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$10.8 Million Infringement Verdicts Approved For Web Host, Manager; Server Award Nixed

An over $32 million copyright and trademark infringement statutory damages verdict to French luxury goods maker Louis Vuitton Malletier S.A. against three U.S. parties involved in a web hosting service was sliced by a third by the U.S. District Court for the Northern District of California March 19 (*Louis Vuitton Malletier S.A., v. Akanoc Solutions Inc.*, N.D. Cal., No. 07-3952, 3/19/10).

Jurors found in 2009 that Akanoc Solutions Inc., server owner Managed Solutions Group Inc., and owner/operator Steven Chen knew or should have known that customers were using their services to infringe on the Louis Vuitton trademark and failed to shut down the websites

On defendants' motion for judgment as a matter of law, Judge James Ware held that, except with respect to the server owner, the jury had a legally sufficient evidentiary basis to reach that verdict. The server owner, however, could not be held liable because of a lack of evidence of its knowledge of or contribution to the infringement.

The statutory damages award was not unconstitutionally punitive, the court held. The amount was within the limits set by the Copyright Act and the Lanham Act, and not obviously unreasonable. The court noted that substantive due process challenges to damages awards are rarely successful.

The court denied the company and its operator's motion for judgment as a matter of law, but granted the server owner's motion, reducing the damages award to $21.6 million.

Andy Coombs, who represented Louis Vuitton, told BNA that the court's ruling was an important endorsement of the principle that online services must expeditiously act to remove infringing content from their services when they become aware of it, not only in response to a DMCA notice but also content that infringes trademark rights.

''It is also important that the court sustained the statutory damages award, and held that it did not offend due process protections,'' Coombs said.

Jurisdictional Challenges Rejected Under Server Test. The defendants argued that they could not be held contributorily liable for subscribers' infringement, because the Copyright Act and the Lanham Act did not reach users' alleged infringement in China. The court was not persuaded.

Unauthorized copying, public display, and importation of copyrighted works within the United States triggers the application of U.S. copyright law, the court said. The evidence showed that defendants' clients owned or operated websites on their U.S.-based servers, through which they sold counterfeit goods to U.S. customers.

Plaintiff's investigator purchased numerous counterfeit goods from defendants' subscribers, the court found, and the subscribers stored and displayed unauthorized digital depictions of the goods online.

An image stored in a computer is a ''copy'' for purposes of the Copyright Act, the court explained, looking to *Perfect 10 Inc. v. Amazon.com Inc.*, 508 F.3d 1146 (9th Cir. 2007)(95 ECD, 05/17/07), for support. *Perfect 10* called the standard the ''server test.'' Under that standard, courts ask first whether an image was stored as electronic information, and then whether that data was served to users.

''Here, the evidence established that Defendants' servers stored and served the data, including pictures, used by the websites that offered counterfeit goods for sale to U.S. customers.'' That was enough, the court said, to find the subscribers that sold those goods came within the reach of the Copyright Act, and could be held directly liable for infringement.

The court also said that the subscribers' digital pictures of counterfeit goods were ''fixed'' in a form that could be perceived, reproduced, or communicated. ''To find otherwise would render the protection of a copyright meaningless by permitting, for example, unauthorized digital copies of a paper photograph to be noninfringing simply because the copy is embodied in a different medium than the original work.''

The Lanham Act reached the Chinese customers, as well, the court held. Under *Timberland Lumber Co. v. Bank of America National Trust & Savings Ass'n*, 549 F.2d 597 (9th Cir. 1976), courts consider three factors to determine whether infringement claims reach foreign defendants: (1) some effect on American foreign commerce, (2) a cognizable injury to plaintiffs, and (3) strong links to American foreign commerce in relation to that of other nations.

The first two *Timberland* factors are satisfied, the court said, when the sale of infringing goods in a foreign country causes financial harm to a domestic plaintiff. As a result, they were met here.

