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No.

IN THE
Supreme Court of the United States

TIFFANY (NJ) INC. AND
TIFFANY AND COMPANY,

Petitioners,

v.

EBAY INC.,

Respondent.

**On Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Second Circuit**

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

This Court held in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.* that a defendant is liable for contributory trademark infringement if “it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.” 456 U.S. 844, 854 (1982). The defendant in this case operates an online marketplace, which it knows is used to sell substantial quantities of goods that infringe the plaintiffs’ trademarks. The Second Circuit held, in direct conflict with the Ninth Circuit, that the defendant cannot be held liable for contributory trademark infringement unless the trademark holders can prove that the defendant knows which particular items are infringing.

The question presented is whether, under the doctrine of contributory trademark infringement, a defendant can be held liable for operating a marketplace that it knows is used to sell substantial quantities of goods that infringe a plaintiff’s trademark, even if it does not know which particular goods are infringing.

RULE 29.6 STATEMENT

Pursuant to this Court's Rule 29.6, undersigned counsel state that Petitioner Tiffany (NJ) Inc. was, on February 1, 2008, merged with and into Tiffany (NJ) LLC, which is a wholly owned subsidiary of Petitioner Tiffany and Company, which in turn is a wholly owned subsidiary of Tiffany & Co. Tiffany & Co. has no parent company, and no publicly held company owns 10% or more of its stock.

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PETITION FOR A WRIT OF CERTIORARI

Petitioners Tiffany (NJ) Inc. and Tiffany and Company (collectively “Tiffany”) respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Second Circuit.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a–42a) is reported at 600 F.3d 93. The opinion of the district court (App., *infra*, 43a–172a) is reported at 576 F. Supp. 2d 463.

JURISDICTION

The judgment of the court of appeals was entered on April 1, 2010. Justice Ginsburg extended the time in which to file a petition for a writ of certiorari to and including August 30, 2010. *See* No. 09A1205. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATEMENT

Tiffany designs branded jewelry that it manufactures in the United States for sale under its world-famous trademarks; respondent eBay Inc. operates an Internet-based marketplace in which users can purchase goods from other users. After a bench trial, the district court found that a “significant portion of the ‘Tiffany’ sterling silver jewelry listed on the eBay website . . . was counterfeit.” App., *infra*, 83a. The Second Circuit did not question this finding but nonetheless held that, “[f]or contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods.” *Id.* at 27a. Instead, the court of appeals con-

cluded, “[s]ome contemporary knowledge of *which particular listings* are infringing or will infringe in the future is necessary.” *Id.* at 27a–28a (emphasis added).

The opinion below cannot be reconciled with the Ninth Circuit’s decision in *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996). In *Fonovisa*, the Ninth Circuit concluded that the plaintiff had “stated a claim for contributory trademark infringement” based on allegations that the operator of a flea market was “aware that vendors . . . were selling counterfeit recordings in violation of [the plaintiff]’s trademarks.” *Id.* at 261, 265. In stark contrast to the Second Circuit’s approach, the Ninth Circuit did not require any allegation that the defendant knew *which particular recordings* were counterfeit.

The correct resolution of this disagreement is unquestionably important: The selection of appropriate standards for contributory liability in the context of Internet commerce is an issue that has received worldwide attention and indeed divided the courts in other countries. As the Second Circuit acknowledged, “[a] Belgian court declined to hold eBay liable for counterfeit cosmetic products sold through its website,” while “French courts . . . have concluded that eBay violated applicable trademark laws.” App., *infra*, 22a n.8; see also Valerie Walsh Johnson & Laura P. Merritt, *Tiffany v. eBay: A Case of Genuine Disparity in International Court Rulings on Counterfeit Products*, *Landslide*, Nov./Dec. 2008, at 22, 23. Given the undoubted importance of this issue, particularly in light of the global reach of online marketplaces such as eBay and the critical role played by trademarks in supporting consumer confidence in online commerce, the proper scope of federal

trademark law is an issue that warrants this Court's review.

1. For more than 170 years, Tiffany has "achieved great renown as a purveyor of high-quality and luxury goods" under the TIFFANY, TIFFANY & CO., T & CO., and other trademarks. App., *infra*, 49a. These trademarks are "indisputably famous" and are a "valuable asset owned by Tiffany." *Id.* at 50a. Since 2000, all new Tiffany merchandise sold in the United States has been available exclusively through Tiffany's retail stores, catalogs, webpage, and Business Sales division; Tiffany does not use liquidators, sell overstock merchandise, or hold "sales." *Id.* at 52a.

eBay operates an online marketplace at www.ebay.com, which "connect[s] buyers and sellers and . . . enable[s] transactions, which are carried out directly between eBay members." App., *infra*, 56a–57a. eBay generates revenue through various fees charged to its sellers. When a listing is created, eBay collects an "insertion fee" ranging from \$0.20 to \$4.80. *Id.* at 57a. If the item is sold, eBay collects a "final value fee" ranging from 5.25% to 10% of the sale price. *Ibid.* eBay earns additional revenue if the payment is processed through PayPal, an eBay subsidiary, which charges between 1.9% and 2.9% of the transaction amount, plus \$0.30. *Id.* at 58a. Between April 2000 and June 2004, eBay earned \$4.1 million in revenue from sales of purported Tiffany jewelry. *Id.* at 70a.

