added).

⁴⁹ *Id.* at 846-47.

⁵⁰ *Id.*

⁵¹ *Id.* at 847.

CYCLOPLASMOL.⁵² Ives did not contend that the generic manufacturers themselves mislabeled the generic drugs, but asserted the generic manufacturers' knowledge of the drugs, their prices, and their colors constituted contribution to the infringing activity.⁵³ In its decision, the Supreme Court affirmed the principle that "liability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another."⁵⁴ The Supreme Court explained, "[e]ven if a manufacturer does not directly control others in the chain of distribution, it can be held responsible for their infringing activities under certain circumstances."⁵⁵

The two prong *Inwood* test has been adopted and followed by numerous courts.⁵⁶ The *Inwood* test has extended beyond the manufacturing context to include individuals that did not supply a product, but provided a service.⁵⁷ The *Inwood* test has been held to apply whether the manufacturer or distributor provides a component for an infringer's product, or a service, like a plot at a flea market where the infringer can sell his infringing goods.⁵⁸

While the *Inwood* test mandates either intentional inducement or continued sale of an infringing product, the Ninth Circuit has adopted a less restrictive rule regarding the provision of services.⁵⁹ For example, in *Lockheed*, the Ninth

⁵² *Id.* at 849-50.

⁵³ *Id.* at 850.

⁵⁴ *Inwood*, 456 U.S. at 853.

⁵⁵ *Id.* at 853-54.

⁵⁶ See, e.g., *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007); *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 64 (2d Cir. 1992); *David Berg & Co. v. Gatto Int'l Trading Co.*, 884 F.2d 306, 311 (7th Cir. 1989).

⁵⁷ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) (finding the *Inwood* test may be applied to Internet with evidence of monitoring and control); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148-49 (7th Cir. 1992) (holding the *Inwood* test applies to landlords and licensors).

⁵⁸ *Hard Rock Cafe*, 955 F.2d at 1148-49.

⁵⁹ See, e.g., *Lockheed*, 194 F.3d at 983-84.

Circuit held while an ISP did not furnish a “product” to infringing third parties, the court should “consider the extent of control exercised by the defendant over the third party’s means of infringement” to determine if actual or constructive knowledge on the part of the third party gave rise to contributory liability.⁶⁰ Thus, when a defendant provides a service rather than a product, a plaintiff may base its contributory trademark infringement claim on the “extent of control” or “intentional inducement” exercised by the defendant.⁶¹

LOUIS VUITTON MALLETIER, S.A. V. AKANOC SOLUTIONS, INC.

In the United States, courts have consistently refused to hold ISPs liable for contributory copyright and trademark infringement.⁶² However, *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.* marked the first time contributory copyright and trademark infringement was placed before a jury,⁶³ and eight jurors out of the Northern District of California found two ISPs liable for \$32.4 million in damages to French luxury retailer Louis Vuitton.⁶⁴

Plaintiff, LV, is a well-known “French corporation that is the sole and exclusive distributor of luxury merchandise, including a variety of handbags and other goods.”⁶⁵ LV owns

⁶⁰ *Id.* at 984.

⁶¹ *See id.*

⁶² *See, e.g.,* Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 470 (S.D.N.Y. 2008), *aff’d in part, rev’d in part*, 600 F.3d 93 (2d Cir. 2010) (remanding plaintiff’s false advertising claim).

⁶³ *See* Tresa Baldas, *Add Knockoff Handbags to Web hosts’ woes; Louis Vuitton Proves Juries Will Pay Out Millions for Contributory Infringement – With the Right Facts*, NATIONAL LAW JOURNAL, Sept. 28, 2009, at 4, available at <http://www.law.com/jsp/cc/PubArticleCC.jsp?id=1202434171490>.

⁶⁴ Verdict, *supra* note 2, at 9, 13.

⁶⁵ *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 591 F. Supp. 2d 1098, 1102 (N.D. Cal. 2008).

numerous trademarks and copyrights related to these products,⁶⁶ and is most famous for its goods that display a characteristic “LV” trademark.⁶⁷ Defendants, Akanoc Solutions, Inc. (“Akanoc”) and Managed Solutions Group, Inc. (“MSGI”) are ISPs that supply Internet Protocol (“IP”) addresses that connect Internet “traffic to websites and servers that store internet content and allow the content to be accessed through the internet.”⁶⁸ A third defendant, Steven Chen owned and operated both Akanoc and MSGI.⁶⁹

