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Internet Immunity: The Limits of Contributory Trademark Infringement Against Online Service Providers

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Cover Page Footnote

J.D., Fordham University School of Law, 2012; B.A., Tufts University, 2009. Thank you to the editors and staff of the journal for their editing prowess and friendship. A special thanks to Nikolas Takacs, my family, and my friends for their love and support throughout law school.

Internet Immunity: The Limits of Contributory Trademark Infringement Against Online Service Providers¹

Rebecca Dunlevy*

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¹ In the context of this Note, an “online service provider” (“OSP”) or “service provider on the Internet” does not mean an Internet service provider (“ISP”). An OSP is meant to distinguish those who sell or provide services on the Internet from those who sell goods via the Internet. An ISP is a “company that provides use of the Internet, allows you to use email, and gives you space on the Internet to show documents.” *ISP*, CAMBRIDGE DICTIONARY, <http://dictionary.cambridge.org/dictionary/british/isp> (last visited Apr. 16, 2011).

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INTRODUCTION

When consumers buy counterfeit goods online, few realize what interests are at stake.² The increasing sale of counterfeit products on the Internet, however, has not gone unnoticed by law enforcement or brand owners.³ Acting U.S. Customs and Border Protection Commissioner David V. Aguilar summarized the expanding problem:

² Dana Thomas, *The Fight Against Fakes*, HARPER'S BAZAAR, Jan. 2009, at 69–71, available at http://fakesareneverinfashion.com/luxury_report.asp (health concerns related to dangerous products and financing terrorism are just two unexpected results).

³ CBP, *ICE Release Report on 2011 Counterfeit Seizures*, U.S. CUSTOMS & BORDER PROT. (Jan. 9, 2012), http://www.cbp.gov/xp/cgov/newsroom/news_releases/national/01092012.xml.

‘The growth of websites selling counterfeit goods directly to consumers is one reason why CBP and ICE have seen a significant increase in the number of seizures’ Although these websites may have low prices, what they do not tell consumers is that the true costs to our nation and consumers include lost jobs, stolen business profits, threats to our national security, and a serious risk of injury to consumers.⁴

The companies that are the targets of counterfeiters range from luxury goods purveyors to the makers of golf clubs and pharmaceuticals. Unsurprisingly, the most commonly counterfeited goods are clothing, accessories, and shoes.⁵ The relocation of these counterfeiting businesses from the street to the Internet has changed the way trademark right holders pursue the parties responsible. The best strategy is one applied by countless law enforcement agencies in the pursuit of illegal enterprises: follow the money. In the Internet counterfeiting era, the money leads straight to online service providers (“OSPs”). OSPs include providers of search or advertising functions,⁶ providers of domain name routing services or registration,⁷ central auction house or marketplace websites that allow individualized selling platforms,⁸ payment processors,⁹ and countless other service providers that are essential for the success of a commercial enterprise on the Internet.

Although U.S. Customs and Border Protection (“CBP”) intercepts some of these goods en route to the United States, a significantly larger number make it into this country and are sold to consumers through websites or brick-and-mortar stores.¹⁰ The

⁴ *Id.*

⁵ UNITED NATIONS OFFICE ON DRUGS & CRIME, THE GLOBALIZATION OF CRIME: A TRANSNATIONAL ORGANIZED CRIME THREAT ASSESSMENT 178, Figure 146 (2010), available at <http://www.unodc.org/unodc/en/data-and-analysis/tocta-2010.html>.

⁶ *E.g.*, GOOGLE, <http://www.google.com> (last visited Feb. 29, 2012); YAHOO!, <http://www.yahoo.com> (last visited Feb. 29, 2012).

⁷ *E.g.*, GODADDY, <http://godaddy.com> (last visited Feb. 29, 2012); NETWORK SOLUTIONS, LLC., <http://networksolutions.com> (last visited Feb. 29, 2012).

⁸ *E.g.*, AMAZON.COM, <http://www.amazon.com> (last visited Feb. 29, 2012); eBAY, <http://www.ebay.com> (last visited Feb. 29, 2012).

⁹ *E.g.*, PAYPAL, <http://www.paypal.com> (last visited Feb. 29, 2012).

¹⁰ *CBP, ICE Release Report, supra* note 3.

Internet is the fastest growing marketplace for these goods. The issues confronting trademark right holders in the Internet marketplace for counterfeit goods are unique because the relationships between purveyors of counterfeit goods and those providing necessary support services are less transparent and less personal. The operation of an online store involves different players than an actual storefront including, for example: online advertisers, search engines, Internet service providers, Internet-only payment processors, digital marketplaces and auctions, domain-routing services, and more. The problems trademark right holders must confront in the Internet marketplace are what strategies will best protect their intellectual property and how to deter infringers in a cost efficient way. The answer in the brick-and-mortar world was the judicially-created doctrine of contributory trademark infringement. In the online world, however, the application of the contributory liability doctrine to OSPs presents new challenges for trademark holders and the courts.

This Note seeks to evaluate the standard for contributory trademark infringement as applied to OSPs by the courts and to examine the differing applications of the doctrine in the pre-Internet context. Part I of this Note reviews the theory underlying the protection of trademarks and the criminal and civil laws prohibiting direct trademark infringement, as they form the basis of a secondary claim for infringement. Next, Part I traces the development of the contributory trademark infringement doctrine, and the expansion of the doctrine from manufacturers and distributors of products to other categories as prescribed by the common law. The doctrine, in its most recent Supreme Court iteration, requires that the plaintiff show that a manufacturer or distributor (1) supplied a product to a third-party infringer and (2) intentionally induced the third-party's infringement or knew or should have known the infringement was being committed by the third-party infringer.¹¹

Part II reviews the two competing standards for service providers promulgated by the Ninth Circuit and both the Fourth Circuit and the Southern District of New York. The Ninth Circuit

¹¹ See discussion *infra* Part I.C.2.

applies a test that requires a provider of services, including OSPs, to have direct control and monitoring of the third-party infringer for liability to attach.¹² In contrast, the Southern District of New York, and to some degree the Second Circuit, has applied a test requiring intentional inducement by the service provider of the third-party infringer or actual or constructive knowledge of the infringement by the service provider.¹³ The Fourth Circuit adopted this test for service providers.¹⁴ Part II also evaluates the difficulties courts have faced in applying the second prong of the contributory trademark infringement test promulgated by the Supreme Court, which requires some knowledge of the infringement and reviews the four standards of knowledge that the courts and scholars have applied to service providers in the contributory infringement context: reasonable anticipation, specific knowledge, willful blindness, and direct control and monitoring.¹⁵

Part III argues that the appropriate test for OSPs is that of the Southern District of New York and the Fourth Circuit because it is most similar to the test expounded by the Supreme Court, and conforms to the underlying common law principles of the doctrine. This section also argues that the requisite degree of knowledge must be broader than specific knowledge and narrower than reasonable anticipation in order to preserve the applicability of the contributory trademark infringement doctrine to OSPs. This new standard, consistent with earlier Supreme Court precedent, would look to whether the supplier of a service “designedly enabled” the infringement. In other words, the knowledge prong would be met where the OSP knew that widespread infringement occurred utilizing its service, and that its service by its very design enabled that type of infringement.

Finally, Part IV proposes alternative methods to diminish the impact of Internet-based counterfeiting. These alternatives include: a shift in policing, a change in norms regarding punishment and damage by infringers, and a restriction of infringement through structural systems.

¹² See discussion *infra* Part II.C.1.

¹³ See discussion *infra* Part II.C.2.

¹⁴ See discussion *infra* Part II.A.2.

¹⁵ See discussion *infra* Part II.C.1–4.

I. THE REALITIES OF ENFORCING TRADEMARK INFRINGEMENT

Modern trademark jurisprudence assigns two roles to trademark enforcement: protect consumers and protect trademark owners.¹⁶ Trademark owners file civil suits for trademark infringement, under both direct and secondary theories of liability, to protect their brands from the sale of counterfeit goods. A direct suit can be brought against an individual selling the good directly to a consumer, like the operator of a flea market booth selling fake purses. A contributory suit can be brought against a provider of goods or services who facilitates the direct sale to customers, such as an advertiser who runs online ads encouraging Internet users to visit a particular website that sells fake watches. In order to establish a claim for contributory infringement, there must be an underlying claim of direct infringement.¹⁷ The penalties for direct infringement arise under both the criminal and civil laws of the United States. In contrast, contributory trademark infringement is a judicially-created doctrine, which imposes civil liability on those providing goods or services to direct infringers. The doctrine of contributory infringement is closely tied to the underlying acts of the direct infringer and the nature of the product or service it provides to the direct infringer. Therefore, a full understanding of the entire liability scheme for trademark infringement is necessary.

In Part I.A, this Note reviews the purposes underlying current theories of trademark protection. In Part I.B, this Note evaluates the significant economic and financial pressures associated with the sale of counterfeit goods and the legal landscape underlying the push to find liability for OSPs in the Internet marketplace. In Part I.C, this Note traces the development of the contributory infringement doctrine, and the expansion of the doctrine beyond its traditional boundaries.

¹⁶ *Two Pesos Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 781–82 (1992) (Stevens, J., concurring); *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 855 (1982); *Rosetta Stone Ltd. v. Google, Inc.*, 2012 U.S. App. LEXIS 7082, at *44–45 (4th Cir. Apr. 9, 2012).

¹⁷ 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:17 (4th ed. 2012).

A. *The Dual Role of Modern Trademarks*

A trademark is the symbol of good will a product or service possesses.¹⁸ It can be embodied by “any word, name, symbol, or device, or any combination thereof . . . [used] to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods.”¹⁹ The courts have increasingly recognized the trademark as a device to protect both consumers and brands.²⁰ Consumers rely on the trademark to identify a trusted brand they have safely used and enjoyed before. Trademark owners invest in a trademark and continue to provide a quality product or service because they alone are able to reap the rewards of that mark. When an interloper sells a counterfeit of a trademarked product, this usurps both the consumer’s expectations about the product or service and the brand’s legally sanctioned monopoly over the trademark. The only winner in many instances is the counterfeiter. To some extent consumers knowingly purchase counterfeits, generally apparel or accessories, as a status symbol because they believe their actions are harmless. Nonetheless, the trademark law does not distinguish between consumers’ desire for a fake good versus the real thing in the infringement context.

