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## From *Inwood* to Internet and Beyond: Assessing the Web Host-User Relationship in Contributory Online Trademark Infringement

Julie Liu

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FROM *INWOOD* TO INTERNET AND BEYOND: ASSESSING  
THE WEB HOST-USER RELATIONSHIP IN CONTRIBUTORY  
ONLINE TRADEMARK INFRINGEMENT

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ABSTRACT

*While courts have created a doctrine of contributory trademark infringement in response to the expansion of goods and services from brick-and-mortar to the Internet, the exact duties of web hosts under the rule are not yet clear. Despite judicial attempts to carve out new standards to define traditional requirements, the application of these standards remains inconsistent and has left unresolved ambiguities. The disparities between the standards may be balanced through an analysis of the affirmative duties imposed by the law on online service providers, as well as a closer look at the relationship between a service provider and user. This Article reexamines the meaning of contributory liability for web hosts in light of their active and passive roles in such relationships, and considers the factors of good (and bad) faith in the conduct of defendants, practicability of affirmative duties, and inherent differences between types of online service providers as potential deciding factors.*

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TABLE OF CONTENTS

Introduction.....	107
I. The Changing Role of OSPs in Trademark Infringement Cases.....	108
II. The Contemporary Elements in Action.....	111
A. The Knowledge Element and Willful Blindness.....	111
B. Additional “Control” and the Dynamic OSP-User Relationship.....	114
III. The Balancing Factors of Good Faith and Practicability.....	118
A. Limiting a Trademark Holder’s Exclusive Rights with “Control”.....	118
B. Potential Benefits to the Service Provider.....	119
C. The Feasibility of Preventative Measures.....	120
D. Recognizing Inherent Differences Between OSPs.....	121
Conclusion.....	122
Practice Pointers.....	123

## INTRODUCTION

In the e-commerce realm, online service providers (“OSPs”) continue to face potential liability for contributory trademark infringement, given the prevalence and profitability of counterfeit goods. As online accessibility to various markets for goods has rapidly increased in the last couple decades, courts have endeavored to stretch the scope of contributory infringement to fit new situations while keeping a limit on the accompanying expansion of property rights. Under the Lanham Act, a contributory trademark infringement claim requires showing that the defendant has “suppl[ied] its product or service to identified individuals that it knows or has reason to know are engaging in trademark infringement.”<sup>1</sup> The elements of contributory trademark infringement are codified to some degree within the statute, but as of today, the doctrine remains a creature of common law, with discretion largely allocated to the courts.<sup>2</sup>

The unique nature of the relationship between web hosts and web users has presented certain complications in finding the “correct” standard. The interpretation of the test for contributory trademark infringement ultimately determines how much of the burden OSPs and trademark owners respectively carry in monitoring trademark infringement in online venues. Thus, a clear formulation of the standard and how to account for real-world and legal inconsistencies is necessary.

This Article attempts to define the present scope of online contributory liability by reconciling conflicting standards presented in the case law, focusing specifically on the “knowledge” and “control” requirements in the context of relationships between OSPs and users. Part I reviews the evolution of contributory trademark infringement standards. Part II analyzes the nuanced role(s) of the defendant web host under current judicial

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<sup>1</sup> Lanham Act § 32(a), 15 U.S.C. § 1114(a) (2005).

<sup>2</sup> Deborah F. Buckman, *Liability as Vicarious or Contributory Infringer under Lanham Act—Modern Cases*, 152 A.L.R. FED. 573 (1999) (outlining notable federal cases on secondary liability for trademark infringement).

interpretations of the rule. Part III addresses remaining ambiguities by identifying three main balancing factors: (a) limitations on exclusive rights, (b) indications of a defendant's good faith, and (c) the specific nature of a defendant's services.