eBay repeatedly attempted to "boost" sales on its webpage by encouraging sellers to offer Tiffany merchandise. App., *infra*, 67a; *see also id.* at 68a (noting that eBay took "activ[e]" steps to "grow the sales of Tiffany items on its website"). In 2004, a newsletter

to jewelry sellers advised them to “us[e] recommended keywords to boost sales” and identified “Tiffany & Co.” as a recommended keyword because it had “been used often” in recent eBay searches. *Id.* at 67a. Again in September 2006, eBay told sellers that the terms “Tiffany” and “Tiffany & Co.” were top search terms. *Id.* at 68a. These were not isolated incidents; to the contrary, eBay regularly reported demand for Tiffany items through its “Hot Categories Report,” which identified keywords for which there was significant demand. *Ibid.*; *see also ibid.* (discussing eBay’s “Holiday Hot List,” which included Tiffany merchandise on a “detailed list of products predicted to be in high demand and short supply this holiday season”).

eBay rewarded the efforts of sellers who followed its advice by encouraging buyers to purchase Tiffany merchandise through eBay. *App.*, *infra*, 68a. Before 2003, eBay “actively advertised the availability of Tiffany merchandise on its website” and “purchased sponsored link advertisements on Yahoo! and Google advertising the availability of Tiffany items on eBay.” *Id.* at 69a. In response to a letter from Tiffany, eBay claimed to have stopped purchasing those links. *Ibid.* In fact, it simply enlisted the services of a third party, Commission Junction, to operate an “affiliate program” in which “sellers who registered as ‘affiliates’ contracted with Commission Junction and then bought sponsored links on Google.” *Ibid.* The affiliates could then be reimbursed “depending on how much business they drove to the eBay website.” *Ibid.* eBay did not ask Commission Junction to prohibit affiliates from using Tiffany as a keyword to trigger sponsored links or in the text of the sponsored links themselves, and thus the district court specifically found that “eBay did not fully discon-

tinue the practice of advertising Tiffany goods on eBay through sponsored links.” *Id.* at 70a.

In early 2003, Tiffany discovered that vendors were using eBay to sell large quantities of counterfeit Tiffany merchandise. To assess the extent of this illicit activity, Tiffany conducted two “Buying Programs”—one in 2004 and another in 2005—in which it purchased various Tiffany items on eBay and then determined how many of these items were counterfeit. App., *infra*, 79a–80a. In the 2004 Buying Program, Tiffany found that 73.1% of the goods purchased were counterfeit and only 5% were genuine. *Id.* at 80a.¹ In the 2005 Buying Program, Tiffany found that 75.5% of the items were counterfeit. *Ibid.* Although the district court ultimately concluded that these surveys provide only “limited evidence as to the total percentage of counterfeit goods available on eBay at any given time,” *id.* at 82a, it nonetheless found that “a significant portion of the ‘Tiffany’ sterling silver jewelry listed on the eBay website . . . was counterfeit,” *id.* at 83a; *see also id.* at 140a (noting the “voluminous” amount of counterfeit Tiffany merchandise). Indeed, even eBay’s own expert “conceded that a substantial amount of the ‘Tiffany’ jewelry listed on eBay’s website—30% or more—could safely be deemed to be counterfeit.” *Id.* at 82a.

Tiffany’s initial strategy for combating counterfeiting was to bring lawsuits directly against individual counterfeiters. App., *infra*, 70a–71a. Although it pursued several lawsuits against eBay sellers, *id.* at 70a & n.13, Tiffany soon realized that

¹ Tiffany concluded that the remaining 21.9% were potentially actionable but did not conclusively determine that they were counterfeit. App., *infra*, 80a.

this strategy was ineffective given the large number of counterfeiters on eBay (many of which used multiple usernames) and the fact that these eBay members were typically anonymous. Instead, Tiffany concluded that the better approach was to seek eBay's cooperation in attempting to stop the flow of counterfeit merchandise on its site. *Id.* at 71a.

In May 2003, Tiffany's outside counsel wrote eBay to complain about the "deluge of counterfeit Tiffany merchandise, the vast majority of which has been sold through eBay." App., *infra*, 71a. Noting that there were no authorized third-party vendors for Tiffany merchandise, the letter explained that it should "be apparent to eBay that any seller of a significant lot—*i.e.* five pieces or more—of purported 'Tiffany' jewelry is almost certainly selling counterfeit merchandise." *Id.* at 71a–72a. (In fact, some sellers were listing *thousands* of purported Tiffany items at a time. See C.A. App. 108–09.) The letter demanded that eBay immediately remove listings for all counterfeit Tiffany merchandise currently on the eBay website and take steps permanently to eliminate the sale of such counterfeit merchandise. App., *infra*, 72a.