B. *Direct Infringement and the Economics of Counterfeit Goods*

Individuals prosecuted under direct trademark infringement claims are usually the final sellers of counterfeit trademarked goods—the shop owner, the individual eBay seller, the street peddler, or the website creator.²¹ However, the prosecution of these individuals, civilly or criminally, makes an unremarkable impact on the tide of counterfeit goods entering the U.S. market. The financial benefits derived from the sale of counterfeit goods are generally large in comparison to the cost or likelihood of getting caught. One study by the Organisation for Economic Co-Operation and Development (“OECD”), estimates that profits from the international trade in counterfeit products in 2005 were as high

¹⁸ *Id.* at § 2:15.

¹⁹ Lanham Act § 45, 15 U.S.C. § 1127 (2006).

²⁰ *Two Pesos*, 505 U.S. at 781–82 (Stevens, J., concurring); *Ives*, 456 U.S. at 855.

²¹ See generally *Intellectual Property Cases*, DEP’T OF JUSTICE (Mar. 14, 2012), <http://www.cybercrime.gov/ipcases.html#trademark>.

as \$200 billion, greater than the gross domestic product of approximately one hundred and fifty state economies.²² In a follow-up study only two years later, the OECD estimated that counterfeit products in international trade were worth an estimated \$250 billion, or 1.95 percent of total world trade.²³ Moreover, direct infringers are merely a small part of a much larger counterfeiting system that utilizes the assistance and services of mainstream service providers, such as landlords, shipping companies, and online sale platforms, to bring counterfeit goods to U.S. consumers.²⁴

The counterfeit goods industry brings in millions of dollars worth of counterfeit goods every year; goods that are never regulated, taxed, or tested for safety. In 2005, CBP made 8,022 seizures of counterfeit goods with a domestic value of more than \$93 million.²⁵ By 2009, the value of goods seized at U.S. borders was an estimated \$261 million.²⁶ The number of items intercepted is estimated to be only seven percent of the actual flow of counterfeit goods into the country,²⁷ which makes the estimated value of counterfeit goods a staggering \$3.73 billion per year.²⁸ The most common counterfeit goods are clothing, accessories, and shoes; but a disturbing number of dangerous and ineffective products, including pharmaceuticals, electronics, cosmetics, and toys, are brought into the marketplace as well.²⁹ Halting the sale of

²² ORG. FOR ECON. CO-OPERATION AND DEV., *The Economic Impact of Counterfeiting and Piracy: Executive Summary*, at 15 (2008), available at http://www.oecd.org/document/4/0,3746,en_2649_34173_40876868_1_1_1_1,00.html.

²³ ORG. FOR ECON. CO-OPERATION AND DEV., *Magnitude of Counterfeiting and Piracy of Tangible Products—November 2009 Update*, at 3 (2009), available at http://www.oecd.org/document/23/0,3746,en_2649_34173_44088983_1_1_1_1,00.html.

²⁴ See Daniel R. Plane, *Going After the Middleman: Landlord Liability in the Battle Against Counterfeits*, 99 TRADEMARK REP. 810, 812–15 (2009).

²⁵ U.S. Customs and Border Protection *Intercepts More than \$11.4 Million Worth of Counterfeit Wearing Apparel and Handbags*, U.S. CUSTOMS & BORDER PROT. (Dec. 12, 2005), http://www.cbp.gov/xp/cgov/newsroom/news_releases/archives/2005_press_releases/122005/12122005.xml.

²⁶ UNITED NATIONS OFFICE ON DRUGS & CRIME, *supra* note 5, at 180.

²⁷ See *id.* at 181.

²⁸ *Id.* This number was calculated by the author using the interception estimate and value estimate from 2009.

²⁹ *Id.* at 178, Figure 146.

these goods is a serious concern for law enforcement and brand owners alike.

The civil penalties for direct trademark infringement arise under Section 32 of the Lanham Act.³⁰ The elements of a civil direct infringement claim require that the party make a “use in commerce” of another’s mark;³¹ a “use [that] is likely to cause confusion, or to cause mistake, or to deceive;”³² and that “the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.”³³ The plaintiff must also establish that its mark is valid.³⁴ The remedies for a successful civil suit may include “(1) defendant’s profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action;”³⁵ attorneys’ fees,³⁶ statutory damages,³⁷ injunctive relief,³⁸ or the destruction of infringing articles.³⁹

³⁰ Lanham Act § 32, 15 U.S.C. § 1114 (2006).

(1) Any person who shall, without the consent of the registrant—

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive, shall be liable in a civil action by the registrant for the remedies hereinafter provided. Under subsection (b) hereof, the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.

Id. § 1114(1).

³¹ *Id.* § 1114(1)(a).

³² *Id.* § 1114(1)(b).

³³ *Id.*

³⁴ *N. Am. Med. Corp. v. Axiom Worldwide, Inc.*, 552 F.3d 1211, 1218 (11th Cir. 2008).

³⁵ 15 U.S.C. § 1117 (2006).

³⁶ *Id.*

³⁷ *Id.*

³⁸ *Id.* § 1114.

³⁹ *Id.* § 1118.

Despite these other plaintiff-friendly remedies, the main goal of most right holders is to attain equitable relief in the form of an injunction against the counterfeit seller.⁴⁰

Criminal trafficking in counterfeit goods, services, labels, documentation, or packaging is a criminal offense in the United States under Title 18 of the U.S. Code.⁴¹ For criminal liability to attach, the government must show that the individual:

[1] intentionally traffic[ked] or attempt[ed] to traffic in goods or services and knowingly used a counterfeit mark, or [2] intentionally traffic[ked] or attempt[ed] to traffic in labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging of any type or nature, knowing that a counterfeit mark has been applied thereto, the use of which is likely to cause confusion, to cause mistake, or to deceive.⁴²

Trafficking in counterfeit goods or services is a felony punishable by up to ten years for a first offense or up to two million dollars in fines, or both, with further penalties for repeat offenders and up to fifteen million dollars in fines for those entities other than individuals.⁴³ Products that cause bodily harm or death carry heavier penalties, and require a lesser *mens rea* showing of recklessness by the seller of the counterfeit goods or services.⁴⁴

These criminal penalties have been largely ineffective in eliminating the wide-scale infringement of consumer goods because U.S. laws do not impose significant penalties for infringement⁴⁵ and the producers of infringing goods are generally

⁴⁰ Marc E. Ackerman & Daren M. Orzechowski, *Trademark Infringement and the Legal Bases for the Recovery of Economic Damages*, in *ECONOMIC DAMAGES IN INTELLECTUAL PROPERTY: A HANDS ON GUIDE TO LITIGATION* 37 (Daniel Slottje ed., 2006).

⁴¹ 18 U.S.C. § 2320 (2006).

⁴² *Id.* § 2320(a)(1).

⁴³ *Id.*

⁴⁴ *Id.* § 2320(a)(2).

⁴⁵ See EXEC. OFFICE OF THE PRESIDENT OF THE U.S., *Administration's White Paper on Intellectual Property Enforcement Legislative Recommendations*, at 1 (2011) [hereinafter

located outside the United States.⁴⁶ Where the operation includes a storefront or offers goods in-person, the individual sellers of counterfeit goods are often illegal immigrants working in informal trafficking rings with ties to producers or organized crime outside the United States.⁴⁷ The arrest of individual sellers has a limited impact on the importation of counterfeit goods because the individual sellers are generally replaceable due to their illegal status.⁴⁸ In addition, trafficking rings can easily utilize mainstream shipping methods to move large quantities of infringing product into the U.S. or other developed countries' markets.⁴⁹

Furthermore, even when offenders are arrested they are generally not punished to the full extent that the intellectual property laws allow. The Obama Administration's White Paper on Intellectual Property Enforcement Legislative Recommendations ("White Paper")⁵⁰ recommended an increase in the sentencing range for intellectual property crimes (less than half of those convicted received prison sentences) and for recidivist intellectual property crime offenders.⁵¹ The White Paper noted that intellectual property crimes were light on punishment despite the high profit margins associated with trademark infringement, providing the incentive to sell counterfeit goods, and the relationship of counterfeiting activity to organized crime.⁵² It is not yet clear if the implementation of these recommendations will impact the counterfeit market.

White Paper], available at http://www.whitehouse.gov/sites/default/files/ip_white_paper.pdf.

⁴⁶ UNITED NATIONS OFFICE ON DRUGS AND CRIME, *supra* note 5, at 177.

⁴⁷ *Id.* at 180.

⁴⁸ *See id.* ("Whatever the role of licit retailers, the bulk of the trade appears to be conducted through informal markets and street sales. From places like Warsaw's once notorious Stadium Market to dozens of municipal flea markets across the United Kingdom, thousands of small entrepreneurs flog counterfeit merchandise. Street sales people are most often illegal immigrants, often from Africa or Asia. There have been many documented cases of illegal immigrants being forced into counterfeit distribution by the migrant smugglers.")

⁴⁹ UNITED NATIONS OFFICE ON DRUGS & CRIME, *supra* note 5, at 180, 188 (counterfeiters utilize licit shipping and trucking enterprises to move their wares in the same way that legitimate goods are transported).

⁵⁰ *White Paper*, *supra* note 45.

⁵¹ *Id.* at 4, 8.

⁵² *Id.* at 7.

The meaningful enforcement of criminal counterfeiting laws and civil trademark infringement suits continues to be a challenge for both law enforcement and trademark owners. Trademark owners, unlike law enforcement, are able to use a wider variety of civil tactics to shut down counterfeiting rings. By pursuing those who facilitate direct infringement under theories of secondary liability, brand owners can make the provision of counterfeit goods to consumers significantly more difficult and costly for counterfeiters and associated parties.