#### I. THE CHANGING ROLE OF OSPs IN TRADEMARK INFRINGEMENT CASES

In intellectual property law, liability for contributory infringement may extend to defendants even though they have not themselves infringed the protected creation. The test for contributory trademark infringement is harder to satisfy than its counterparts in copyright and patent law.<sup>3</sup> But the basic principles are the same: if a plaintiff can support an underlying claim of direct infringement by one party, he may further assign contributory liability to a third party who has “knowingly encourage[d] or facilitate[d] illegal and tortious activity.”<sup>4</sup>

The doctrine of contributory trademark infringement is overall a judicial construction “derive[d] from the common law of torts.”<sup>5</sup> In one of the earliest formulations of the standard, the Supreme Court in *William R. Warner & Co. v. Eli Lilly & Co.* held liable the manufacturer of the pharmaceutical product “Quin-Coco,” whose salesmen attempted to convince druggists that orders for the product Coco-Quinine could be filled with Quin-Coco more cheaply and without risking detection.<sup>6</sup> The Court condemned the unfair advantage gained from passing off one product as another.<sup>7</sup> However, it emphasized that “[o]ne who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury.”<sup>8</sup> Thus *Eli Lilly* introduced the foundational elements of inducement and providing the means

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<sup>3</sup> See 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:17 (4th ed. 2014) (noting that various courts have inferred this comparison from the Supreme Court's discussion in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984)).

<sup>4</sup> *Id.*

<sup>5</sup> *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 103 (2d Cir. 2010).

<sup>6</sup> See *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924).

<sup>7</sup> See *id.* at 532.

<sup>8</sup> *Id.* at 530–31.

to infringe in the context of unfair competition.

In *Inwood Labs, Inc. v. Ives Labs, Inc.*, the Supreme Court first laid out the test for contributory trademark infringement:

[I]f a manufacturer or distributor [sic] intentionally induces another to infringe a trademark, or if it 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.<sup>9</sup>

Thus the two main factors under the *Inwood* standard are inducement, or, alternatively, a knowledge standard of *knowing* or *having reason to know*.

Originally framed to fit the manufacturer-distributor relationship, the *Inwood* standard has since been adapted for other types of relationships which possess the requisite inducement and knowledge elements. In *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, the Seventh Circuit declared the standard applicable to landlord-tenant and licensor-licensee relationships,<sup>10</sup> recognizing that a major issue was whether the defendant flea market operator was in a position to suspect and investigate the sale of counterfeit items on the premises.<sup>11</sup> This holding introduced the rule that where a third party passively permits the infringing activities, “willful blindness” may support a finding of actual knowledge for the purposes of contributory liability. Similarly, in *Fonovisa, Inc. v. Cherry Auction, Inc.*, the Ninth Circuit extended the scope of *Inwood* to a swap meet operator, noting that “[t]he Court in *Inwood* . . . laid down no limiting principle that would require defendant to be a manufacturer or distributor.”<sup>12</sup> Beginning with these cases, courts

<sup>9</sup> *Inwood Labs, Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

<sup>10</sup> *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

<sup>11</sup> *See id.* at 1152.

<sup>12</sup> *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996).

expanded the application of *Inwood* to a new class of defendants: service providers.<sup>13</sup>

Applying the *Inwood* standard to online service providers has been more complicated. In *Lockheed Martin Corp. v. Network Solutions, Inc.*, the Ninth Circuit modified the standard for application to OSPs, adding a new requirement of monitoring or control on the part of the OSP. Specifically, the plaintiff must show “[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff’s mark.”<sup>14</sup> The court found that a registrar of Internet domain names lacked such control over the infringing use of domain names because the registering service merely handled the registration process and did not itself supply the domain name combinations.<sup>15</sup>

The Ninth Circuit continues to apply this modified *Lockheed* standard to other types of OSPs, such as web hosts for sales of goods<sup>16</sup> or payment processing services.<sup>17</sup>

However, a number of courts including the Second Circuit and district courts in the Sixth and Ninth Circuits have applied the original *Inwood* formulation to OSPs in a variety of contexts: online auction sites,<sup>18</sup> websites that host online transactions for the sale of goods,<sup>19</sup> and providers of email addresses.<sup>20</sup>

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<sup>13</sup> See, e.g., *Coach, Inc. v. Goodfellow*, 717 F.3d 498, 503 (6th Cir. 2013) (relying on *Hard Rock Cafe* and *Fonovisa* to apply *Inwood* to a service which rented booths and storage units to vendors).