eBay rejected these demands and instead encouraged Tiffany to participate in eBay's Verified Rights Owner ("VeRO") program, a "notice-and-takedown" system under which eBay could remove potentially infringing listings. App., *infra*, 72a; see also *id.* at 63a–66a. To trigger VeRO's takedown procedure, a trademark holder was required to submit a Notice of Claimed Infringement ("NOCI") attesting, under penalty of perjury, that it had a "good-faith belief" that the particular item is infringing. *Id.* at 64a. eBay primarily employed a "three-strikes

rule” for suspensions in response to NOCIs, under which a particular seller generally would be suspended from eBay only after its listings were subject to three NOCIs. *Id.* at 12a, 88a. VeRO did not, however, resolve eBay’s massive counterfeiting problem.²

Unable to stop counterfeiting on eBay through the VeRO program, Tiffany filed suit. Among other things, it alleged that eBay is liable for contributory trademark infringement under the Lanham Act, as well as the parallel doctrine under New York law.³ In addition to damages, Tiffany sought an injunction prohibiting eBay from “assisting in or contributing to the offering for sale, sale, advertising and/or promotion in the United States of . . . jewelry bearing the TIFFANY, TIFFANY & CO., or T & CO. trademarks, except for genuine merchandise that in its entirety has been made, sponsored or approved by [Tiffany].” App., *infra*, 187a.

2. After a bench trial, the district court entered judgment for eBay. App., *infra*, 44a–47a, 172a. The court began its analysis by noting that “[i]t is well established that ‘liability for trademark infringement can extend beyond those who actually mislabel goods

² To the contrary, “[i]n each year from 2003 through 2006, Tiffany reported substantially more listings [through VeRO] than it did the year prior.” App., *infra*, 76a. Tiffany reported 20,915 infringing listings in 2003; 45,252 in 2004; 59,012 in 2005; and 134,779 in 2006. *Ibid.* By the time of trial, Tiffany had reported a total of 284,149 listings. *Ibid.* These figures likely understate the actual number of counterfeit items because they “represent only listings,” whereas “a single listing may have offered multiple Tiffany items.” *Id.* at 76a n.16.

³ “The elements required to prevail on trademark infringement . . . under New York common law mirror the Lanham Act claims for trademark infringement” App., *infra*, 99a.

with the mark of another.” *Id.* at 115a (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853 (1982)). Under this Court’s decision in *Inwood*, the district court noted, a defendant may be held contributorily liable if it “continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.” *Id.* at 117a (quoting 456 U.S. at 854).⁴

The district court acknowledged that eBay was well aware that counterfeit Tiffany merchandise was being sold on its website. App., *infra*, 128a. For instance, Tiffany had “apprised eBay of the results of its Buying Programs” and “filed thousands of NOCIs alleging a good faith belief that certain listings were counterfeit or otherwise infringing on Tiffany’s marks.” *Id.* at 129a. In fact, the district court noted, “eBay was generally aware that counterfeit Tiffany jewelry was being listed and sold on eBay even prior to Tiffany’s initial demand letter.” *Id.* at 142a (emphasis omitted).

Thus, the district court characterized the relevant issue as “whether eBay’s *generalized* knowledge of trademark infringement on its website was sufficient to meet the ‘knowledge or reason to know’ prong of the *Inwood* test.” App., *infra*, 129a (empha-

⁴ *Inwood* arose in the context of a “manufacturer or distributor,” 456 U.S. at 854, but the district court recognized that its test for contributory trademark liability applies equally to service providers, like eBay, that “ha[ve] direct control over the means of infringement,” App., *infra*, 125a. Although eBay challenged this point before the district court, “[o]n appeal, eBay no longer maintain[ed] that it is not subject to *Inwood*.” *Id.* at 23a.

sis in original).⁵ The court held that, “while eBay clearly possessed general knowledge as to counterfeiting on its website, such generalized knowledge is insufficient under the *Inwood* test to impose upon eBay an affirmative duty to remedy the problem.” *Id.* at 130a. And because “a substantial number of authentic Tiffany goods are sold on eBay” in addition to the counterfeit items, “it . . . cannot be said that generalized knowledge of counterfeiting is sufficient to impute knowledge to eBay of any specific acts of actual infringement.” *Id.* at 133a–134a.

3. The Second Circuit affirmed. “For contributory trademark infringement liability to lie,” it concluded, “a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods.” App., *infra*, 27a. Instead, “[s]ome contemporary knowledge of *which particular listings* are infringing or will infringe in the future is necessary.” *Id.* at 27a–28a (emphasis added).

Although Tiffany had argued that *Inwood* imposes contributory liability whenever “the defendant knew or should have known that its product or service was being used to further illegal counterfeiting activity,” the Second Circuit held that the case did not “establis[h] the contours” of contributory liability because *Inwood* had “explicitly declined to apply [the

⁵ The district court acknowledged that “the situation is distinct with respect to the individual sellers against whom Tiffany filed NOCIs.” App., *infra*, 146a. Because “eBay’s practice was to promptly remove the challenged listing from its website,” however, the district court “conclude[d] that Tiffany has failed to prove that eBay continued to supply its services in instances where it knew or had reason to know of infringement.” *Id.* at 147a.