C. The Doctrine of Contributory Trademark Infringement

The doctrine of contributory trademark infringement is one of two secondary theories of trademark liability developed by the courts to impose liability on third parties who facilitate direct infringement.⁵³ The doctrine allows trademark owners to file suit against those who assist the activities of direct infringers by providing goods or services, like OSPs. This Note will focus exclusively on the doctrine of contributory infringement as a means to impose liability on third parties and reduce Internet-based trademark infringement. First, this section will examine the creation of the contributory infringement doctrine and how it interacts with the Lanham Act. Then, it will review the current standard created by the Supreme Court following the Lanham Act's passage. Finally, it will review the expansion of the doctrine beyond its traditional boundaries.

1. The Origins of Contributory Trademark Infringement

In the landmark case of *William R. Warner & Co. v. Eli Lilly & Co.*,⁵⁴ the Supreme Court first recognized the existence of the doctrine of contributory trademark infringement. In this case the manufacturer of Coco-Quinine, a medication containing quinine mixed with cocoa for palatability, sought to enjoin the maker of Quin-Coco for "passing off" the latter as the former to customers.⁵⁵ The alleged passing off occurred when salesmen of Quin-Coco

⁵³ MCCARTHY, *supra* note 16, at § 25:17. The second theory is vicarious liability. *Id.* § 25:22.

⁵⁴ 265 U.S. 526 (1924).

⁵⁵ *Id.* at 532.

suggested or told druggists to fill prescriptions for Coco-Quinine with their product.⁵⁶ The *Eli Lilly* Court concluded that the salesmen, and thereby the company, induced the fraud committed by the druggists and harmed the maker of Coco-Quinine.⁵⁷ The Court categorized this inducement as an unfair competition violation. The contributory trademark infringement doctrine thus stated 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.”⁵⁸

The Court further framed the unfair competition—or rather trademark—violation that occurred by opining that “[t]he wrong was in *designedly enabling* the dealers to palm off the preparation as that of the respondent.”⁵⁹ This “palming off” formulation of the rule relied upon a series of cases that focused not on inducement, but on the party’s knowledge of the role its product played in facilitating the infringing activity. The test developed in *Eli Lilly* gave rise to liability where the party either induced or designedly enabled a third party to commit fraud. One case the Court relied upon in formulating this rule was *N. K. Fairbank Co. v. R. W. Bell Manufacturing Co.*,⁶⁰ which recited the English common law liability rule:

It has been said more than once in this case that the manufacturer ought not to be held liable for the fraud of the ultimate seller; that is, the shopkeeper or the shopkeeper’s assistant. But that is not the true view of the case. The question is whether the defendants have or have not knowingly put into the hands of the retail dealers the means of deceiving the ultimate purchasers.⁶¹

⁵⁶ *Id.* at 530.

⁵⁷ *Id.* at 530–31.

⁵⁸ *Id.* (citing *Hostetter Co. v. Brueggeman-Reinert Distilling Co.* (C. C.), 46 F. 188, 189 (1891)).

⁵⁹ *Id.* (citing *Coca Cola Co. v. Gay-Ola Co.*, 200 F. 720 (6th Cir. 1912); *N.K. Fairbank Co. v. R.W. Bell Mfg. Co.*, 77 F. 869, 875, 877–78 (2d Cir. 1896); *Enoch Morgan’s Sons Co. v. Whittier-Coburn Co.*, 118 F. 657, 661 (C.C.N.D. Cal. 1902)); *Lever v. Goodwin*, [1887] Ch. 1, 3 (Eng.).

⁶⁰ 77 F. 869 (2d Cir. 1896).

⁶¹ *Id.* at 878 (2d Cir. 1896) (quoting *Lever v. Goodwin*, [1887] Ch. 1 at 3 (Eng.)).

The knowledge element of the English test would later reappear in the Court's modern contributory trademark infringement jurisprudence.⁶²

The contributory trademark infringement doctrine, despite its long common law use, has not yet been codified. The first federal trademark act was created in 1870,⁶³ and subsequent revisions have preserved the courts' ability to apply the contributory infringement doctrine. The current iteration of U.S. trademark law, the Lanham Act or the Trademark Act of 1946, continues to preserve the courts' ability to apply common law doctrine to trademark law.⁶⁴ Nonetheless, an act of direct infringement is still necessary, as defined by the Lanham Act's criminal or civil provisions, for a contributory infringement action to commence.⁶⁵ Moreover, Congress has repeatedly chosen to leave the doctrine to the courts by failing to legislate on the doctrine when amending the trademark laws. In contrast, Congress has passed legislation to nullify a different trademark decision made by the Court where Congress deemed the decision a violation of the traditional contours of trademark law.⁶⁶ Thus, the most recent Supreme Court case on contributory trademark infringement, decided in 1982, remains the standard for contributory trademark infringement today.⁶⁷

2. Reaffirming the Judicially-Created Doctrine

The Supreme Court reaffirmed the judicially-created doctrine of contributory trademark infringement in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*⁶⁸ In *Ives*, generic drug manufacturers created drug capsules designed to duplicate the appearance of a competitor's drug capsule for cyclandelate, which used the brand name Cyclospasmol as its registered trademark

⁶² See *infra* Part I.C.2.

⁶³ S. REP. NO. 100-515, at 2 (1988) (reviewing the legislative history of the Trademark Law Revision Act of 1988).

⁶⁴ See S. REP. NO. 79-1333, at 5 (1946).

⁶⁵ MCCARTHY, *supra* note 16, § 25:17.

⁶⁶ See S. REP. NO. 100-515, at 2 (1988).

⁶⁷ See *infra* Part I.C.2.

⁶⁸ 456 U.S. 844 (1982).

after the drug's patent expired.⁶⁹ Some pharmacists then dispensed the generic drug in bottles mislabeled with the brand name drug Cyclospasmol.⁷⁰ The trademark owner and drug manufacturer alleged that the generic drug manufacturers had induced pharmacists through their advertising and promotional materials to improperly substitute generic drugs for its product and mislabel the bottle as Cyclospasmol.⁷¹ Ultimately, due to judicial error on the part of the lower court, the Supreme Court remanded the case to the Second Circuit to determine liability under Section 32 of the Lanham Act. The significance of *Ives*, however, was not the final disposition, but rather the Supreme Court's articulation of the test for contributory trademark infringement.

The Court's test in *Ives* differed from earlier iterations of the contributory trademark infringement doctrine, but preserved the overall construction of the test. The *Ives* test permits trademark holders to pursue civil claims against a manufacturer or distributor who "intentionally induces another to infringe a trademark, or . . . continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement."⁷² For a trademark holder to succeed on this secondary, contributory trademark infringement claim, there must first be a claim of direct or primary infringement.⁷³ In *Ives*, the intentional mislabeling and sale of generics to customers by the pharmacists was the direct infringement. The cases discussed below extended the boundaries of the original *Ives* test, yet relied on the same logic of tying the contributory infringer's liability to inducement or knowledge.

3. The Courts Extend the Test Through Common Law Principles

Contributory trademark liability claims may now be brought against landlords,⁷⁴ service providers,⁷⁵ franchisors,⁷⁶ and

⁶⁹ *Id.* at 846–48.

⁷⁰ *Id.* at 849–50.

⁷¹ *Id.* at 850.

⁷² *Id.* at 854.

⁷³ *See supra* note 65 and accompanying text.

⁷⁴ *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

manufacturers or distributors.⁷⁷ The justifications for extending liability to these categories have generally depended on common law principles of tort liability⁷⁸ or the presence of an agency relationship.⁷⁹ In general, the relationship between the infringer and the party liable for contributory infringement will be a fact-specific inquiry aimed at determining whether a threshold level of knowledge or intent has been met to attach liability.⁸⁰ Although courts have not found the categories to be as straightforward as they would seem, the doctrine has expanded based on the growing category of common law relationships in which liability may be imposed.

The decisions extending *Ives*'s contributory infringement doctrine have relied on the reasoning of two cases: *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*⁸¹ from the Seventh Circuit and *Fonovisa, Inc. v. Cherry Auction, Inc.*⁸² from the Ninth Circuit. Both cases extended *Ives*'s reasoning to apply against landlords, where their tenants sold counterfeit products. To do so, the Seventh and Ninth Circuits applied a modified *Ives* test, swapping landlords and flea market operators for the *Ives* test's distributors and manufacturers.⁸³

In *Hard Rock Cafe*, third-party vendors at two flea markets and a discount shop sold counterfeit Hard Rock Cafe T-shirts that

⁷⁵ *Tiffany Inc. v. eBay, Inc. (Tiffany II)*, 600 F.3d 93, 104 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010); *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984–85 (9th Cir. 1999).

⁷⁶ *Mini Maid Servs. Co. v. Maid Brigade Sys., Inc.*, 967 F.2d 1516, 1521 (11th Cir. 1992).

⁷⁷ *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853–54 (1982).

⁷⁸ See RESTATEMENT (FIRST) OF TORTS § 738 (1938) (“One who induces or aids persons who purchase goods directly or indirectly from him to market them in such a manner as to infringe another’s trade-mark or trade name infringes it himself.”).

⁷⁹ RESTATEMENT (THIRD) OF AGENCY § 1.01 (2006) (“Agency is the fiduciary relationship that arises when one person (a ‘principal’) manifests assent to another person (an ‘agent’) that the agent shall act on the principal’s behalf and subject to the principal’s control, and the agent manifests assent or otherwise consents so to act.”).

⁸⁰ See, e.g., *Tiffany Inc. v. eBay, Inc. (Tiffany I)*, 576 F. Supp. 2d 463, 507–13 (S.D.N.Y. 2008) (applying a fact-specific knowledge analysis).

⁸¹ 955 F.2d 1143 (7th Cir. 1992).