<sup>14</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999).

<sup>15</sup> See *id.*

<sup>16</sup> See, e.g., *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 658 F.3d 936, 942 (9th Cir. 2011) (noting that the *Lockheed* test of “direct control and monitoring” applied where defendants provided a website-hosting service).

<sup>17</sup> See, e.g., *Perfect 10, Inc. v. Visa Intern. Serv. Ass’n*, 494 F.3d 788, 807 (9th Cir. 2007) (applying *Lockheed* as an “extension” of *Inwood* to bank associations which processed credit card payments to websites with infringing material).

<sup>18</sup> See, e.g., *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010).

<sup>19</sup> See, e.g., *Chloe SAS v. Sawabeh Info. Servs. Co.*, No. CV 11-04147 GAF (MANx), 2014 WL 4402218, at \*6, \*22 (C.D. Cal. Sept. 5, 2014) (finding implied intent under the *Inwood* standard against online companies which established a “haven” for counterfeiting of luxury brands).

<sup>20</sup> See, e.g., *W.W. Williams Co. v. Google, Inc.*, No. 2:13-cv-713, 2013

To better understand the significance of this divergence, it is important to examine the core elements of these standards.

## II. THE CONTEMPORARY ELEMENTS IN ACTION

To satisfy the *Inwood* standard, a plaintiff can show inducement of the infringing activity or the defendant's possession of a requisite level of knowledge.<sup>21</sup> Whereas the requirement of "knowledge" targets OSPs which do no more than "turn a blind eye" to infringement, the control element of the *Lockheed* standard introduces a more complicated question about the overall relationship between the OSP and the infringer.

Because much uncertainty in the case law lies in determining what the knowledge requirement entails,<sup>22</sup> the following discussion will examine the element and its relationship to the control element. This section will focus mainly on the Second, Fourth, and Ninth Circuits as having produced notably conflicting standards.

### A. *The Knowledge Element and Willful Blindness*

The knowledge element targets behavior that "designedly enabl[es]" infringing activity<sup>23</sup>—which can include both passive and active conduct. Courts tend to illustrate this element in terms of what it is not. In *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010) (*Tiffany II*), the Second Circuit held that general notice of infringement provided to the online auction site eBay was not enough to satisfy *Inwood*.<sup>24</sup> Rather, the service provider would

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WL 3812079, \*8–9 (S.D. Ohio July 22, 2013) (classifying email accounts as services, and applying *Inwood* to Google as a service provider).

<sup>21</sup> See *Inwood Labs, Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

<sup>22</sup> Rebecca Dunlevy, *Internet Immunity: The Limits of Contributory Trademark Infringement Against Online Service Providers*, 22 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 927, 950 (2012) (noting that a split in the tests used by the courts has resulted in differing standards for the level of knowledge required).

<sup>23</sup> *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530 (1924).

<sup>24</sup> See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 107 (2d Cir. 2010).



need to have specific knowledge of individual acts of infringement, such as the identities of particular infringing sellers.<sup>25</sup> While this approach points to a threshold level of knowledge, the only guiding interpretation of “specific knowledge” it provides is “contemporary knowledge of which particular listings are infringing or will infringe in the future.”<sup>26</sup> The key distinction between passable “specific knowledge” and insufficient “general knowledge” is the knowledge of particular infringement, as opposed to background knowledge that infringement is happening.

The Restatement (Third) of Unfair Competition puts forth an alternate test, which extends contributory liability to defendants who fail to take reasonable precautions against the infringing activity where the infringement can be “reasonably anticipated.”<sup>27</sup> However, courts have favored *Inwood* over this relaxed standard—the District Court for the Southern District of New York explicitly rejected such a relaxed standard in *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008) (*Tiffany I*).<sup>28</sup> This further suggests that the knowledge element requires something more than general knowledge.

