Jury Returns Contributory Trademark Infringement Verdict against Web Site Hosting and SEO Services Provider for a Client's Sales of Counterfeit Golf Clubs

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A recent jury verdict of $770,750, in statutory damages for secondary trademark infringement against Bright Builders, a Web hosting and SEO service provider, will serve as a reminder to service providers that there is no statutory safe harbor for contributory online trademark infringement. Unlike the copyright infringement safe harbor provisions in the Digital Millennium Copyright Act, or the protection against liability for information provided by third parties provided under Section 230 of the Communications Decency Act, online service providers must exercise common sense and best practices to reduce the likelihood of contributory trademark infringement liability . Specifically, online service providers should consider undertaking the kind of measures described in Tiffany (NJ), Inc. v. eBay (2d. Cir. 2010), to the extent that they may apply, to mitigate the risk of liability that may arise from sales of counterfeit goods on the sites to which they provide services.

Roger Cleveland Golf Company, Inc. v. Prince involved the online sale of counterfeit golf clubs by Christopher Prince, the operator of the “copycatclubs.com” Web site. Prince, by the way, got off with a mere $28,250 damage award for direct infringement. Bright Builders was not initially a defendant in the litigation. In the course of discovery, however, Cleveland Golf learned that Prince had started his online business after signing up with Bright Builders, which provided Web hosting, search engine optimization and related services to aspiring online retailers. Cleveland Golf then amended its complaint to add Bright Builders as a defendant on the theory that it was secondarily liable for Prince’s infringement.

In 2010, Bright Builders had moved for summary judgment dismissing the complaint. Its filing was met with scorn by the court, which criticized its brevity (one and one-half pages), its lack of citations to authority, and other failures to comply with court rules. The motion papers argued very simply that Bright Builders did not know that Prince was selling counterfeit golf clubs, and that it "simply cannot be true" that merely by hosting Prince's site, Bright Builders could be found liable for Prince's infringement.

The court rejected Bright Builders's motion on the merits, finding that the following allegations could support a finding of knowledge sufficient to establish contributory liability:

- Prince paid Bright Builders $10,000 for a package of services that included coaching and mentoring services aimed at teaching Prince how to build his online business.
- The coaching and mentoring services included one-on-one discussions with an advisor who encouraged Prince's efforts.
- Bright Builders created and developed Prince's Web sites, which it knew or should have known were meant to sell counterfeit golf equipment, based upon the chosen domain name of "copycatclubs.com" and the inclusion of the following statement in the text on the site: "your one stop shop for the best COPIED and ORIGINAL golf equipment on the Internet."

Roger Cleveland Golf Company, Inc. v. Prince (D. S.C. Dec. 3, 2010). The court also concluded that Bright Builders's motion was so deficient that the defendant should show cause why attorney fees should not be assessed against it for a bad faith attempt to increase the plaintiff's litigation costs.

Prof. Eric Goldman's December 2010 blog on the summary judgment ruling analyzes the facts alleged by the plaintiff relative to the asserted claims in more detail.

This is not the first time that liability for contributory trademark infringement has been assessed against an "Internet intermediary." In Gucci America, Inc. v. Frontline Processing Corp. 2010 U.S. Dist. LEXIS 62654 (S.D.N.Y. June 23, 2010) (see prior blog post), the court refused to dismiss secondary trademark infringement claims against companies that provided credit card processing services to online retailers found to have been engaging in the sale of counterfeit goods.

Gucci v. Frontline followed on the lawsuit against the retailers, who admitted the sales of counterfeit goods and consented to the entry of judgment in a separate action. The court in Gucci v. Frontline found that a jury might find that the necessary knowledge to impose contributory liability on the payment processors in the fact, among other things, that they processed credit card “chargebacks” resulting from customer complaints concerning the receipt of counterfeit merchandise, and, therefore, they should have known the nature of the goods being sold on the site. The court also cited the allegation that the processing firms charged higher fees to sites, such as the one found to have been infringing, that sold “replica” merchandise and were consequently considered to be “high risk” merchants.

See also Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc., 2010 U.S. Dist. LEXIS 34021 (N.D. Cal. March 19, 2010). The court upheld upholding a multimillion dollar verdict for contributory trademark infringement against a Web hosting company that provided services to retailers of counterfeit goods.

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