⁸² 76 F.3d 259 (9th Cir. 1996).

⁸³ *Fonovisa*, 76 F.3d at 264–65; *Hard Rock Cafe*, 955 F.2d at 1149.

infringed the trademarks held by the plaintiff.⁸⁴ The court reasoned that the *Ives* test could be extended to this relationship, construed by the court as either a landlord-tenant or licensor-licensee relationship, because the contributory trademark infringement doctrine was a common law species of tort.⁸⁵ Determining that the common law permitted tort liability against a landlord or licensor for the acts of the tenant or licensee, the court held that *Ives* equally applied to landlords or licensors as it did to manufacturers or distributors.⁸⁶ The court then turned to the second prong of the *Ives* test, requiring knowledge of infringement. Hard Rock Cafe had filed suit without notifying the landlords or licensors that the shirts being sold were counterfeit,⁸⁷ but the court interpreted *Ives* so as to permit liability where the landlord was “willfully blind” to infringement on the premises.⁸⁸ The court equated willful blindness with *Ives*’s actual knowledge portion of the test.⁸⁹ Finally, the court remanded the case, noting that the willful blindness test was the correct standard to apply.⁹⁰

In *Fonovisa*, the right holder sued a flea market owner for allowing vendors to sell counterfeit recordings violating its copyrights and trademarks.⁹¹ The evidence at trial revealed that the trademark holders repeatedly notified the flea market owners of the infringements, and police raids of the market had resulted in pirated recordings being seized.⁹² Nonetheless, the infringements at the market continued and both parties agreed that the owner had actual knowledge of the infringements.⁹³ The Ninth Circuit concluded that the Court in *Ives* had “laid down no limiting principle that would require the defendant to be a manufacturer or distributor”⁹⁴ and relied on *Hard Rock Cafe*’s principle of extending common tort liability because a “company is responsible

⁸⁴ *Hard Rock Cafe*, 955 F.2d at 1145.

⁸⁵ *Id.* at 1149.

⁸⁶ *Id.*

⁸⁷ *Id.* at 1147.

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ *Id.* at 1149.

⁹¹ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 260–61 (9th Cir. 1996).

⁹² *Id.* at 261.

⁹³ *Id.*

⁹⁴ *Id.* at 265.

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.”⁹⁵ Combining these principles, the court reversed the lower court’s ruling and found the flea market liable for contributory trademark infringement.⁹⁶

In both cases, the courts determined that *Ives* had not precluded the extension of contributory trademark liability to other instances where tort law has generally found secondary liability.⁹⁷ Following *Hard Rock Cafe* and *Fonovisa*, the contributory trademark infringement doctrine has been extended to include a number of other common law relationships where liability may attach to a third party who knows of or induces infringement.⁹⁸ For the purposes of this Note, however, the analysis will be restricted to understanding the developments that affect the liability of OSPs and other service providers. Part II will address the divergent tests and standards developing in the courts as an outgrowth of the doctrine’s extension into situations beyond that of a manufacturer or flea-market operator.

II. DOCTRINAL DICHOTOMIES: FINDING THE TEST AND KNOWLEDGE STANDARD FOR CASES OF INTERNET INFRINGEMENT

Counterfeiting is no longer restricted to the bricks-and-mortar world; yet, the law has not fully adapted to this new reality. Right holders, in order to preserve their trademark rights, must continue to pursue both direct and secondary infringers who sell goods over the Internet or provide necessary Internet-based assistance to sellers. For many rights holders pursuing civil actions, this mission has been met with a series of legal obstacles that prevent

⁹⁵ *Id.* (citing *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (internal citations omitted)).

⁹⁶ *Id.*

⁹⁷ *Id.* (citing *Hard Rock Cafe*, 955 F.2d at 1149).

⁹⁸ The doctrine of contributory trademark infringement has also been applied in other circumstances that are unimportant to this Note’s analysis of the doctrine. *See, e.g.*, *Cartier Int’l B.V. v. Ben-Menachem*, 2008 WL 64005, at *12 (S.D.N.Y. Jan. 3, 2008) (home owners and residents of home where counterfeiting occurs openly and provides a direct financial benefit); *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648, 650 (S.D.N.Y. 1994) (landlord-tenant liability for building used as premises to sell counterfeit goods).

the application of traditional contributory trademark infringement theories to the Internet.

These obstacles arise out of confusion in the courts over (1) what test to apply to OSPs and service providers generally and (2) what degree of knowledge is necessary to comply with *Ives*'s second prong—the “knows or has reason to know” element. This section will evaluate this confusion and analyze how it has played out in the courts. First, this section will compare and contrast the two predominant tests applied by the Ninth Circuit and the Southern District of New York.⁹⁹ Second, this section will explore the problems courts have encountered in attempting to define the requisite level of knowledge necessary to impose liability.

A. Differences in the Service Provider Tests

The service provider tests for contributory trademark infringement utilized by the Ninth Circuit and the Southern District of New York are derived from the test in *Ives*. Both tests impose liability for the supply of services where the party intentionally induces infringement or knows or has reason to know of infringement by the party receiving the services.¹⁰⁰ The Ninth Circuit, however, adopted an additional “direct control and monitoring” rule. Courts in the Southern District of New York and the Fourth Circuit adopted a modified *Ives* test that simply switches a service provider for a supplier or manufacturer of a product.

1. The Ninth Circuit's “Direct Control and Monitoring” Rule

The Ninth Circuit in *Lockheed Martin Corp. v. Network Solutions, Inc.*¹⁰¹ determined that the *Ives* test could be expanded to apply to a service provider, rather than one who “supplies a product.”¹⁰² Lockheed Martin Corp. (“Lockheed”), an aircraft manufacturer, sued the domain name registrar Network Solutions, Inc. (“NSI”) for contributory trademark infringement when it

⁹⁹ The Second Circuit has not technically affirmed the test, but has applied it in the OSP context.

¹⁰⁰ See *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

¹⁰¹ 194 F.3d 980 (9th Cir. 1999).

¹⁰² *Id.* at 984.

allowed third parties to register domain names similar to its “The Skunk Works” trademark.¹⁰³ NSI provided a dispute resolution procedure for post-registration complaints relating to the violation of a registered trademark.¹⁰⁴ Lockheed sent cease-and-desist letters to NSI to stop the third party use of similar domain names and to stop third party registration of any variations of its mark.¹⁰⁵ NSI denied Lockheed’s requests because it did not follow the required dispute resolution procedure, and Lockheed filed its infringement suit.¹⁰⁶

Although the Ninth Circuit extended liability to service providers, the standard it adopted was different from *Ives*. The Ninth Circuit held that the test for contributory infringement by service providers, rather than a product supplier, requires an additional showing—beyond the *Ives* test—of “[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff’s mark.”¹⁰⁷ The Ninth Circuit rejected Lockheed’s contributory infringement claim under its “direct control and monitoring” rule by comparing NSI to the U.S. Postal Service when it provides an address to a specific location and routes mail to the individual living there.¹⁰⁸ The court explained, “NSI translates the domain-name combination to the registrant’s IP Address and routes the information or command to the corresponding computer.”¹⁰⁹

The Ninth Circuit supported its expansion of the *Ives* test by (1) stating that the plain language of *Ives* applied only to those who supply a product, and (2) analogizing to *Hard Rock Cafe* and *Fonovisa* to find that the “direct control and monitoring” rule was necessary for service providers.¹¹⁰ Relying on the *Hard Rock Cafe* and *Fonovisa* courts’ extension of liability where the common law landlord-tenant relationship existed, the court determined that “the extent of control exercised by the defendant over the third party’s

¹⁰³ *Id.* at 981–83.

¹⁰⁴ *Id.* at 982.

¹⁰⁵ *Id.* at 983.

¹⁰⁶ *Id.*

¹⁰⁷ *Id.* at 984.

¹⁰⁸ *Id.* at 984–85.

¹⁰⁹ *Id.*

¹¹⁰ *Id.*

means of infringement” was an important factor “when measuring and weighing a fact pattern in the contributory infringement context without the convenient ‘product’ mold.”¹¹¹ The Ninth Circuit further commented that a domain-name routing provider could not be expected to monitor the Internet.¹¹²

2. The Southern District of New York/Second Circuit’s Modified *Ives* Test

The Second Circuit in *Tiffany Inc. v. eBay, Inc. (Tiffany II)*,¹¹³ applied a different standard than the *Lockheed* court. The court’s two prong test is essentially identical to the original *Ives* test: “[F]irst, if the service provider ‘intentionally induces another to infringe a trademark,’ and second, if the service provider ‘continues to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement.’”¹¹⁴ In *Tiffany II*, the jewelry company Tiffany (NJ) Inc. and Tiffany and Company (together “Tiffany”) alleged that eBay, Inc. (“eBay”) assisted trademark infringers through its advertising and listing practices, which allowed counterfeit goods to be sold by third party sellers on eBay.¹¹⁵ eBay conceded that *Ives* applied so the Second Circuit “assume[d] without deciding that *Ives*’s test for contributory trademark infringement governs.”¹¹⁶ Thus, the Second Circuit was not required to and did not expressly adopt the modified *Ives* test as the appropriate standard.

The district court’s opinion is therefore helpful in shedding light on why the modified *Ives* test was applied instead of the typical *Lockheed* analysis. The district court in *Tiffany (NJ) Inc. v. eBay, Inc. (Tiffany I)*¹¹⁷ simultaneously adopted *Lockheed*’s analysis and chose not to apply the test to an online marketplace, as it categorized eBay. In adopting *Lockheed*’s analysis, Judge

¹¹¹ *Id.* at 984.

¹¹² *Id.* at 985 (citing *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 985 F. Supp. 949, 958 (C.D. Cal. 1997)).

¹¹³ 600 F.3d 93 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010).

¹¹⁴ *Id.* at 106.

¹¹⁵ *Id.* at 96.

¹¹⁶ *Tiffany II*, 600 F.3d at 105–06.