In practice, the knowledge element provides a mechanism to account for more passive forms of contributorily infringing conduct. The Second Circuit and Seventh Circuit have expressly indicated that “willful blindness,” defined as the deliberate failure to investigate suspected wrongdoing,<sup>29</sup> is an alternative way to satisfy the element.<sup>30</sup> Under this standard, intent to facilitate infringement may be inferred from the defendant’s knowing actions (or non-actions), such as the willful establishment of

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<sup>25</sup> See *id.* at 109.

<sup>26</sup> *Id.* at 107.

<sup>27</sup> RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995).

<sup>28</sup> See *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 510 (S.D.N.Y. 2008) (“[N]either precedent nor policy supports Tiffany’s contention that generalized allegations of infringement provide defendants with knowledge or a reason to know of the infringement.”).

<sup>29</sup> See *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

<sup>30</sup> See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 109 (2d Cir. 2010); *Hard Rock Cafe*, 955 F.2d at 1148.

business conditions that are highly conducive to infringement.<sup>31</sup> In *Hard Rock Cafe*, the Seventh Circuit noted that in applying the “willful blindness” approach, the district court should have focused more on the defendant’s state of mind and less on its external conduct (i.e., the defendant’s failure to take precautions against infringing activity).<sup>32</sup> However, plaintiffs need not prove express intent.<sup>33</sup>

Overall, the knowledge element creates a threshold for determining when a defendant should have taken affirmative action against the infringement. Such action includes taking reasonable corrective measures against individual instances of infringement when notified.<sup>34</sup> The Second Circuit held that eBay could not be expected to police trademark infringement on its site. The court found that eBay’s corrective measures were satisfactory, having dealt with the specific instances of infringement actually brought to its attention.<sup>35</sup> The Seventh Circuit was also careful to point out

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<sup>31</sup> See *Chloe SAS v. Sawabeh Info. Servs. Co.*, No. CV 11-04147 GAF (MaNx), 2014 WL 4402218, at \*22 (C.D. Cal. Sept. 5, 2014) (finding that defendants’ actual awareness of each infringement did not matter where defendants had “deliberately established a haven for trademark infringement and counterfeiting”).

<sup>32</sup> See *Hard Rock Cafe*, 955 F.2d at 1149.

<sup>33</sup> See, e.g., *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 658 F.3d 936, 943 (9th Cir. 2011) (rejecting the argument that contributory infringement must be intentional); *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1172 (9th Cir. 2007) (recognizing that intent may be inferred from “a service provider’s knowing failure to prevent infringing actions”).

<sup>34</sup> The Second Circuit reasoned:

[A]lthough the NOCIs and buyer complaints gave eBay reason to know that certain sellers had been selling counterfeits, those sellers’ listings were removed and repeat offenders were suspended from the eBay site. Thus Tiffany failed to demonstrate that eBay was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods.

*Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 109 (2d Cir. 2010).

<sup>35</sup> See *id.* at 109–10.

that the knowledge requirement does not impose an affirmative duty of action on service providers: “Although the ‘reason to know’ part of the standard for contributory liability requires CSI (or its agents) to understand what a reasonably prudent person would understand, it does not impose any duty to seek out and prevent violations.”<sup>36</sup> However, once the service provider has reason to suspect users of infringement, it may not “shield itself from learning of the particular infringing transactions by looking the other way.”<sup>37</sup>

### *B. Additional “Control” and the Dynamic OSP-User Relationship*

The *Lockheed* standard introduces an element of “direct control and monitoring” in the relationship between the service provider and the infringing user,<sup>38</sup> which may be considered an addendum to the knowledge element, or an altogether separate requirement. This addition arises from the Ninth Circuit’s distinction between a product and a service which would necessitate further considerations of how much control a defendant has over an infringer.<sup>39</sup> Citing *Hard Rock Cafe*, the Ninth Circuit reasoned that in the case of a product, a manufacturer more clearly supplied infringers with the instrumentality to infringe, whereas a closer link was necessary to show contributory liability for service providers.<sup>40</sup>