In 2006, LV discovered over seventy websites hosted by defendants that LV alleged were selling goods that infringed both its copyrights and trademarks.⁷⁰ The vast array of websites that boasted names such as HandBagSell.com, Ilouisvuitton.com, luxury2us.com, LVBagz.com and Louisvuitton-bags.org, all offered, promoted, advertized and facilitated the sale of unauthorized reproductions of LV merchandise.⁷¹ The latter website touted, “[w]e offer[] louis vuitton replica handbags & replica louis vuitton bag [sic], no one will know that they are not the original Louis Vuitton purse.”⁷² LV did not grant defendants license to use or exploit any of the company’s intellectual property.⁷³

LV sent defendants several notices and requests for the websites to be taken down from defendants’ servers.⁷⁴ LV had

⁶⁶ *Id.*

⁶⁷ First Amended Complaint for: Contributory and Vicarious Trademark Infringement; Contributory and Vicarious Copyright Infringement at 3, *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 591 F. Supp. 2d 1098 (N.D. Cal. 2008) (No. C07-3952 JW) [hereinafter Amended Complaint].

⁶⁸ *Louis Vuitton*, 591 F. Supp. 2d at 1102.

⁶⁹ Amended Complaint, *supra* note 67, at 10.

⁷⁰ *Id.* at 10-11; *Louis Vuitton*, 591 F. Supp. 2d at 1103.

⁷¹ *See* Amended Complaint, *supra* note 67, at 10-11.

⁷² Baldas, *supra* note 63.

⁷³ *See* Amended Complaint, *supra* note 67, at 11.

⁷⁴ *Louis Vuitton*, 591 F. Supp. 2d at 1103.

“documentary evidence that demonstrated that [Defendants] had a better idea of what was going on than they were letting on,” explained LV counsel, J. Andrew Coombs.⁷⁵ The evidence included internal e-mails that defendants exchanged with the infringing websites.⁷⁶ Moreover, Coombs explained defendants, “had a policy that they just didn’t enforce.”⁷⁷ On its website, defendant Akanoc boasted that it helped Chinese businesses access United States consumers and claimed it had an “Acceptable Use Policy,” which prohibited misappropriation or infringement of “the patents, copyrights, trademarks or other intellectual property rights of any third party.”⁷⁸

Despite its numerous requests, LV noticed defendants failed to remove the websites and observed some were moved to different IP addresses owned by defendants.⁷⁹ Moreover, LV learned defendants generated revenue and profit from both the Internet traffic and counterfeit sales related to their hosting activity.⁸⁰ Furthermore, following its requests, LV purchased products from defendants’ websites and all of the items were sent with a return address from China.⁸¹ After analyzing the products it purchased from defendants’ websites, LV determined each item was a counterfeit replica of an LV product that infringed upon LV’s trademarks and copyrights.⁸²

LV brought suit in the United States District Court for the Northern District of California alleging (1) contributory trademark infringement; (2) vicarious trademark infringement; (3) contributory copyright infringement; and (4) vicarious

⁷⁵ Baldas, *supra* note 63.

⁷⁶ *Id.*

⁷⁷ *Id.*

⁷⁸ *Id.* (internal quotation omitted).

⁷⁹ *Louis Vuitton*, 591 F. Supp. 2d at 1103.

⁸⁰ See Amended Complaint, *supra* note 67, at 11.

⁸¹ *Louis Vuitton*, 591 F. Supp. 2d at 1103.

⁸² *Id.*

copyright infringement.⁸³ The district court granted defendants' motion for summary judgment on the vicarious infringement claims, yet denied summary judgment regarding LV's contributory infringement claims.⁸⁴ In doing so, the district court found evidence that demonstrated defendants had *actual knowledge* of the infringing websites.⁸⁵

At trial, defendants argued the safe harbor provisions of the Digital Millennium Copyright Act⁸⁶ ("DMCA") shielded them from liability.⁸⁷ DMCA states that ISPs whose services are used for infringing purposes are immune from legal liability from such activities when the ISPs develop and adopt a *notice and takedown* procedure to respond to complaints and promptly remove infringing material.⁸⁸ However, an ISP will not be shielded if it is "aware of facts or circumstances from which infringing activity is apparent" or if it "receive[d] a financial benefit directly attributable to the infringing activity."⁸⁹

Following a trial on the merits, eight jurors found all three defendants liable for both contributory copyright and trademark infringement.⁹⁰ The jury determined LV repeatedly notified defendants about the infringing activities; therefore defendants *knew or should have known* that individuals used their services to infringe LV's intellectual property.⁹¹ Moreover, the jury determined that rather than attempting to appease the problem by shutting down the infringing websites, defendants

⁸³*Id.*

⁸⁴ *Id.* at 1106-13.

⁸⁵ *Id.* at 1111.