¹¹⁷ 576 F. Supp. 2d 463 (S.D.N.Y. 2008), *aff’d in part, rev’d in part*, 600 F.3d 93 (2d Cir. 2010).

Sullivan reasoned that it was a “persuasive synthesis of the relevant inquiry that the Court must undertake in determining whether the provider of a service is potentially liable for contributory trademark infringement,” while acknowledging that the Second Circuit had not yet endorsed any particular standard.¹¹⁸ Then, in an unforeseen twist, the district court found that because eBay exercised control over and monitored the site, it was analogous to the flea market cases and governed by the modified *Ives* standard applied in *Hard Rock Cafe* and *Fonovisa*.¹¹⁹ At the same time, the court determined that “eBay clearly falls on the ‘service’ side of the product/service distinction,”¹²⁰ but did not explain why or how this “service” classification removed eBay from the purview of *Lockheed’s* test for all types of service providers. Applying this modified *Ives* test, the *Tiffany I* court held for the defendants on the basis of inadequate knowledge of infringement.¹²¹

The Second Circuit did not acknowledge the divergent standards for OSPs created in the *Lockheed* and *Tiffany I* decisions when it affirmed the lower court’s application of the modified *Ives* standard. Thus, the Second Circuit’s test for contributory infringement may or may not be that of the *Tiffany I* court. Ultimately, the Second Circuit did not find eBay liable for contributory infringement because it interpreted the “knows or has reason to know” prong of *Ives* to require specific, rather than general knowledge of infringing sales on its auction site.¹²² The Second Circuit also determined that “willful blindness” could supply the knowledge requirement of the test for service providers, but that eBay had not been willfully blind in the instant case.¹²³

While *Tiffany II* did not expand its holding to include an express adoption of the modified *Ives* test, some courts in the Southern District of New York have cited the Second Circuit’s

¹¹⁸ *Id.* at 506 (citing e.g. *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 416 n.14 (S.D.N.Y. 2001)).

¹¹⁹ *Id.* at 506–07.

¹²⁰ *Id.* at 506.

¹²¹ *Id.* at 508.

¹²² *Tiffany II*, 600 F.3d at 107.

¹²³ *Id.* at 109–10.

opinion for this standard¹²⁴ or recognized it as the applicable test despite this technicality.¹²⁵ Other courts have chosen to apply the *Lockheed* standard in their contributory trademark infringement analysis, but incorporate the specific knowledge element required by the *Tiffany II* court.¹²⁶

More recently, the Court of Appeals for the Fourth Circuit applied the *Tiffany II* standard to an OSP in *Rosetta Stone Ltd. v. Google, Inc.*¹²⁷ Rosetta Stone brought suit against Google alleging a variety of trademark claims arising out of the sale of Google AdWords to third parties selling counterfeit products.¹²⁸ The court vacated the district court's grant of summary judgment to Google on Rosetta Stone's contributory trademark infringement claim because the evidence at the pleading stage was sufficient to establish a question of fact as to whether Google had more than generalized knowledge of the infringement.¹²⁹ Significantly, the Fourth Circuit made no mention of *Lockheed's* direct control and monitoring rule.

3. Confusion in the Courts

The divergent legal standards have led to confusion for some courts as to the appropriate test to apply in new contexts.¹³⁰ In particular, the Internet has proven a fruitful area for new interpretations of the doctrine of contributory trademark infringement. Predicting the outcome of any one case is difficult

¹²⁴ *E.g.*, *GMA Accessories, Inc. v. BOP, LLC*, 765 F. Supp. 2d 457, 464 (S.D.N.Y. 2011) (citing *Tiffany II*, 600 F.3d at 106).

¹²⁵ *E.g.*, *Gucci Am., Inc. v. Frontline Processing Corp.*, 721 F. Supp. 2d 228, 248 (S.D.N.Y. 2010) (“While the Second Circuit has yet to directly contemplate the validity of this modified part of the *Ives* test, I concur with Judge Sullivan that this is a ‘persuasive synthesis.’”); *Ascentive, LLC v. Opinion Corp.*, 2011 U.S. Dist. LEXIS 143081, at *53, n.24 (E.D.N.Y. Dec. 13, 2011) (“Where, as here, a party such as PissedConsumer supplies a service—i.e., hosting a webpage—rather than a product to one engaging in trademark infringement, the Second Circuit has not decided definitively that [*Ives*] applies; instead it assumed without deciding that [*Ives*] applied *because the [OSP] in that case did not contest Inwood's application.*”)

¹²⁶ *Nomination Di Antonio E Paolo Gensini S.N.C. v. H.E.R. Accessories*, 2010 U.S. Dist. LEXIS 130681, at *9–10, *15 (S.D.N.Y. Dec. 6, 2010).

¹²⁷ 2012 U.S. App. LEXIS 7082 (4th Cir. Apr. 9, 2012).

¹²⁸ *Id.* at *11.

¹²⁹ *Id.* at *47–49.

¹³⁰ *See, e.g.*, cases cited *supra* notes 117–19.

due to the novel issues presented by Internet cases and the difficulties courts face in adapting a doctrine, originally focused on the physical world, to intangibles. As the Second Circuit noted in *Tiffany II*, “[t]he limited case law leaves the law of contributory trademark infringement ill-defined.”¹³¹ Although the Second Circuit has not yet affirmed the *Tiffany I* standard, the use of the modified *Ives* standard by the Southern District of New York and the Fourth Circuit, has created a circuit split between the Ninth Circuit and the Fourth Circuit, and potentially the Second Circuit as well.

B. *The Knowledge Prong*

The split between the tests of the Ninth Circuit and the Southern District of New York is inherently tied to the knowledge requirement of *Ives*; the differing standards create varying degrees of knowledge that can lead to liability. The second prong of the *Ives* test, which imposes liability when the alleged infringer “continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement,”¹³² does not define the degree of knowledge required to satisfy this element. The current application of the doctrine points to four potential levels of knowledge that could lead to liability: reasonable anticipation, specific knowledge, willful blindness, or direct control and monitoring.

Although the *Ives* test seems straightforward in requiring that the contributory infringer “know[] or ha[ve] reason to know” of the infringement,¹³³ the courts have produced varying results in their attempts to apply this standard to the actions of service providers and OSPs.¹³⁴ Traditionally, the standard could be met when either the direct infringer’s conduct signaled to the third party (providing either a product or service) that an infringement was occurring or the trademark holder sent notice to the third party that the infringement was occurring and that the second party’s actions

¹³¹ *Tiffany II*, 600 F.3d 93, 105 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010).

¹³² *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

¹³³ *Id.*

¹³⁴ *See infra* Part II.C.1–4.

were assisting the infringement.¹³⁵ Determining whether a specific service provider has a certain level of knowledge is a fact intensive inquiry, however, the greater challenge for the courts has been translating *Ives*'s knowledge language into a workable standard for OSPs and other service providers.

This section will discuss the various interpretations the courts have developed in applying the “knows or has reason to know” prong of the *Ives* test. First, this section will examine the reasonable anticipation standard proposed by the Third Restatement of Unfair Competition Law. Then, it will discuss the distinction between specific and general knowledge made by the Second Circuit in *Tiffany II*. Next, this section will address the willful blindness standard applied by the Seventh Circuit in *Fonovisa* and *Hard Rock Cafe*, and acknowledged by the Second Circuit in *Tiffany II*. Finally, this section will review *Lockheed*'s direct control and monitoring standard to determine what level of knowledge it requires.

1. Reasonable Anticipation

The least stringent interpretation of the “knows or has reason to know” prong is the reasonable anticipation standard proposed by the Third Restatement of Unfair Competition.

One who markets goods or services to a third person who further markets the goods or services in a manner that subjects the third person to liability to another for infringement . . . is subject to liability to that other for contributory infringement if:

- (a) the actor intentionally induces the third person to engage in the infringing conduct; or
- (b) the actor fails to take reasonable precautions against the occurrence of the third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated.¹³⁶

¹³⁵ See generally, e.g., *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996); *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143 (7th Cir. 1992).

¹³⁶ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (1995).

The Restatement further modifies this rule by stating that the “duty to take reasonable precautions, however, arises only when the manufacturer or distributor has reason to anticipate that some substantial number of infringing sales will otherwise occur.”¹³⁷ If an actor has a reasonable belief that infringing sales will occur, the actor need only take reasonable precautions to prevent the infringement.¹³⁸

Nonetheless, this standard has yet to be applied by any U.S. court to an OSP. The Second Circuit explicitly rejected this standard in *Tiffany II*.¹³⁹ Moreover, the Supreme Court in *Ives* dismissed the “reasonably anticipate” standard of knowledge as being “‘watered down’ and incorrect,” but did not explicitly rule on this standard of knowledge.¹⁴⁰ “The Court’s decision, however, has not been interpreted to preclude reliance on the ‘reasonably anticipate’ standard in actions at common law.”¹⁴¹

In response to *Tiffany II*, some scholars have emphasized that the correct standard should be reasonable anticipation when looking at online marketplaces.¹⁴² In their analysis, these scholars rely on cases prior to the *Tiffany II* decision that suggest that generalized knowledge of infringement is a component of a full liability analysis, which examines the totality of the circumstances.¹⁴³ They conclude that

[t]he common law roots of contributory liability suggest that the “intermediate scope” afforded by a negligence standard (“reason to know”) is the historical norm and the standard articulated by *Ives*. Generalized knowledge of widespread tortious

¹³⁷ *Id.* cmt. c.

¹³⁸ *Id.*

¹³⁹ *Tiffany II*, 600 F.3d 93, 110 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010).

¹⁴⁰ *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 n.13 (1982).

¹⁴¹ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 cmt. b (1995) (citing *Ciba-Geigy Corp. v. Bolar Pharm. Co.*, 547 F. Supp. 1095 (D.N.J. 1982), *aff’d*, 719 F.2d 56 (3d Cir. 1983)).

