

# Web hosting industry vulnerable to federal trademark liability

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A recent federal judgment calls attention to the need for an expansion of the current safe harbor in federal law to cover trademark infringement claims against Internet service providers, search engine optimizers, Web hosting service providers and other entities providing services for online businesses.

On May 14 the U.S. District Court for the District of South Carolina issued a judgment in *Roger Cleveland Golf Co. v. Prince* against Bright Builders Inc. for \$770,750 based on a jury verdict of trademark infringement under the Lanham Act.

Bright Builders provided Internet access, Web development and hosting, Web designing and website marketing services.

Its fellow defendant, Prince Distribution LLC, operated a website called [www.copycatclubs.com](http://www.copycatclubs.com) that sold golf supplies, some of which were found to be counterfeit Cleveland golf clubs. Prince Distribution was assessed a judgment of \$28,250.

This judgment raises compelling questions of fundamental fairness. Prince Distribution operated the offending website. It received money for counterfeit golf clubs. Yet Bright Builders, its Web design and Web hosting vendor, was hit with a monetary damages award 27 times the award imposed on Prince Distribution.

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The disproportionate share of the award in relation to Bright Builders' culpability is breathtaking and has no rational basis in law or sound public policy.

Roger Cleveland Golf Co. trumpeted this result.

"Companies like Bright Builders who can amplify the impact and scope of this problem are even more dangerous," Stephen Gingrich, Cleveland's vice president of global legal enforcement, said in a statement.

"Counterfeiting has existed for thousands of years but has been a localized issue. The Internet, ease of global shipping and payments, combined with SEOs and Web hosts injecting steroids into the situation, has brought the issue into every consumer's living room," Gingrich said.

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These remarks seem curiously misdirected at the Web hosting company rather than the infringers. It may be that the explanation lies with the fact the company actually responsible for counterfeiting declared bankruptcy before trial. The complaint was then amended to include Bright Builders, and the focus of litigation shifted from the counterfeiters to the Web host/SEO.

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The damages award against Bright Builders undermines the principle of proportionality by supporting an award wholly disproportionate to the defendant's individual culpability and to its culpability as compared with the actual infringers.

None of this would have happened if Bright Builders were a registrar or other domain name authority.

The complaint filed by Cleveland Golf claimed Bright Builders was liable under 15 U.S.C. § 1114 for the infringement of registered trademarks, and Bright Builders was found liable on this ground.

Deep within Section 1114 is the following safe-harbor provision:

A domain name registrar, a domain name registry, or other domain name registration authority *shall not be liable for damages* under this section for the registration or maintenance of a domain name for another *absent a showing of bad-faith intent to profit* from such registration or maintenance of the domain name.

15 U.S.C. § 1114(2)(D)(iii) (2009) (emphasis added).

This provision of the Anticybersquatting Consumer Protection Act reflects a safe harbor from trademark liability that Congress created for registrars, registries and domain name registration authorities.

Legislative history confirms "the bill does not extend to innocent domain name registrations by those who are unaware of another's use of the name, or even to someone who is aware of the trademark status of the name but registers a domain name containing the mark *for any reason other than with bad-faith intent to profit* from the goodwill associated with that mark." S. Rep. 106-140, at 13 (1999) (emphasis added).

A fair question under Section 1114(2)(D)(iii) is whether a business like Bright Builders, which provides domain name services but does not act as a domain name registration authority, qualifies for this exception.

It offered domain name and Web marketing services for another company, and there

was no evidence Bright Builders acted “with bad-faith intent to profit from the goodwill associated with” the Cleveland marks.

It is unclear why Bright Builders should be held liable for trademark infringement absent a factual showing of bad faith while a registry or registrar would be immune as a matter of law.

In each instance, the safe harbor precludes liability for an entity not directly profiting from trademark infringement in the conduct of online commerce.

Even if the safe harbor does not expressly cover Web hosting companies, SEOs and other e-commerce advisers, the *Cleveland Golf* judgment calls attention to the need to amend the legislation in this area.

The explosion of Web-based design and marketing services since 1999, when the safe harbor was enacted — brilliant minds have been busily engaged in attracting Internet browsers — means the list of parties expressly entitled to the safe harbor should be expanded beyond registries, registrars and domain name registration authorities to include Web hosting companies.

Unless Congress closes this loophole, its careful balancing of rights for trademark holders and online businesses will become lopsided in favor of trademark holders.

Small businesses specializing in Web hosting, SEOs and online marketing will be at the mercy of unreasonable claims of trademark infringement on the basis they did not personally monitor the commercial activities of each of their clients and shut down the websites of any domain name holder they suspect of trademark infringement.

Federal law does not require registries and registrars to police the content of their customers’ websites, and there is no good reason to impose such a draconian rule on companies like Bright Builders that offer related services.

Until Congress can act, hosting companies and others should read the *Cleveland Golf* decision as a wakeup call. There is a crying need for policies and disclaimers to shield them from contributory infringement. Boilerplate indemnity clauses are not enough; at least they weren’t enough to protect Bright Builders once the website owner went bankrupt.

Sound risk management in this challenging area requires experienced legal counsel familiar with information technology and e-commerce, so appropriate policies and procedures may be established in time. **WJ**



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