The third factor also favored the application of the Lanham Act to the foreign defendants. In general, the factor favors jurisdiction unless a foreign court has concluded that a defendant has a legal right to use the marks, an event that did not occur here.

Multiple Notices Created Infringement Knowledge. The defendants, except the server owner, were properly found liable for contributory copyright infringement because they had notice-based knowledge of users' infringement and did not remove content they knew was infringing.

Contributory copyright infringement requires knowledge of another's infringement and either a material contribution to or inducement of the infringement. *Perfect 10 v. Visa Int'l Serv. Assoc.*, 494 F.3d 788 (9th Cir. 2007).

A&M Records Inv. v. Napster Inc., 239 F.3d 1004 (9th Cir. 2001), explained that both steps are satisfied when a service gets an infringement notice and does nothing about it. ''If a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement[,]'' *Napster* held.

Under *Napster*, knowingly providing the ''site and facilities'' for infringing activity is a material contribution.

Here, the court found ample evidence that the ISP and its operator had notice of infringing activity occurring on websites hosted on their service, and materially contributed to the infringement by failing to remove the content or disable access. ''Plaintiff sent many letter notices to Defendants identifying specific websites that were selling counterfeit goods infringing Plaintiff's copyrights.''

But that standard was not met for the server owner, the court held, with very little discussion.

> Here, the evidence at trial established that Defendant Managed Solutions Group, Inc., owned servers that were operated by Defendant Akanoc Solutions, Inc., and its principal, Defendant Steve Chen, to host websites that advertised and sold goods containing Plaintiff's copyrights. There was no evidence that Defendant Managed Solutions Group, Inc. sold domain names or operated the servers. Accordingly, the Court GRANTS Defendant Managed Solutions Group, Inc.'s Motion for Judgment as a Matter of Law.

No DMCA Safe Harbor. The DMCA provides safe harbors for online service providers against claims arising from users' infringement. 17 U.S.C. § § 1201 et seq. Those protections apply to services involving transitory digital communications, system caching, information residing on systems at users' direction, and information location tools. *Perfect 10 Inc. v. CCBill LLC*, 488 F.3d 1102 (9th Cir. 2007) (64 ECD, 04/4/07).

The safe harbor is an affirmative defense to copyright infringement claims, and limits remedies to injunctive relief. In order to qualify for the safe harbor, services must meet several threshold conditions set forth in 17 U.S.C. § 512 (i) (1) (A):

- adopt a policy prohibiting infringement;
- reasonably implement that policy by designating an agent to receive and respond to DMCA notices;
- inform subscribers about the policy; and
- terminate access for repeat infringers.

Defendants did not meet DMCA requirements, the court held, because they did not designate an agent with the Copyright Office to receive DMCA notices until four months after the case was filed. ''At a minimum, Defendants would not be able to claim the protection of the safe harbor provisions prior to designating an agent[,]'' the court remarked.

But even if they had, they would not have qualified for the safe harbor because they did not terminate certain repeat infringers, and the agent testified that he did not understand the DMCA's requirements related to implementing the required policy.

Heightened Lanham Act Standards Met, Too. The Lanham Act's use in commerce and likelihood of confusion elements supported the jury's conclusion that the defendants' subscribers could be held directly liable for trademark infringement, the court held. Defendants were thus subject to potential secondary trademark infringement liability, as well.

''The tests for secondary trademark infringement are . . . more difficult to satisfy than those required to find copyright infringement[,]'' the court remarked, quoting *Visa*.

For secondary trademark liability, a defendant must have ''intentionally induced'' the infringement, or continued to supply an infringing product with knowledge that the infringer is mislabeling the product. *Visa*.

The second category applied here, the court held. Where a defendant supplies a service instead of a product, the ''supply an infringing product'' requirement is met when a defendant has direct control of and can monitor the system. *Lockheed Martin Corp. v. Network Solutions Inc.*, 194 F.3d 980 (9th Cir. 1999). Willful blindness to infringement also supports a finding of contributory infringement, the court said.