‘knows or has reason to know’] prong to the facts then before it.” App., *infra*, 28a (internal quotation marks omitted); *see also Inwood*, 456 U.S. at 852 n.12 (declining to reconsider the district court’s factual finding that “the petitioners did not continue to provide drugs to retailers whom they knew or should have known were engaged in trademark infringement”).⁶ The court of appeals instead looked to this Court’s “discussion of *Inwood* in a subsequent *copyright* case, *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).” App., *infra*, 28a–29a (emphasis in original).

In *Sony*, this Court rejected claims of contributory copyright infringement against the manufacturers of video cassette recorders that were used by some purchasers to commit copyright infringement. In a footnote, the Court explained that the test for contributory copyright infringement is broader than the test for contributory trademark infringement: “If *Inwood*’s narrow standard for contributory trademark infringement governed here,” the Court noted, the plaintiffs’ “claim of contributory infringement would merit little discussion” because Sony does not “supply its products to identified individuals known by it to be engaging in continuing infringement of [the plaintiffs’] copyrights.” 464 U.S. at 439 n.19.

The Second Circuit acknowledged that this footnote was *dicta* and that it contained, at best, an ab-

⁶ The Second Circuit noted parenthetically that, “insofar as [*Inwood*] speaks to the issue,” “the particular phrasing that the Court used—that a defendant will be liable if it ‘continues to supply its product to *one* whom it knows or has reason to know is engaging in trademark infringement’—supports the district court’s interpretation.” App., *infra*, 28a (quoting 456 U.S. at 854) (emphasis added by Second Circuit).

breviated description of the *Inwood* test. App., *infra*, 30a & n.11 (noting that “*Sony* refers to a defendant’s knowledge, but not to its constructive knowledge, of a third party’s infringing conduct”). Nonetheless, the Second Circuit concluded that *Sony*’s discussion of *Inwood* was controlling because it “constitute[s] the only discussion of [the ‘knows or has reason to know’] prong by the Supreme Court of which we are aware.” *Id.* at 30a.

The Second Circuit attempted to distinguish *Fonovisa*, which involved counterfeit records sold at a swap meet, only in a footnote. App., *infra*, 34a n.16. The court noted that “eBay’s efforts to combat counterfeiting far exceeded the efforts made by the defendants” in *Fonovisa*, and also that “the court in *Fonovisa* merely sustained the plaintiff’s complaint against a motion to dismiss.” *Ibid.*

The court of appeals therefore “agree[d] with the district court that “Tiffany’s general allegations of counterfeiting failed to provide eBay with the knowledge required under *Inwood*.” App., *infra*, 30a (quoting *id.* at 136a). Because “Tiffany failed to demonstrate that eBay was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods,” the Second Circuit “affirm[ed] the judgment of the district court insofar as it holds that eBay is not contributorially liable for trademark infringement.” *Id.* at 30a–31a.⁷

⁷ The Second Circuit remanded on Tiffany’s separate claim that eBay had engaged in false advertising of Tiffany goods on its website. App., *infra*, 42a. These remand proceedings, which are ongoing, do not address any issue that is relevant to the question presented.

REASONS FOR GRANTING THE PETITION

This Court should grant certiorari to clarify the type of knowledge required to impose liability for contributory trademark infringement. The Second Circuit below split with the Ninth Circuit in holding that the operator of an online marketplace where substantial quantities of counterfeit goods are sold cannot be held contributorily liable unless it has “[s]ome contemporary knowledge of *which particular listings* are infringing or will infringe in the future.” App., *infra*, 27a–28a (emphasis added). Particularly given the profound importance of the Second and Ninth Circuits in articulating and developing federal trademark law, this Court’s review is warranted.

The need for this Court’s guidance on the scope of contributory trademark infringement is particularly intense because, as the Second Circuit recognized, the Court most recently addressed the issue in 1982. The allocation of liability in this context ultimately determines who bears the burden of policing against trademark infringement, yet when the Court last considered the issue, the Internet was practically nonexistent. The Internet has since become an effective and widely used tool for counterfeiters to ply their trade, and the magnitude of that infringement on valuable trademark rights could scarcely have been imagined in 1982.

The decision below is the latest in an ongoing series of cases around the world that have attempted to define, in the face of these unprecedented developments in technology, the circumstances under which eBay and other Internet-based service providers can be held liable for the infringing conduct of their users. See App., *infra*, 22a n.8 (citing several foreign cases). The position of federal law on this issue is a

matter for the courts, as contributory trademark infringement has always been a “judicially created doctrine that derives from the common law of torts.” *Id.* at 19a. That position should be decided by the highest court in the country, not the Second Circuit.

I. THE SECOND CIRCUIT INCORRECTLY RESOLVED THE QUESTION PRESENTED AND CREATED A SPLIT WITH THE NINTH CIRCUIT.

The Second Circuit held that, “[f]or contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods.” App., *infra*, 27a. Instead, “[s]ome contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.” *Id.* at 27a–28a. This decision is incorrect and squarely conflicts with the Ninth Circuit’s decision in *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).

1. In *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, this Court held that a defendant is liable for contributory trademark infringement if “it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.” 456 U.S. 844, 854 (1982). The Second Circuit interpreted *Inwood* as drawing a distinction between “general” and “specific” knowledge of infringing activity, but the relevant question under *Inwood* is instead whether the defendant has continued to supply its product despite knowledge—whether characterized as “general” or “specific”—that its customers are using that product to commit trademark infringement.