⁸⁶ Digital Millennium Copyright Act, 17 U.S.C.A. §§ 512(a)-(n) (West, Westlaw through P.L. 112-3).

⁸⁷ *See* Verdict, *supra* note 2, at 11-12.

⁸⁸ *See* 17 U.S.C.A. § 512(c)(1).

⁸⁹ *Id.*

⁹⁰ Verdict, *supra* note 2, at 7, 11.

⁹¹ *Id.* at 7, 10 (emphasis added).

repeatedly ignored LV's notifications and continued to provide the services, which contributed to the damages suffered by LV.⁹² To calculate damages, the jury found defendants acted "willfully," and awarded LV \$31.5 million and \$900,000 for its contributory trademark and contributory copyright claims, respectively.⁹³

In a press release following the verdict, LV's Intellectual Property Director, Nathalie Moullé-Berteaux explained, "[t]he size of this award should make it clear to all Internet Service Providers that they cannot act, or fail to act, with impunity when a trademark owner provides notice that websites hosted by the ISP are selling counterfeit goods."⁹⁴ Moullé-Berteaux added that "the size of the damages awarded should serve as a deterrent to other ISPs who may consider ignoring counterfeit trade on the websites they host."⁹⁵ Coombs further explained, "[t]his verdict clearly establishes a standard for infringement complaints on the Internet based on trademark. It represents a positive contribution to existing case law and marks the first time statutory damages have been awarded against those found contributorily liable for trademark [and copyright] infringement."⁹⁶

CIRCUIT SPLIT REGARDING ISP LIABILITY

The *Louis Vuitton* verdict appears to expand contributory liability in the Ninth Circuit. The Ninth Circuit previously extended contributory copyright and trademark infringement to flea market and swap-meet operators who were aware their

⁹² *Id.*

⁹³ *Id.* at 9, 13.

⁹⁴ Press Release, Louis Vuitton, Louis Vuitton Awarded \$32.4 Million in Damages in Lawsuit Against Web Host of Sites That Sell Counterfeit Merchandise (Aug. 31, 2009), available at <http://www.businesswire.com/news/home/20090831005724/en/Louis-Vuitton-Awarded-32.4-Million-Damages-Lawsuit>.

⁹⁵ *Id.*

⁹⁶ *Id.*

vendors sold counterfeit wares.⁹⁷ In *Fonovisa v. Cherry Auctions*, plaintiffs, who owned copyrights and trademarks for various Latin and Hispanic music recordings, brought suit against defendants who owned and operated a swap meet.⁹⁸ A swap meet, akin to a flea market, rents space to numerous vendors to sell their products.⁹⁹ Plaintiffs filed suit against defendants for contributory copyright and trademark infringement for permitting their vendors to sell counterfeit recordings of plaintiffs' music.¹⁰⁰ The Ninth Circuit had "little difficulty" finding the plaintiffs' allegations were sufficient "to show material contribution to the infringing activity."¹⁰¹ The court noted, "it would be difficult for the infringing activity to take place . . . without the support services provided by the swap meet. These services include[d], *inter alia*, the provision of space, utilities, parking, advertising, plumbing, and customers."¹⁰²

Analogously, the United States Court of Appeals for the Seventh Circuit has also extended contributory liability to flea market operators. In *Hard Rock Café Licensing Corp. v. Concessions Services*, the Seventh Circuit applied the *Inwood* test for contributory trademark liability to the owner of a flea market.¹⁰³ The Seventh Circuit found no evidence the flea market operators had actual knowledge of the infringing products, yet still determined the owners could still be contributorily liable if it was found that the flea market was "willfully blind" to the violations.¹⁰⁴ The Seventh Circuit

⁹⁷ See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996).

⁹⁸ *Id.* at 261.

⁹⁹ *Id.*

¹⁰⁰ *Id.*

¹⁰¹ *Id.* at 264.

¹⁰² *Id.*

¹⁰³ *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148-50 (7th Cir. 1992).

¹⁰⁴ *Id.* at 1149.

observed that courts acknowledge a company can be “responsible for the torts of those it permits on its premises ‘knowing or having reason to know that the other is acting or will act tortiously. . . .’”¹⁰⁵

Nevertheless, prior to the *Louis Vuitton* verdict, ISPs have been generally shielded from liability through DMCA’s safe harbor provision. In fact, before *Louis Vuitton*, no court had held an ISP liable for contributory trademark or contributory copyright infringement where consumers utilized the ISP to sell counterfeit products. Notably, following a July 2008 bench trial, the United States District Court for the Southern District of New York determined that Internet marketplace eBay was not liable for contributory trademark infringement when eBay’s vendors sold counterfeit products through the website.¹⁰⁶