¹⁴² See David H. Bernstein & Michael R. Potenza, *Why the Reasonable Anticipation Standard Is the Reasonable Way to Assess Contributory Trademark Liability in the Online Marketplace*, 2011 STAN. TECH. L. REV. 9, ¶ 5 (2011). Notably, the authors of this proposition previously wrote an amicus curiae brief, arguing *Tiffany & Co.*’s position, submitted to the Second Circuit in the case. *Id.* n.1.

¹⁴³ *Id.* ¶ 3.

conduct by third parties has long been recognized as a basis for common law contributory liability.¹⁴⁴

Ultimately, they argue that the liability rule should allow for constructive knowledge of infringement and liability based on the reasonable anticipation standard.¹⁴⁵ They do not specifically argue that the standard is applicable outside of the online marketplace, but do assert that it could be applied to the “bricks-and-mortar” world.¹⁴⁶

2. Specific Knowledge

In *Tiffany II*, the Second Circuit held that eBay was not liable for the sales of counterfeit goods conducted by its sellers. Liability did not attach because eBay had only general knowledge of infringement and had a removal process in place to take down infringing sellers once they were notified by the right holder of infringement.¹⁴⁷ The Second Circuit determined that the “knew or should have known” standard of *Ives* required more than “generalized notice” of infringement; the contributory infringer would need “[s]ome contemporary knowledge of which particular listings are infringing or will infringe in the future.”¹⁴⁸ The requirement of specific knowledge is especially important in the Internet context because OSPs often provide services to a significantly greater number of largely unknown parties than would a landlord or distributor.

Courts that have applied and construed the specific knowledge rule have provided little additional commentary on the principle. Two cases have held that specific knowledge was not present when the notice of possible infringement consisted of an existing trademark registration for the infringed mark.¹⁴⁹ In *GMA*

¹⁴⁴ *Id.* ¶ 42.

¹⁴⁵ *Id.* ¶ 68.

¹⁴⁶ *Id.* ¶ 77.

¹⁴⁷ *Tiffany II*, 600 F.3d 93, 107–08 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010).

¹⁴⁸ *Id.* at 107.

¹⁴⁹ *GMA Accessories, Inc. v. BOP, LLC*, 765 F. Supp. 2d 457, 465 (S.D.N.Y. 2011) (“The only post-*Tiffany* case in this district to face the issue has held that ‘Plaintiffs’ allegations of knowledge are therefore insufficient to the extent they rely on . . . [Plaintiff’s] federal registration.’ This Court agrees.”) (quoting *Nomination Di Antonio E Paolo Gensini S.N.C. v. H.E.R. Accessories Ltd.*, 2010 U.S. Dist. LEXIS 130681, at *15 (S.D.N.Y. Dec. 6, 2010)).

Accessories, Inc. v. BOP, LLC,¹⁵⁰ the court ruled that constructive notice from a federal trademark registration is insufficient notice of infringement.¹⁵¹ Then, the court interpreted *Tiffany II*'s specific knowledge requirement as being "indicative of a narrow test requiring a significant degree of knowledge." In *Nomination Di Antonio E Paolo Gensini S.N.C. v. H.E.R. Accessories Ltd.*,¹⁵² the Southern District of New York dismissed the plaintiff's case at the pleading stage where the only evidence of specific knowledge was the plaintiff's trademark registration and a letter sent to the defendants before the commencement of the suit notifying them of infringement where there was no proof the defendants continued to provide services thereafter.¹⁵³ Other cases applying the specific knowledge standard have provided little additional commentary on the difference between general and specific knowledge.¹⁵⁴ Thus, the courts have left the meaning of specific knowledge vague and uncertain outside of the *Tiffany II* context.

3. Willful Blindness

Willful blindness was held by the Seventh Circuit in *Hard Rock Cafe* to meet the requisite degree of knowledge required by *Ives*. The Second Circuit in *Tiffany II* reaffirmed the validity of the willful blindness standard of knowledge against OSPs. The court explained the willful blindness standard in the context of the online marketplace:

[I]f eBay had reason to suspect that counterfeit Tiffany goods were being sold through its website, and intentionally shielded itself from discovering the offending listings or the identity of the sellers behind them, eBay might very well have been charged with knowledge of those sales sufficient to satisfy [*Ives*'] "knows or has reason to know"

¹⁵⁰ 765 F. Supp. 2d 457.

¹⁵¹ *Id.* at 465.

¹⁵² 2010 U.S. Dist. LEXIS 130681.

¹⁵³ *Id.* at *16–17.

¹⁵⁴ See e.g., *Coach, Inc. v. Gata Corp.*, 2011 WL 2358671, at *7–8 (D.N.H. June 9, 2011).

prong. A service provider is not . . . permitted willful blindness.¹⁵⁵

The willful blindness standard has traditionally satisfied the knowledge requirement under *Ives*,¹⁵⁶ and apparently satisfies the Second Circuit's specific knowledge standard. The Second Circuit was careful to reiterate that willful blindness is different than the reasonable anticipation standard.¹⁵⁷

4. Direct Control and Monitoring

Lockheed created a new standard for service providers; this test transformed the “knows or has reason to know” requirement into a far more stringent one by attaching the direct control and monitoring requirement. The Ninth Circuit determined that the provision of routing services to domain name registrants who had infringed the plaintiff's trademark could not be governed by the traditional test of *Ives*.¹⁵⁸ The court applied this standard because it determined that all service providers, and by default OSPs, required a different level of scrutiny.¹⁵⁹ This new standard of knowledge required that the party, in addition to meeting the *Ives* knowledge requirement, must have “[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark.”¹⁶⁰ This test turns the second prong of *Ives* on its head because it eliminates liability for knowledge alone under the “knows or has reason to know” prong.

Chief Judge Kozinski of the Ninth Circuit, however, has construed *Lockheed*'s standard to be less stringent than the Ninth Circuit majority in a case applying *Lockheed* to another OSP. In *Perfect 10, Inc. v. Visa International Service Association*,¹⁶¹ the plaintiff owned a number of copyrighted images marked with its “PERFECT 10” trademark that were sold illegally by other

¹⁵⁵ *Tiffany II*, 600 F.3d 93, 109 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010) (citation omitted).

¹⁵⁶ *Id.* at 110.

¹⁵⁷ *Id.* at 110 n.15.

¹⁵⁸ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984–85 (9th Cir. 1999).

¹⁵⁹ *Id.*

¹⁶⁰ *Id.* at 984.

¹⁶¹ 494 F.3d 788 (9th Cir. 2007) (Kozinski, J., dissenting).

websites.¹⁶² The defendants were payment processors for these sites.¹⁶³ The court found that the payment processors lacked the requisite knowledge and control because the defendants did not have the right to directly stop the activity and the plaintiff failed to present facts showing that third parties infringed the trademark.¹⁶⁴ The court further explained that the control requirement was not met where, as here, the party could simply choose to stop processing payments.¹⁶⁵ A dissenting Judge Kozinski argued that the provision of payment processing services to a website selling infringing trademarked images met the direct control and monitoring standard.¹⁶⁶ Judge Kozinski reasoned that

credit cards are directly involved in every infringing transaction; not only do they process the payment for virtually every sale of pirated images by the Stolen Content Websites, they control whether such transactions will go forward. This is more than enough to establish the “control and monitoring” that *Lockheed Martin* requires for contributory trademark infringement.¹⁶⁷

Judge Kozinski’s reasoning has been cited with approval by at least one other court where payment processors furnished the means to receive payment for infringements.¹⁶⁸

III. THE FUTURE OF CONTRIBUTORY TRADEMARK LIABILITY ON THE INTERNET—ONE TEST AND ONE STANDARD OF KNOWLEDGE

Part III of this Note proposes two solutions regarding the diverging standards the courts face in applying contributory trademark infringement analysis to OSPs. First, this part argues that the appropriate OSP standard for contributory trademark infringement is that of the *Tiffany II* court, and that the additional

¹⁶² *Id.* at 793.

¹⁶³ *Id.*

¹⁶⁴ *Id.* at 807.

¹⁶⁵ *Id.*

¹⁶⁶ *Id.* at 822.

¹⁶⁷ *Id.*

¹⁶⁸ *E.g.*, *Gucci Am., Inc. v. Frontline Processing Corp.*, 721 F. Supp. 2d 228, 253 (S.D.N.Y. 2010).

element applied by the Ninth Circuit in *Lockheed* is an incorrect interpretation of the doctrine. In addition, this part argues that the appropriate degree of knowledge, in the OSP context, cannot require either specific knowledge or direct control and monitoring for the doctrine to have meaning in the online world. Instead, the knowledge prong of the contributory infringement doctrine must be interpreted in light of the common law precedents upon which it was formulated.

A. The Proper Test for OSPs is the Modified Ives Test

The Ninth Circuit in *Lockheed* and the Fourth Circuit in *Rosetta Stone* applying *Tiffany II*'s test have created a circuit split over the proper test to apply to OSPs.¹⁶⁹ Although the Second Circuit has not expressly adopted the *Ives* standard, presumably it will follow its analysis in *Tiffany II*.¹⁷⁰ District courts below the Second Circuit have continued to apply *Lockheed* in some instances.¹⁷¹ The test, however, that is most likely to survive judicial scrutiny and adhere to Supreme Court precedent is that of *Tiffany II*, due to its similarity to *Ives* and to the Supreme Court's jurisprudence preserving the contributory infringement doctrine's grounding in tort law.¹⁷² The Ninth Circuit made a number of distinctions in creating its direct control and monitoring rule that are inapplicable when the doctrine is used properly. These distinctions focus primarily on whether: (1) goods and services should inherently be treated differently and (2) the common law underpinning the doctrine ultimately controls the expansion of the doctrine or some other principle should determine its expansion.

¹⁶⁹ Compare *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999), with *Tiffany II*, 600 F.3d 93, 110 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010).

¹⁷⁰ See *supra* note 125 and accompanying text.