As with the copyright claim, the court found insufficient evidence to support trademark infringement claims against the server owner. But the verdict was supported by sufficient evidence against the ISP and its operator, the court held.

In This Issue

The ISP was in a position to control its service, the court noted. And it had tools to monitor servers and terminate abusive users.

Statutory Damages Not Excessive. Defendants' motion for a new trial on the grounds that the damages award was unconstitutionally excessive was without merit, the court held.

The jury awarded plaintiffs $300,000 against each defendant under the Copyright Act for willful infringement of two copyrights. Statutory damages for willful copyright infringement may be awarded up to $150,000 per violation, the court noted. 17 U.S.C. § 504(c)(2).

The jury also awarded $10,500,000 per defendant under the Lanham Act based on infringement of 13 marks. The Lanham Act permits damages awards up to $1,000,000 per counterfeit mark per type of goods or services sold. 15 U.S.C. § 1117(c)(2).

Both awards were within the statutory limits, the court found. The damages statutes were also not unconstitutional as applied, the court held.

Juries have broad discretion to award damages within the statutory limits, the court said. ''A statutorily prescribed penalty violates due process rights only when the penalty subscribed is so severe and oppressive as to be wholly disproportionate to the offense and obviously unreasonable,'' the Ninth Circuit explained in *United States v. Citrin*, 972 F.2d 1044 (9th Cir. 1992).

Courts routinely reject substantive due process challenges to statutory damages awards, the court said. The court said it was aware of only three cases where such challenges succeeded.

In *Facebook Inc. v. Wallace*, No. 09-798 (N.D. Cal. Oct. 29, 2009), the court held that a statutory damages award totaling more than $7 billion based on CAN-SPAM Act and California law violations was egregious.

The two other cases involved class certification fairness issues and claims under the Fair and Accurate Credit Transactions Act, the court said, distinguishing the facts. The FACTA has a $100-$1000 damages range, and the purported classes in those cases sought up to $4 billion.

''Here, Defendants have not shown that the award of statutory damages was so severe and oppressive as to be wholly disproportionate to the offense and obviously unreasonable[,]'' the court held.

The jury also did not err in finding the ISP's general manager and sole owner personally liable. ''A corporate officer or director is, in general, personally liable for all torts which he authorizes or directs or in which he participates, notwithstanding that he acted as an agent of the corporation and not on his own behalf[,]'' the court said, quoting *Comm. for Idaho's High Desert Inc. v. Yost*, 92 F.3d 814 (9th Cir. 1996).

Terminating Infringement Not Impossible. Defendants argued, among other assertions, that a permanent injunction should not be imposed because it would be technically impossibly to comply. They argued that the broad language of the plaintiff's proposed injunction would require them to monitor all of the websites they host to identify infringing content, and then shut down the websites.

''Defendants raise legitimate concerns[,]'' the court remarked. But the court limited the injunction to enjoin the defendants from knowingly hosting websites which contain infringing content.

''To facilitate compliance, the injunction does require Defendants to maintain records and to publish its terms of use. However, the injunction does not require Defendants to constantly monitor websites they are hosting to identify those with infringing content.''

Louis Vuitton Malletier SA was represented by Andy Coombs and Annie S. Wang, of J. Andrew Coombs, A Prof. Corp., in Glendale, Calif.

Defendants Akanoc Solutions Inc., Managed Solutions Group Inc., and Steven Chen were represented by Brian S. Edwards, of Houser & Allison, in Irvine, Calif.; and David A. Gauntlett, James A. Lowe, of Gauntlett & Associates, in Irvine, Calif.

BY AMY E. BIVINS

Full text of opinion at http://pub.bna.com/eclr/07cv3952_31910.pdf

Damages award at http://pub.bna.com/eclr/07cv3952_damagreduce.pdf