In *Tiffany v. eBay*, luxury jeweler Tiffany alleged eBay was liable for contributory trademark infringement due to the second prong of the *Inwood* test that holds manufacturers or distributors liable for continuing to provide products to one it knows or has reason to know participated in trademark infringement.¹⁰⁷ Moreover, plaintiff, Tiffany, alleged eBay had generalized knowledge about trademark infringing vendors, which mandated the website preemptively shutdown these vendors’ listings as soon as eBay knew or had reason to know of infringing vendors.¹⁰⁸ The court based its determination upon its finding that eBay responded reasonably and sufficiently to Tiffany’s notifications regarding specific infringing products.¹⁰⁹ Accordingly, the court found that this general knowledge was inadequate to impute actual knowledge onto eBay regarding specific vendors’ infringing listings.¹¹⁰

¹⁰⁵ *Id.* (further citation and internal quotation omitted).

¹⁰⁶ *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469-70, 518 (S.D.N.Y. 2008), *aff’d in part, rev’d in part*, 600 F.3d 93 (2d Cir. 2010) (remanding plaintiff’s false advertising claim).

¹⁰⁷ *See id.* at 469 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982)).

¹⁰⁸ *See id.* at 470.

¹⁰⁹ *See id.* at 470, 519.

¹¹⁰ *Id.*

Furthermore, Tiffany asserted that eBay neglected to take reasonable steps to prevent the occurrence of a third party vendor's infringing conduct, and eBay should have "reasonably anticipated" the vendor's infringing conduct.¹¹¹ The Southern District rejected Tiffany's "reasonable anticipation" theory and determined *Inwood* foreclosed that criterion as a source of imposing liability for contributory trademark infringement.¹¹²

The court held it was Tiffany's burden to police its trademark, and ISPs should not bear the burden of contributory liability due only to a generalized knowledge that infringement could be happening on the ISPs' websites.¹¹³ The court further determined eBay was not liable for contributory trademark infringement because eBay ceased providing access to vendors when it knew or had reason to know of those vendors' infringement.¹¹⁴ *Tiffany* currently stands in contrast to the *Louis Vuitton* verdict, as the *Louis Vuitton* jury determined the notification letters LV sent to defendants were adequate evidence to find defendants knew or should have known about the infringing conduct.¹¹⁵ Nonetheless, *Louis Vuitton* and *Tiffany* differ in one substantial respect. In *Tiffany*, defendant, eBay had extensive anti-fraud procedures implemented and answered every notification it received from Tiffany.¹¹⁶ Additionally, eBay investigated and ultimately took down all of the infringing listings.¹¹⁷ Conversely, in *Louis Vuitton*, defendants did not respond to notification letters and neglected to expeditiously take down the websites that sold the infringing products.¹¹⁸

¹¹¹ *See id.* at 502-03.

¹¹² *Tiffany*, 576 F. Supp. 2d at 502-03.

¹¹³ *See id.* at 508.

¹¹⁴ *Id.* at 470, 516-18.

¹¹⁵ Verdict, *supra* note 2, at 7, 10-11.

¹¹⁶ *Tiffany*, 576 F. Supp. 2d at 476.

¹¹⁷ *Id.* at 477.

¹¹⁸ *Louis Vuitton*, 591 F. Supp. 2d at 1108-09.

While ISPs are currently clinging to the *Tiffany* decision, luxury designers are presently holding tight onto the *Louis Vuitton* verdict. The *Louis Vuitton* verdict establishes a useful course for luxury designers to follow when attempting safeguard their brand names and intellectual property from copyright and trademark infringement on the Internet. In the aftermath of the *Louis Vuitton* verdict, intellectual property owners should not only bombard ISPs with notifications regarding infringing conduct, but should also send cease and desist letters to noncompliant ISPs, as these letters may be viewed as evidence of contributory infringement. Additionally, the *Louis Vuitton* verdict further explicates to both ISPs and intellectual property holders alike that the DCMA safe harbor protections are not guaranteed. The *Louis Vuitton* verdict forewarns that by both neglecting to act and by sticking their heads in the sand, an ISP could be held liable for contributory copyright and trademark infringement.

Selling counterfeit luxury merchandise over the Internet is not a victimless crime. The counterfeit luxury industry has vast ties to a slew of criminal activity across the globe. The continued increase in Internet shopping, the vast demand for counterfeit luxury items, and the current minimal liability to individuals who participate in copyright and trademark infringement mandate increased liability for ISPs that knowingly host counterfeiters. Once an ISP has been notified about potential infringing activity on his website and neglects to remove the material, courts should follow the Ninth Circuit's lead and find ISPs contributorily liable for copyright and trademark infringement.