¹⁷¹ See *supra* note 126 and accompanying text.

¹⁷² *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 863 (1982); see generally *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 428 (1984) (referring to contributory copyright infringement as a tort), *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931) ("Infringement, whether direct or contributory, is essentially a *tort*, and implies invasion of some right of the patentee."); *L'Aiglon Apparel, Inc. v. Lana Lobell, Inc.*, 214 F.2d 649, 651 (3d Cir. 1954) (discussing the creation of a species of federal tort via the Lanham Act).

The Ninth Circuit's determination in *Lockheed* that a service provider must inherently be treated differently than a landlord or manufacturer is an artificial premise.¹⁷³ Analogizing to the flea market line of cases, the court determined that some sort of relationship—one of direct control and monitoring—had to exist between the infringer and the service provider in order for liability to attach.¹⁷⁴ The Ninth Circuit, however, 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. Moreover, as demonstrated by Judge Kozinski's dissent in *Perfect 10*, the rule can be bent to support liability against any number of OSPs that do not actually “directly control and monitor” the activities of third-parties. The greatest error in the Ninth Circuit's test is that, if strictly applied, it would preclude almost any finding of contributory infringement online. The rule would permit blatant and obvious infringement to occur even where the OSP provides a necessary instrument for the infringement to continue and knows that it supports the infringement. Accepting the Ninth Circuit's standard is tantamount to giving OSPs Internet immunity.

In contrast, the Second Circuit's standard iterated in *Tiffany II* simply exchanges the product element of the *Ives* test for services without attaching a new tort-based liability element that exceeds the traditional boundaries of the test.¹⁷⁵ *Ives* imposes liability for two types of tortious conduct: intentional and negligent.¹⁷⁶ Intentional inducement clearly fits the first category of tortious conduct, as does continuing to provide a good or service the party knows causes harm. Providing a product where the party should have knowledge that it will result in harm to a third party meets the negligence standard. The attachment of the direct control and monitoring element goes beyond the common law tort framework that the contributory trademark infringement doctrine was designed to implement. The direct control and monitoring rule creates a special category of liability where no special duty existed before. Although *Lockheed* derives this alleged duty from the

¹⁷³ For a summary of the Ninth Circuit's holding see *supra* text accompanying notes 104–06.

¹⁷⁴ See *supra* Part II.A.1.

¹⁷⁵ See *supra* Part II.A.2.

¹⁷⁶ See *supra* Part I.C.2.

landlord-tenant context, there is no duty imposed by the common law outside that context, which creates this relationship between service providers and service recipients. Moreover, trademark law already provides an alternative means of accounting for relationships of control—vicarious trademark infringement. Vicarious liability can be imposed where there is an “apparent or actual partnership with the infringer or . . . joint ownership or control over the infringing product.”¹⁷⁷ Blending the two tests together is unnecessary and imposes an undue burden on trademark right holders.

The similarity between the *Ives* test and the *Tiffany II* test is readily apparent. The Second Circuit merely replaces the goods requirement with a goods or services requirement, preserving the use and knowledge standards of the *Ives* test.¹⁷⁸ Although the Supreme Court may alter this standard within *Ives*’s structure, there is no indication that an additional element is necessary to apply the test in the OSP context. As the Supreme Court noted most recently in *Citizens United v. FEC*, “[o]ur precedent is to be respected unless the most convincing of reasons demonstrates that adherence to it puts us on a course that is sure error.”¹⁷⁹ Common law tort principles support liability for those who permit another to act tortiously through the use of another’s premises or instrumentality.¹⁸⁰ Moreover, the Court’s only other commentary on the doctrine was in *Sony Corp. of America v. Universal City Studios, Inc.*,¹⁸¹ soon after the decision in *Ives*, where it reaffirmed the *Ives* test as the “narrow standard” for contributory trademark infringement.¹⁸² A further narrowing of the standard is unlikely because it would violate the Court’s jurisprudence and remove the standard from its grounding in tort law. Thus, the proper test for OSPs is the Second’s Circuit’s modified *Ives* test.

¹⁷⁷ MCCARTHY, *supra* note 16, at § 25:22.

¹⁷⁸ Compare *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982), with *Tiffany II*, 600 F.3d 93, 106 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010).

¹⁷⁹ 130 S. Ct. 876, 911–12 (2010).

¹⁸⁰ RESTATEMENT (SECOND) OF TORTS § 877(c) (1979) (“For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he . . . permits the other to act upon his premises or with his instrumentalities, knowing or having reason to know that the other is acting or will act tortiously.”).

¹⁸¹ 466 U.S. 417, 439 n.19 (1984).

¹⁸² *Id.*

B. *The Standard for “Knowledge”*

The knowledge requirement of *Ives* is based on the common law of torts. This requirement contemplates actual knowledge. The “reason to know” requirement is generally meant to “denote the fact that the actor has information from which a person of reasonable intelligence or of the superior intelligence of the actor would infer that the fact in question exists, or that such person would govern his conduct upon the assumption that such fact exists.”¹⁸³ Therefore, a standard that requires a significantly altered construction of the *Ives* test cannot meet this level of knowledge.

This Note argues that the courts must reject the specific knowledge test, the reasonable anticipation test, and the direct control and monitoring rule because none of these tests accurately reflect the meaning of the knowledge prong. Instead, this Note proposes that existing case law and common law tort principles continue to support the willful blindness doctrine as well as an additional interpretation of the knowledge prong based on the early common law understanding of the doctrine. The alternative interpretation that this Note proposes looks to the Supreme Court’s first iteration of the test in *Eli Lilly* for instruction. In *Eli Lilly*, the Court formulated the second prong of the doctrine as the act of “designedly enabling” a fraud.¹⁸⁴ This prong was created to encapsulate the English rule: “whether the defendants have or have not knowingly put into the hands of the [direct infringer] the means of deceiving the ultimate purchasers.”¹⁸⁵

First, both the reasonable anticipation and specific knowledge requirements, supported respectively by the Third Restatement of Unfair Competition and the Second Circuit, should be rejected. The principle reason is that both of these standards ignore the on-going relationship between the two parties that allows the infringement to occur and continue to occur through the provision of services. The direct infringer and the party facilitating that infringement are not mere strangers in a faceless Internet world.

¹⁸³ RESTATEMENT (SECOND) OF TORTS § 12(1) (1965).

¹⁸⁴ *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530 (1924).

¹⁸⁵ *N. K. Fairbank Co. v. R. W. Bell Mfg. Co.*, 77 F. 869, 878 (2d. Cir. 1896) (quoting *Lever v. Goodwin*, 36 Ch. 1 (1887)).

Both the reasonable anticipation standard and the specific knowledge standard rely too little or too much, respectively, on the actions of the trademark right holder to determine liability; rather, the focus should be on the actions of and relationship between the infringer and alleged contributory infringer. In *Ives*, there was no discussion of notice to the generic drug manufacturer about the pharmacists' actions. In *Hard Rock Cafe*, the court noted that no notice was given to the landlords, but proceeded to elaborate on the contours of the willful blindness standard.¹⁸⁶ The focus of the courts was unequivocally tied to the nature of the relationship between the manufacturer or landlord and the direct infringer. Moreover, the reasonable anticipation and specific knowledge standards are unduly burdensome for either the alleged infringer or the aggrieved trademark right holder. The reasonable anticipation standard would require hyper-vigilance on the part of OSPs; the specific knowledge standard would impose too high a financial cost on trademark right holders seeking to preserve their trademark rights. The realities of enforcing the common law protection of the contributory trademark infringement doctrine to OSPs should not be ignored in reformulating the doctrine to fit the modern world.

The test proposed here allows for a more generalized knowledge than the specific knowledge bar applied by the Second Circuit in *Tiffany II*, but it is not the generalized knowledge standard rejected by that court. This Note proposes that the meaning of the knowledge prong should be interpreted to find liability where: (a) knowledge of a particular type of fraud or abuse is widespread and (b) the OSP knows or has reason to know that its service is a necessary tool that designedly enables third-party infringement. To designedly enable infringement, the service must be an essential part of the process in completing the infringement. For example, in the case of a credit card processor and infringing site, no online sale would occur without the payment processing. In the example of an online marketplace like eBay, this knowledge standard would impose liability where the design of eBay's seller platform is an essential part of the process to complete the infringement. The evidence in *Tiffany II* suggests that eBay's

¹⁸⁶ See *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

system is able to quickly disable infringing listings when reported by the trademark holder.¹⁸⁷ However, its failure to devise a system that prevents or limits the ability of infringers to post infringing articles in the first place suggests that liability may be imposed under this new standard were it applied to a case like *Tiffany II*. This Note acknowledges the difficulties OSPs may experience in designing new systems to accommodate the rights of trademark holders, but ultimately concludes that OSPs will be able to design systems that do not by their very design serve to enable infringement without a significant burden to the OSPs.

In addition, this new standard still allows liability to attach under the willful blindness and specific knowledge standards. *Tiffany II* correctly expounded on the requirements of willful blindness. Specific knowledge could still be required where there is a lack of information about whether a given type of direct infringer is utilizing a service in a particular way or has somehow managed to circumvent new measures designed to prevent infringing sales. Where there is genuine ambiguity about whether a specified service is facilitating infringement by its very design, specific knowledge of infringement is the appropriate standard. This standard is correct in this instance because holding a party liable for contributory infringement where that party cannot identify an infringement would violate the knowledge requirement.