In *Inwood*, the plaintiff manufactured and marketed a patented prescription drug under a registered trademark. 456 U.S. at 846. Once the patent had expired, generic drug companies began manufacturing the drug, using capsules in identical colors to those used by the plaintiff. *Id.* at 847. The plaintiff sued the generic drug manufacturers, claiming that their use of identically colored capsules contributed to the infringing activities of pharmacists who had substituted the generic drug and mislabeled it with the plaintiff's trademark. *Id.* at 849–50.

The district court entered judgment for the defendants, concluding that incidents of mislabeling “occurred too infrequently to justify the inference that the . . . use of imitative colors had ‘impliedly invited’ druggists to mislabel.” 456 U.S. at 853. On appeal, however, the Second Circuit concluded that the district court had failed to give sufficient weight to the “pattern of illegal substitution and mislabeling.” *Id.* at 855 (quoting *Ives Labs., Inc. v. Darby Drug Co.*, 638 F.2d 538, 543 (2d Cir. 1981)).

This Court reversed. But it did not reverse—as it might have done—because the “pattern” of infringing activity discussed by the Second Circuit was legally insufficient to trigger liability. Instead, it concluded that, under the standard of review following a bench trial, the Second Circuit could not have rejected the district court’s factual findings as clearly erroneous. *Inwood*, 456 U.S. at 855–56; *see also Ives Labs., Inc. v. Darby Drug Co.*, 488 F. Supp. 394, 397 (E.D.N.Y. 1980) (district court opinion) (“There was no proof of illegal substitution accompanied by mislabeling beyond the few instances referred to on the motion for a preliminary injunction.”).

In this case, the Second Circuit believed *Inwood* was of limited value because it did not contain a detailed analysis of the “knows or has reason to know” standard for liability. App., *infra*, 28a. That does not mean, however, that *Inwood* failed to offer *any* meaningful guidance. To the contrary, in articulating the test for contributory trademark infringement, the Court expressly and approvingly relied on Judge Wyzanski’s seminal opinion in *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980 (D. Mass. 1946), *aff’d*, 162 F.2d 280 (1st Cir. 1947), which forecloses any effort to distinguish between “specific” and “general” knowledge in this context.

In *Snow Crest*, Coca-Cola alleged that, “when bars received orders for rum (or whiskey) and Coca-Cola, [they] frequently substituted defendant’s product,” *Polar Cola*. 64 F. Supp. at 988. Although Judge Wyzanski ultimately concluded that Coca-Cola had inadequate evidence of this alleged infringement, *id.* at 989–90, his decision recognized that “general” knowledge of infringing activity would be sufficient for liability:

Plaintiff would have established a case against defendant if . . . plaintiff had given defendant *either* (a) credible information that would have led a normal bottler in defendant’s position to believe that so many bar customers specifically ordered “rum (or whiskey) and Coca-Cola” that in view of the volume of defendant’s sales many bars must necessarily be passing off defendant’s products as Coca-Cola, *or* (b) notice that particular named bars which defendant was continuing to supply were serving defendant’s

product when plaintiff's product was specifically ordered.

Id. at 989–90 (emphases added). Thus, *Snow Crest* recognizes that knowledge of pervasive infringing activity may support contributory liability. And since that decision forms the basis for the test announced in *Inwood*—indeed, the discussion of (b) and (a) in the quoted passage parallels the “knows or has reason to know” prong of *Inwood*—it would be anomalous indeed to conclude that eBay could be held liable *only* based on knowledge of “which particular listings are infringing” and thus could ignore evidence of widespread infringement on its website (including by specific sellers that had previously been identified as infringers). App., *infra*, 28a.

Because *Inwood* and *Snow Crest* thus resolve the question presented here, the Second Circuit had no need to resort to this Court's copyright decision in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). And it was particularly inappropriate for the Second Circuit to treat acknowledged *dicta* from that decision (App., *infra*, 30a) as requiring a different and more specific type of knowledge than *Inwood* or *Snow Crest* had required.

Sony is, in any event, easily distinguishable from this case and *Inwood*. The defendants in *Sony* “supplie[d] a piece of equipment”—a video cassette recorder—“that is generally capable of copying the entire range of programs that may be televised.” 464 U.S. at 436. Each video cassette recorder could be employed for entirely lawful purposes, or was at least “capable of commercially significant noninfringing uses.” *Id.* at 442. Once the recorder was sold, Sony had no way to control how it might be used by individual buyers. As this Court therefore recog-

nized, “[i]f vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge of the fact that its customers *may* use that equipment to make unauthorized copies of copyrighted material.” *Id.* at 439 (emphasis added). The Court concluded that “the business of supplying the equipment that makes [non-infringing] copying feasible should not be stifled simply because the equipment is used by some individuals to make unauthorized reproductions of respondents’ works.” *Id.* at 446.