Unlike the basic *Inwood* knowledge requirement, this heightened standard accounts more consistently for active conduct by the defendant. It assesses not only a threshold for when the defendant should take preventative action, but also when a defendant may have been actively contributing to the infringement. This is in accord with a reading of *Inwood* as containing not only a “knows or has reason to know” element but also a “continues to

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<sup>36</sup> See *Hard Rock Cafe*, 955 F.2d at 1149.

<sup>37</sup> See *Tiffany*, 600 F.3d at 109.

<sup>38</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999).

<sup>39</sup> See *id.*

<sup>40</sup> See *id.*

supply” element.<sup>41</sup>

Examples of courts applying the *Lockheed* standard show that certain types of OSPs may inherently lack a clear link to infringing uses of its services. *Lockheed* suggests that domain name registrars are such a class, because the defendant performed only registering services and had limited control.<sup>42</sup> On the other hand, the court suggested that an OSP that performs “hosting” functions, checks for registrants’ rights to use particular words, or monitors the use of domain names after registration might exert the appropriate level of control.<sup>43</sup> In *Perfect 10, Inc. v. Visa Intern. Serv. Ass’n*, the Ninth Circuit also held that defendants did not have “direct control” where their online payment systems were being used to process payments for infringing material.<sup>44</sup> The court suggested that sufficient evidence of control would include a showing of defendants’ “power to remove infringing material from [infringing websites using the payment system] or directly stop their distribution over the internet.”<sup>45</sup>

While the Second Circuit in *Tiffany II* found it unnecessary to perform a “control” analysis for deciding whether the modified *Inwood* standard applied to eBay,<sup>46</sup> the district court had concluded through applying a set of determining factors that eBay did exert “significant control” over transactions and listings on its site.<sup>47</sup> While this set of factors pertains specifically to eBay’s services, scholars have recognized that they may be used generally in determining an OSP’s degree of control over the infringing instrumentality. The relevant points are: (1) the OSP’s degree of control over the website’s software and what type of service it provides; (2) the OSP’s use of plaintiff’s mark to promote its

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<sup>41</sup> *Inwood Labs, Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

<sup>42</sup> *See Lockheed Martin*, 194 F.3d at 984.

<sup>43</sup> *See id.* at 982.

<sup>44</sup> *See Perfect 10, Inc. v. Visa Intern. Serv. Ass’n*, 494 F.3d 788, 807 (9th Cir. 2007).

<sup>45</sup> *Id.*

<sup>46</sup> *See Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93, 105–06 (2d Cir. 2010).

<sup>47</sup> *See Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 505–07 (S.D.N.Y. 2008).

website; (3) economic benefit the OSP derives through the use of plaintiff's mark; (4) the OSP's control over specific features of the website; and (5) exceptions for nominative uses of plaintiff's mark (such as use for describing products).<sup>48</sup>

Some scholars have noted that, given the disparity between standards and the lack of a systematic approach in case law, there is uncertainty about whether the additional "control" requirement applies to a given OSP or whether the basic "knowledge" requirement suffices.<sup>49</sup> But the standards may be reconciled; both focus on the nature of the relationship between the service provider and the user.

The key inquiry is not necessarily about choosing one standard over another, but rather understanding the nuances of this relationship. In this sense, one major issue is whether the infringing use of the OSP's services is an isolated act or part of a course of an ongoing or past relationship. For evidentiary purposes, "isolated instances of fraud" are insufficient to show a defendant's complicity.<sup>50</sup> However, the broader framework for the "general vs. specific knowledge" concept suggests that a resolution is not so simple.

*Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144 (4th Cir. 2012) (*Rosetta Stone II*) suggests that at least some question remains as to whether contributory liability requires specific instances of infringement or if a more general course of dealing is enough. The case concerned language software company Rosetta Stone's claim that search engine Google was contributorily liable for the infringing conduct of third party advertisers.<sup>51</sup> The infringing advertisers purchased Rosetta Stone's marks through Google's keyword auction tool and subsequently used the marks in Google's

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<sup>48</sup> See Lauren E. Sims, *When Enough Control is Not Enough: The Conflicting Standards of Secondary Liability in Rosetta Stone*, 26 BERKELEY TECH. L.J. 655, 681 (2011) (reformulating the five factors to account for general characteristics of OSPs other than eBay).

<sup>49</sup> See Dunlevy, *supra* note 22, at 950.

<sup>50</sup> This is true at least in the context of manufacturers, but presumably also service providers subject to *Inwood*. 4 LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS & MONOPOLIES § 23:10 (4th ed. 2014).

<sup>51</sup> See *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 152 (4th Cir. 2012).

sponsored links to direct users to counterfeit Rosetta Stone products and competing products.<sup>52</sup> Citing the Second Circuit’s finding in *Tiffany II* that generalized knowledge was insufficient, the district court held that Google did not apparently have specific knowledge of the infringing activity.<sup>53</sup> The Fourth Circuit vacated the district court’s order granting summary judgment to Google, concluding that there was at least a question of fact as to whether Google knowingly continued to provide services to infringing users. The Fourth Circuit relied on evidence provided before the district court in *Rosetta Stone Ltd. v. Google, Inc.*, 730 F. Supp. 2d 531, 548 (E.D. Va. 2010) (*Rosetta Stone I*). This evidence included a spreadsheet reflecting Rosetta Stone’s notifications to Google of “approximately 200 instances of Sponsored Links advertising counterfeit Rosetta Stone products.”<sup>54</sup> Despite having received such notice, “Google continued to allow Sponsored Links for other websites by these same advertisers.”<sup>55</sup>

Although decided on a summary judgment standard, the Fourth Circuit’s decision leaves open the possibility that contributory liability applies not only to specific instances of infringement but to relationships as a whole—that is, the pattern of behavior a user establishes in the course of using the defendant’s services. The concept of the ongoing relationship is novel in that it emphasizes an infringer’s nature as a user of the services, rather than a numerical threshold of specific instances (which tends to exclude the more humanistic factors at play). While requiring less specificity, such a standard is not likely to extend contributory liability to findings of general knowledge, as established in *Tiffany II*.<sup>56</sup> It might, however, fall somewhere below the *Lockheed*

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<sup>52</sup> See *id.* at 151–52.

<sup>53</sup> See *Rosetta Stone Ltd. v. Google, Inc.*, 730 F. Supp. 2d 531, 548 (E.D. Va. 2010).

<sup>54</sup> *Rosetta Stone*, 676 F.3d at 163.

<sup>55</sup> *Id.*

<sup>56</sup> See *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93, 107 (2d Cir. 2010) (agreeing with the district court’s interpretation of *Inwood* as requiring “some contemporary knowledge of which particular listings are infringing or will infringe”).

“control” standard and the *Tiffany II* “specific knowledge” standard.

### III. THE BALANCING FACTORS OF GOOD FAITH AND PRACTICABILITY

Whether any particular standard is viable and when it applies may ultimately depend on certain balancing factors as indicated by case law. Among these are the underlying policy interests of trademark law, whether a defendant’s actions indicate good (or bad) faith, and the inherent differences between OSPs.