However, in many instances infringement by the primary infringer will be much more obvious. For example, when web sites explicitly state that replicas or fakes with the trademark on the items are sold, there is a sufficiently obvious violation and OSPs must design systems or methods to root out these violators and deny their services to these infringing parties. These are cases where the OSP knows or should know that the product being sold is infringing without additional information from the trademark right holder. The Second Circuit clearly believed that the willful

¹⁸⁷ See *Tiffany II*, 600 F.3d 93, 106 (2d Cir. 2010), *cert. denied*, 131 S. Ct. 647 (2010) (citations omitted) (internal quotation marks omitted) (“For nearly a decade, including the period at issue, eBay has also maintained and administered the Verified Rights Owner (‘VeRO’) Program—a notice-and-takedown system allowing owners of intellectual property rights including Tiffany, to report to eBay any listing offering potentially infringing items, so that eBay could remove such reported listings.”).

blindness standard would cover these types of obvious activity.¹⁸⁸ However, many OSPs will not have the same investigatory procedures or capabilities in place as eBay did and signs of blatant infringement may go unnoticed. Although the Second Circuit accepts the alternative standard of willful blindness, its ultimate ruling on knowledge points to the need for the “designedly enabled” standard of knowledge as well. *Tiffany II* implies that once some knowledge of infringing activities is made, the OSP is on notice of potential future infringement and must act accordingly.¹⁸⁹ The “designedly enabled” requirement simply imposes on OSPs the obligation to make sure they are not actively facilitating infringement by providing services in such a way as to make infringement as equally likely as legal activity.

IV. SOLUTIONS OUTSIDE OF THE COURTROOM

Although suits for contributory trademark infringement are one strategy trademark holders may pursue, they are unlikely to deter or stop the sale of counterfeit products absent a change in the contributory trademark infringement doctrine. Alternative avenues for trademark protection may in fact yield greater results in tackling the problem. One such strategy is to collaborate with credit card processors and payment processors to cut off the primary payment methods utilized by counterfeiters. Another solution is to change the norms surrounding intellectual property violations by increasing both the ability of customs and other law enforcement personnel to identify counterfeits and arrest violators and the criminal punishment for offenders.

A. *An Uneasy Marriage: Credit Card Processors and Trademark Holders*

A coalition between payment processors and trademark holders may provide the easiest means to shut down counterfeit sites and sellers on auction sites. Payment processors are increasingly aware of their potential liability under the theory of contributory trademark infringement. The dissent by Judge Kozinski in *Perfect*

¹⁸⁸ See *id.* at 109.

¹⁸⁹ *Id.* at 109–10.

*IO*¹⁹⁰ suggests that payment processors may have plenty to worry about in the future from trademark holders seeking to shut down infringing Internet sellers. Kozinski applied *Lockheed's* service test and determined that “credit cards are directly involved in every infringing transaction; not only do they process the payment for virtually every sale . . . they control whether such transactions will go forward. This is more than enough to establish ‘control and monitoring.’”¹⁹¹ Presumably circuits that require a lesser degree of knowledge would have an easier time finding liability.

Furthermore, the Southern District of New York in *Gucci America, Inc. v. Frontline Processing Corp.*¹⁹² determined that a credit card processor could be liable under the Second Circuit’s theory of contributory trademark infringement.¹⁹³ The district court noted that the sale of infringing goods wholly depended on the provision of credit card services by the defendants, relying on Judge Kozinski’s reasoning in *Perfect IO* that “[i]n a commercial environment, distribution and payment are . . . like love and marriage—you can’t have one without the other. If cards don’t process payments, pirates don’t deliver booty.”¹⁹⁴ Even if the direct control and monitoring rule were to continue to be applied by the courts, the reasoning of courts could begin to follow that of Judge Kozinski’s realistic approach to online infringement.

Credit card and payment processors are likely to heed the warning. One instructive example is that of payment processors and child pornography sites. Child pornography, like counterfeiting, is a multi-billion dollar industry that has grown with the success of the Internet due to the ease of access to illicit material and the ability to pay by credit card or payment processor.¹⁹⁵ Although child pornography is clearly a different and more obvious form of exploitation, the same principle of “shutting

¹⁹⁰ 494 F.3d 788 (9th Cir. 2007) (Kozinski, J., dissenting).

¹⁹¹ *Id.* at 822 (Kozinski, J., dissenting).

¹⁹² 721 F. Supp. 2d 228 (S.D.N.Y. 2010).

¹⁹³ *Id.* at 249–50.

¹⁹⁴ *Id.* at 253 (quoting *Perfect IO*, 494 F.3d at 818 (Kozinski, J., dissenting)).

¹⁹⁵ *The Financial Coalition Against Child Pornography—Fact Sheet*, NAT’L CTR. FOR MISSING & EXPLOITED CHILDREN (Feb. 1, 2011), http://www.missingkids.com/missingkids/servlet/PageServlet?LanguageCountry=en_US&PageId=3703 [hereinafter *Fact Sheet*].

down the money” applies where money is the major reason the illicit market thrives online and criminal enforcement of the laws is difficult if not impossible.

One group that has sought to “shut down the money” is the Financial Coalition Against Child Pornography (“the Coalition”), which promotes best practices for preventing and detecting child pornography in order to remove child pornography merchants from payment and credit card processor services.¹⁹⁶ The Coalition has as its members most major credit card processors, Internet pay processors like PayPal, and the domain registrar GoDaddy.com, Inc.¹⁹⁷ The recommended approach involves gathering information about the proposed business, screening merchants, and requiring identifying background information on owners before pay services are provided to ensure they are legitimate sellers.¹⁹⁸ Some follow-up monitoring of the sites is recommended; however, the principle mechanism is a preventative one.¹⁹⁹

This approach does not require payment processors to maintain constant vigilance. Instead, this approach requires due diligence from processors seeking to enter a business relationship with a web site that wants the ability to receive payment from customers. The same level of due diligence for proposed counterfeit sites is likely to reduce the ability of illicit sellers to reach customers. Requiring that payment processors and OSPs perform some due diligence on those utilizing their services is clearly a fair bargain to make when many sites and sellers openly brand themselves as offering fakes, replicas, and copies.

B. Changing Norms and a Role for Law Enforcement in Intellectual Property Crimes

The criminalization of intellectual property crimes was a decision made by Congress; however, difficulties in enforcing these penalties have reduced the deterrent value of these criminal

¹⁹⁶ FIN. COAL. AGAINST CHILD PORNOGRAPHY, *Internet Merchant Acquisition and Monitoring Best Practices for the Prevention and Detection of Commercial Child Pornography*, FDIC (May 2007), <http://www.fdic.gov/news/news/financial/2007/fil07072a.pdf>.

¹⁹⁷ *Fact Sheet*, *supra* note 195.

¹⁹⁸ *Id.* at 2–7.

¹⁹⁹ *Id.* at 8–10.

penalties to almost nothing.²⁰⁰ President Obama's White Paper provides guidelines for increasing the deterrent effectiveness of criminal penalties for counterfeiting offenses.²⁰¹ These recommendations include increasing statutory maxima and sentencing ranges, increasing law enforcement and rights holders' access to pre-seizure and post-seizure information, increasing pharmaceutical regulations, permitting voluntary disclosures of infringing products to relieve an unwitting party of liability, and strengthening CBP's authority to issue penalties.²⁰² Although these are small steps, they will increase the ability of law enforcement and rights holders to successfully identify infringements and carry out the law. A collaborative approach that allows rights holders to identify infringing products quickly will boost CBP's ability to act swiftly against infringing importers. Increased penalties will also make the lucrative counterfeit business less attractive to some offenders and keep more offenders off the streets or the web for a longer time period.

CONCLUSION

The doctrine of contributory trademark infringement is an increasingly important tool for trademark holders fighting the sale of counterfeit goods online. Pursuing direct infringers is both costly and meaningless where the global scale of trademark infringement barely allows trademark owners to put a dent in infringing sales. Alternatives to civil suits in the form of coalitions between brand owners and payment processors or increased CBP enforcement capacity may be essential to stemming the flow of illicit goods. Ultimately, this Note proposes that certainty regarding the doctrine of contributory trademark infringement will allow trademark holders to make smart choices in defending their brands online, and allow OSPs to protect against allegations by creating and designing new systems to prevent infringement that comply with the law. The doctrine must also prove to be workable in the context of the Internet because the number of goods sold online and imported into the United States continues to grow and,

²⁰⁰ See *supra* text accompanying notes 6–43.

²⁰¹ WHITE PAPER, *supra* note 44, at 1.

²⁰² *Id.* at 1–3.

for practical and jurisdictional reasons, the only recourse trademark holders will have is the contributory infringement doctrine. The flow of counterfeit products is likely to increase as the profits to be gained are great and the current penalties, both penal and financial, are limited. Stopping the flow of products is only possible if OSPs bear some of the responsibility for limiting direct infringers capacity to infringe.

Part III of this Note argues that the courts should universally adopt the modified *Ives* standard, and reject the “direct control and monitoring rule” of the Ninth Circuit. Ignoring the common law underlying the *Ives* decision would remove the justification for imposing any liability for contributory trademark infringement. The courts must adopt a rule that complies with common law precedent and protects the traditional rights held by trademark owners. Treating OSPs under a special category of liability because of the new and unique nature of the Internet does a disservice to both right holders and consumers who rely upon trademark owners to protect their mark and keep infringing materials out of the marketplace. OSPs must share their portion of the responsibility where they intentionally or negligently allow infringement to continue through the use of their services. Therefore, interpreting the knowledge prong to include knowledge of widespread infringement with a service that designedly enables the primary infringer is both more consistent with historical precedent and better able to respond to the realities of infringement in the modern age.

Although there may be alternatives to a robust contributory infringement test, as discussed in Part IV, these alternatives should be viewed as additional methods for stopping the ever-increasing flow of online infringement. The courts must adapt the contributory trademark infringement doctrine to the realities of Internet based infringement—not by altering the test, but by understanding the underlying nature of OSPs as infringement enablers. OSPs must design their services or perform due diligence to ensure that they provide services based on a system that does not ignore or actively enable tortious conduct. The costs of Internet immunity for OSPs to consumers and right holders alike should be measured against the benefit of freeing OSPs from liability for all contributory trademark infringement suits. The

law must adapt to the realities of online infringement. If not, the dual purposes of the trademark law—to protect customers and brands alike—will be forever lost in favor of counterfeiters, pirates, and all those who designedly enable infringement.