None of this has anything to do with eBay’s infringing conduct here. eBay has ongoing control over what items may be sold on its marketplace, and it profits handsomely and directly from increased postings and sales whether or not the articles sold are genuine; it has not merely sold an article of commerce that *might* be misused without any ability on its part to control the potentially infringing activity. The issue, therefore, is whether, having created and profited from a marketplace that facilitates vast amounts of trademark infringement, eBay can purport to address that problem through steps that in practice are wholly unequal to the task and simply shift the costs of monitoring that market to the innocent trademark holder. eBay “knows or has reason to know” that its service is widely used for trademark infringement, and that is sufficient under *Inwood* to require eBay to eliminate the infringement—that is, to adopt procedures that actually are *effective* in removing the vast amounts of counterfeit Tiffany items in its for-profit marketplace.

2. In holding that “general” knowledge of infringing activity is insufficient for contributory liability, the decision below brings the Second Circuit into

direct conflict with the Ninth Circuit's decision in *Fonovisa*, which upheld the legal sufficiency of a complaint against a flea-market operator based on allegations that the operator was "aware that vendors . . . were selling counterfeit recordings in violation of [the plaintiff]'s trademarks." 76 F.3d 259, 261 (9th Cir. 1996). Although the district court in this case correctly recognized that "eBay is analogous to a flea market" like the one at issue in *Fonovisa*, App., *infra*, 128a, the Second Circuit nonetheless concluded that eBay could not be held liable for contributory trademark infringement even though it "knew . . . that counterfeit Tiffany products were listed and sold through its website," *id.* at 33a.

This division between the Second and Ninth Circuits is particularly problematic because those circuits each handle more trademark cases than any other regional court of appeals.⁸ Yet these two circuits have now staked out quite different positions on the type of knowledge required for contributory trademark infringement: The complaint in *Fonovisa* was legally sufficient *because*, yet eBay prevailed below *even though*, the market operator was aware of widespread counterfeiting in its market. This Court

⁸ See, e.g., Irina D. Manta, *In Search of Validity: A New Model for the Content and Procedural Treatment of Trademark Infringement Surveys*, 24 *Cardozo Arts & Ent. L.J.* 1027, 1032 n.22 (2007) (discussing statistics based on Westlaw searches and noting that, "[i]n terms of industries, New York City and Los Angeles present the most logical locations for [trademark] suits"); see also James C. Duff, Admin. Office of the U.S. Courts, *Judicial Business of the United States Courts: 2009 Annual Report of the Director* 187–200 tbl. C-11 (providing statistics at the district-court level).

should grant certiorari to bring national uniformity to this important issue of trademark law.

a. *Fonovisa* involved claims for contributory trademark infringement “against the operators of a swap meet, sometimes called a flea market, where third-party vendors routinely sell counterfeit recordings that infringe on the plaintiff’s . . . trademarks.” 76 F.3d at 260. In that case, as here, there was “no dispute for purposes of th[e] appeal that [the operators] were aware that vendors in their swap meet were selling counterfeit recordings in violation of [the plaintiff’s] . . . trademarks.” *Id.* at 261.

According to the allegations in the complaint, the local sheriff’s department had seized more than 38,000 counterfeit recordings at the swap meet just over a year before the plaintiff filed suit, and it notified the swap meet’s operators of the seizure. 76 F.3d at 261. After a return visit, the sheriff’s department informed the operators of “on-going sales of infringing materials,” *ibid.*, and an investigator hired by the plaintiff likewise discovered “between nine and twelve vendors selling counterfeits” on each of several visits to the swap meet, *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1495 (E.D. Cal. 1994).

Although these allegations were undoubtedly sufficient to show that the swap meet’s operators had “general knowledge” that their “service [was] being used to sell counterfeit goods,” App., *infra*, 27a, the allegations could not establish that the operators knew *which particular recordings*—or even which particular vendors—were infringing. Nonetheless, the Ninth Circuit concluded that the plaintiff had adequately “stated a claim for contributory trademark infringement.” 76 F.3d at 265. The court em-

phasized that “a swap meet can not disregard its vendors’ blatant trademark violations with impunity.” *Ibid.*; *see also id.* at 264 (noting, in the context of a related claim for contributory copyright infringement, that “[t]here is no question that plaintiff adequately alleged the element of knowledge in this case”).

b. The Second Circuit held below that, “[f]or contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods.” App., *infra*, 27a. The Second Circuit attempted to distinguish *Fonovisa* only in a footnote, but neither of its purported distinctions is persuasive.

First, the Second Circuit noted that “eBay’s efforts to combat counterfeiting far exceeded the efforts made by the defendants” in *Fonovisa*. App., *infra*, 34a n.16. Yet nothing in the Ninth Circuit’s discussion of knowledge turns on the defendants’ efforts *vel non* to stop counterfeiting; instead, eBay is liable under *Inwood* if it continued to supply its service after acquiring knowledge or reason to know of the infringing activity. Thus, the critical issue addressed by the Second Circuit was whether *Inwood* required knowledge or reason to know (1) that particular listings on eBay were infringing, or (2) that substantial quantities of counterfeit Tiffany merchandise were listed on eBay. There is no dispute that eBay knew the latter, and if that knowledge were sufficient for liability—as the Ninth Circuit held in *Fonovisa*—

then it is immaterial whether eBay purportedly tried but failed to stop counterfeiting.⁹