#### A. *Limiting a Trademark Holder’s Exclusive Rights with “Control”*

Trademark law balances an interest in protecting the mark of a business or individual with a concern about improperly expanding property rights. This is especially true where contributory trademark infringement is concerned because the doctrine extends liability beyond traditional cases of direct infringement. As such, the imposition of an additional “control” requirement reflects an attempt by courts to limit this expanding scope. In *Lockheed*, both the Ninth Circuit<sup>57</sup> and the district court noted this concern. The district court asserted that “[t]he solution to the current difficulties faced by trademark owners on the Internet lies in this sort of technical innovation, not in attempts to assert trademark rights over legitimate non-trademark uses of this important new means of communication.”<sup>58</sup>

Some scholars have criticized this heightened standard, arguing that it is an incorrect interpretation of the doctrine,<sup>59</sup> or a somewhat

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<sup>57</sup> See *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) (“Direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff’s mark permits the expansion of *Inwood Lab.*’s ‘supplies a product’ requirement for contributory infringement.”).

<sup>58</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 968 (C.D. Cal. 1997).

<sup>59</sup> See Dunlevy, *supra* note 22, at 958–59 (“The Ninth Circuit . . . fails to fully reason out why this distinction is necessary based on the extension of liability in *Hard Rock Cafe* and *Fonovisa* to landlords and licensors.”).

redundant addition to a knowledge standard which is already difficult to satisfy.<sup>60</sup> However, scholars have also pointed out that the “control” element “recognizes the distance at which OSPs and third parties transact and the difficulty with requiring OSPs to personally monitor every use of their services,” in comparison to real world business models.<sup>61</sup> As such, the value of a “control” requirement cannot easily be discounted, nor can the likelihood that courts will continue to apply it.

### *B. Potential Benefits to the Service Provider*

A “good faith” analysis may be split into two parts: the circumstantial role of economic incentives to the defendant, and actual preventative measures taken by the defendant. As shown in the standard of “willful blindness,” an important rationale behind contributory trademark infringement is preventing service providers from abetting infringing activity where they have economic incentives to do so. Again, this reflects the doctrine’s origins in tort and unfair competition law.

Given the nature of the relationship between certain types of OSPs and users, OSPs often have significant incentives to aid infringement or turn a blind eye. For example, as the Second Circuit noted in *Rosetta Stone II*, Google profited from clicks on its sponsored links and thus had incentives to allow activities that would increase traffic or otherwise promote its website.<sup>62</sup> Similarly, in *Tiffany I*, the district court considered the question of economic benefit among the factors for determining eBay’s degree of control over the instrumentality for infringement.<sup>63</sup> Further

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<sup>60</sup> See Sims, *supra* note 48, at 663 (“[O]ne might argue that an element of ‘control’ is already incorporated into the knowledge standard, which serves to mitigate the level of liability: if OSPs function predominantly through automated processes, then they likely have little human knowledge of how third parties are specifically using their services.”).

<sup>61</sup> *Id.* at 679.

<sup>62</sup> See *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 151 (4th Cir. 2012).

<sup>63</sup> See *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 505–07 (S.D.N.Y. 2008) (noting, specifically, eBay’s promotion of its website using the



factors that may be relevant are the strength of the economic incentive and the plausibility of defendant's allegedly contributory actions without the incentive.

It should be noted, however, that economic benefit alone is insufficient for a finding of contributory infringement.<sup>64</sup>

### C. *The Feasibility of Preventative Measures*

Because OSPs function through automated processes, they will have little direct knowledge of what individual users are doing. This presents an obstacle both for plaintiffs who must demonstrate that such an OSP "knew or had reason to know" of infringement, and OSPs looking towards more aggressive policies against trademark infringement. As the district court reasoned in *Lockheed*, a domain name registrar cannot be expected to "monitor the Internet."<sup>65</sup>

Courts may then weigh any economic incentive against any mitigating actions by the service provider. For example, in *Tiffany II*, the Second Circuit emphasized eBay's corrective actions in response to notifications of infringing listings in finding that it did not contributorily infringe.<sup>66</sup> Conversely, although the district court in *Rosetta Stone I* found that Google took some measures to prevent infringing uses of keywords,<sup>67</sup> the Fourth Circuit appeared to take greater notice of the fact that Google continued allowing infringing activity by users after being notified about the users.<sup>68</sup>

While this factor should not undercut any duties for OSPs

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Tiffany mark).

<sup>64</sup> See *Rosetta Stone Ltd. v. Google, Inc.*, 730 F. Supp. 2d 531, 548 (E.D. Va. 2010).

<sup>65</sup> *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 962 (C.D. Cal. 1997).

<sup>66</sup> See *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93, 109 (2d Cir. 2010).

<sup>67</sup> See *Rosetta Stone*, 730 F. Supp. 2d at 548 (reasoning that because Google had no mechanism for detecting specific infringement, there was little it could do besides prohibiting advertisements for counterfeits, notifying users of their responsibilities, and taking down individual advertisements when notified of infringement).

<sup>68</sup> See *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 163–64 (4th Cir. 2012).

implied under the “knowledge” or “control” standards, courts may be willing to recognize when an OSP has done everything it could be reasonably expected to do in light of practical or economic limitations.<sup>69</sup>

#### *D. Recognizing Inherent Differences Between OSPs*

Because each OSP is different, there may not be a single test that is applicable to all of them.<sup>70</sup> In deciding exactly when OSPs have satisfied their burden, it may be useful to examine the specific nature of the individual OSP on a case-by-case basis. While this factor might indicate the degree of control an OSP has over user activity, this information alone may not reveal much about whether the OSP has satisfied its burdens. As such, it should be considered only in light of the overall standard being applied, and the factors described above.

Based on a review of the case law, several characteristics of OSPs stand out as particularly important.<sup>71</sup> First, what type of service does the OSP provide, e.g., name registering, payment processing, online marketplace? Second, did the OSP itself create or post the infringing material, e.g., using an algorithm-based program? Third, does the infringing material appear within the OSP’s own domain, e.g., on its web page? Finally, does the OSP facilitate the transactions within which the infringement takes place? If so, how—directly (by handling payments, like eBay) or other ways (via click-throughs, like Google)? In some instances, such as claims against domain name registrars, these individualized characteristics may affect a plaintiff’s chance of success.

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<sup>69</sup> This factor is subject to two divergent interpretations: “industry standard” feasibility (i.e., which measures are reasonable relative to similar OSPs, taken in light of general practice standards) and literal, “state of the art” feasibility (i.e., which measures are possible given the technological environment in which the OSP operates). As can be seen in the case law examined in this Article, U.S. courts appear to favor the former at this point in time.

<sup>70</sup> See Sims, *supra* note 48, at 676–77.

<sup>71</sup> These incorporate some of the *Tiffany* elements.

### CONCLUSION

The current challenge facing courts and online proprietors is determining the balance between controlling trademark infringing behavior and having to police activity beyond one's control.

Case law indicates that, while narrow, contributory liability standards may expand beyond situations in which web hosts have knowledge of specific instances of infringement. Balancing factors in the OSP-user relationship and considerations of good faith and legal doctrine must be taken into account to accommodate newer developments in the types of online exchanges available to service providers and their users.

2015 *FROM INWOOD TO INTERNET AND BEYOND:* 123  
*ASSESSING THE WEB HOST-USER RELATIONSHIP IN CONTRIBUTORY ONLINE*  
*TRADEMARK INFRINGEMENT*

#### PRACTICE POINTERS

- Analyze the balancing factors of good faith and the limitation of exclusive rights in light of the overall standard.
- If necessary, address the specific nature of the OSP's service(s), and consider the degree of control the OSP has over user activity.
- Understand the nature of the relationship between the OSP and the infringing user—e.g., is the infringement ongoing or habitual, or is it an isolated act?
- When advising a trademark holder: provide detailed notice to OSPs of individual acts of infringement whenever possible. Consider ways to give related OSPs notice of “repeat offenders” when these OSPs are likely to be involved.
- When advising an OSP: ensure timely and effective responses to notifications of infringement.

124 WASHINGTON JOURNAL OF LAW, TECHNOLOGY & ARTS [VOL. 11:2