Second, the Second Circuit emphasized that *Fonovisa* “merely sustained the plaintiff’s complaint against a motion to dismiss.” App., *infra*, 34a n.16. But the whole point of a motion to dismiss is to test the *legal sufficiency* of the complaint: whether the pleader has alleged facts that, if true, would “entitle [it] to relief.” Fed. R. Civ. P. 8(a)(2); *see also, e.g., Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1950 (2009) (“When there are well-pleaded factual allegations, a court should assume their veracity and then determine whether they plausibly give rise to an entitlement to relief.”). The Ninth Circuit held that the allegations of knowledge made in *Fonovisa* were sufficient to plead a claim of contributory trademark infringement—that is, the defendant would be liable for contributory trademark infringement if the plaintiff could prove those allegations. Yet the Second Circuit rejected liability for eBay on analogous facts because it concluded, as a matter of law, that “a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods.” App., *infra*, 27a.

This case cannot meaningfully be distinguished from *Fonovisa*, yet the two decisions reach contrary answers to the question presented. This conflict of authority—between the two most important regional

⁹ This is, of course, simply another way of saying that the *Inwood* test determines which party bears the burden of policing against infringement. If that burden is placed on eBay, as *Fonovisa* requires, then it likewise bears the risk that its efforts at policing—however substantial they may seem to eBay—will fail, and therefore should insure against that risk by charging additional fees.

courts of appeals on trademark issues—warrants the Court’s intervention.

II. THE QUESTION PRESENTED IS EXTREMELY IMPORTANT TO ALLOCATING TRADEMARK RIGHTS AND BURDENS IN THE MODERN INTERNET ECONOMY.

As the district court recognized, the issue in this case directly concerns “who should bear the burden of policing” against counterfeit goods: the trademark owner, or a company that has created and continues to profit from a marketplace in which infringing goods are routinely sold. App., *infra*, 45a. This Court last addressed the issue of contributory trademark infringement in 1982. In the nearly 30 years since this Court’s decision in *Inwood*, however, much has changed. Trafficking in counterfeit goods has become a global economic problem, and the Internet now provides unprecedented opportunities for counterfeiters to market their illegitimate wares. Courts around the globe have struggled to define the proper scope of contributory liability in this changed world. This Court’s review is likewise warranted to ensure that federal trademark law is adequately calibrated to modern economic and technological reality.

1. There can be no debate that counterfeiting is a serious problem. As the House Committee on the Judiciary noted in evaluating legislation that ultimately strengthened the protection for intellectual-property rights, “[c]onservative estimates indicate that the United States economy loses between \$200 and \$250 billion per year, and has lost 750,000 jobs, due to intellectual property theft.” H.R. Rep.

No. 110-617, at 21 (2008).¹⁰ Indeed, “[s]ome estimates indicate that counterfeit and pirated goods comprise six to nine percent of all world trade, the bulk of which violates the intellectual property rights of United States businesses and entrepreneurs.” *Ibid.* This problem is all the more serious given the well documented connection between counterfeiting and terrorism: Funds from sales of counterfeit goods can be, and often are, funneled to terrorist groups. See *The Links Between Intellectual Property Crime and Terrorist Financing: Hearing Before the H. Comm. on Int’l Relations*, 108th Cong. (2003) (statement of Ronald K. Noble, Sec’y Gen. of Interpol), available at <http://www.interpol.int/Public/ICPO/speeches/SG20030716.asp>; see also, e.g., Roslyn A. Mazer, *From T-Shirts to Terrorism: That Fake Nike Swoosh May Be Helping to Fund Bin Laden’s Network*, Wash. Post, Sept. 30, 2001, at B2.

Trademarks are vitally important to the modern Internet economy and enable purchasers to evaluate the quality of products they can neither see nor touch. Yet, as this case illustrates, electronic commerce has also provided counterfeiters with new opportunities and new markets that simply did not exist 30 years ago. Even in the best of circumstances, “trademark law has labored to keep pace with the

¹⁰ See also, e.g., Matthew Benjamin, *A World of Fakes*, U.S. News & World Report, July 14, 2003, at 46–47 (estimating the annual cost of counterfeit goods to the U.S. economy at \$200–\$250 billion), cited in App., *infra*, 61a; Office of the Comptroller, City of New York, *Bootleg Billions: The Impact of the Counterfeit Goods Trade on New York City* (2004) (“The dollar exchange of counterfeit goods in New York State during 2003 was estimated to be \$34 billion . . .”), available at <http://www.comptroller.nyc.gov/bureaus/bud/04reports/Bootleg-Billions.pdf>.

proliferation of technology.” Matthew Fornaro, *A Parallel Problem: Grey Market Goods and the Internet*, 8 J. Tech. L. & Pol’y 69, 71 (2003) (arguing that “current law does not adequately protect trademark owners, especially in light of increasing Internet-based commerce”). That is particularly true in the context of contributory trademark infringement. When *Inwood* was decided in 1982, the number of computers connected directly to the Internet—so-called Internet “hosts”—was 235; it is now well over 600 million. See Internet Systems Consortium, *Internet Host Count History*, <http://www.isc.org/solutions/survey/history>. Indeed, eBay itself was not founded until 13 years after *Inwood*; when the decision was handed down, eBay’s founder was just shy of his 15th birthday.

This case presents the opportunity for the Court to clarify the doctrine of contributory trademark infringement and ensure that this judicially created doctrine reflects—or at least does not ignore—the profound changes that have occurred since the Court last considered the issue.

2. The importance of the question presented is underscored by the fact that the decision below is only the latest in a series of highly publicized decisions, issued by courts in several countries, to address whether eBay and other Internet service-providers can be held liable for trademark infringement committed by their users. See, e.g., App., *infra*, 22a n.8 (noting that “[a] Belgian court declined to hold eBay liable for counterfeit cosmetic products sold through its website,” while “French courts . . . have concluded that eBay violated applicable trademark laws”). Given the global reach of websites such as eBay, this Court, and not the courts of appeals,

should decide the correct interpretation of federal law on this issue of international significance.

As commentators have noted, “[t]he ability of trademark owners to knock down knockoffs from the Internet is in flux as courts worldwide issue conflicting rulings on the duty of online sellers and auction brokers to police goods offered on their websites.” Valerie Walsh Johnson & Laura P. Merritt, *Tiffany v. eBay: A Case of Genuine Disparity in International Court Rulings on Counterfeit Products*, *Landslide*, Nov./Dec. 2008, at 22, 23. In particular, “[t]he courts vary in answering some of the most significant questions in this area,” including the question presented here: whether “an online host’s generalized knowledge of the sale of infringing products on its site create[s] liability.” *Id.* at 23 (noting “mixed results”); see also, e.g., Ellie Mercado, Note, *As Long As ‘It’ Is Not Counterfeit: Holding eBay Liable for Secondary Trademark Infringement in the Wake of LVMH and Tiffany, Inc.*, 28 *Cardozo Arts & Ent. L.J.* 115, 119 (2010) (noting that French and American courts have “reached very different answers” to the same problem).

In one of the cases noted by the Second Circuit, App., *infra*, 22a n.8, the Commercial Court of Paris awarded €38.6 million in damages to Louis Vuitton, concluding that eBay could have implemented additional measures to stop counterfeiting, such as by requiring sellers to supply a purchase invoice or certificate of authenticity or by immediately terminating the account of any infringing seller, see *S.A. Louis Vuitton Malletier v. eBay Inc.*, Tribunal de Commerce de Paris, Première Chambre B, No. 200677799 (June 30, 2008); see also, e.g., Doreen Carvajal, *Court Sides with LVMH over eBay*, *N.Y. Times*, June 30,

2008, available at <http://www.nytimes.com/2008/06/30/technology/30iht-lvmh.4.14109529.html>. This is not the only foreign decision to award damages against eBay in this context, but even decisions that have declined to award *damages* have recognized the possibility of *injunctive relief*. See, e.g., Eric Pfanner, *French Court Clears eBay in Selling Fake Goods*, N.Y. Times, May 13, 2009 (noting that a French court ordered L'Oréal and eBay to work with a "court-appointed mediator" in order to "improve eBay's counterfeit filters"), available at <http://www.nytimes.com/2009/05/14/technology/companies/14loreal.html>.

Regardless of the relief ultimately awarded, these foreign decisions emphasize that the issue of trademark liability presented in this case is appropriate for resolution at the highest levels of judicial authority. In *L'Oréal S.A. v. eBay International AG*, for instance, the English High Court of Justice declined to hold eBay "jointly liable" for damages arising from the sale of counterfeit L'Oréal merchandise but noted that L'Oréal might have an injunctive remedy to "prevent the same or similar infringements in the future." [2009] EWHC 1094 (Ch.) ¶¶ 444 *et seq.*, available at 2009 WL 1403418.¹¹

¹¹ As the High Court explained, the English doctrine of "joint liability" required L'Oréal to establish that eBay "participat[ed] in a common design" with the infringers. *L'Oréal* ¶ 359. Yet the High Court regarded even this issue—involving a more stringent test than the one applicable here—as "a difficult issue to decide." *Id.* ¶ 369; see also *id.* ¶ 370 (admitting "considerable sympathy with the suggestion that eBay Europe could and should deal with the problem of infringement by accepting liability and insuring against it by means of a premium levied on sellers").

eBay conceded that Article 11 of European Parliament and Council Directive 2004/48/EC “required that an injunction be available against an intermediary whose services had been used to commit . . . infringement,” but “submitted . . . that Article 11 merely required that an injunction be available against the intermediary to prevent the continuation of *that specific act of infringement*. *Id.* ¶ 464 (emphasis added). Rather than resolve the issue directly, the High Court recognized that “the guidance of the [European Court of Justice] is required.” *Id.* ¶ 465; *see also id.* ¶ 478 (noting that, although the court had discretion “as to whether to make a reference [to the ECJ] or to attempt to decide the issues,” “in the circumstances of the present case it is clearly better to make a reference”).

Just as the highest court in the European Union is the proper body to determine the scope of European Union law on an issue with such significant international ramifications, this Court is the proper body to decide the issue as a matter of federal law. And the Court should do so in this case. As the English High Court observed, “[t]he sooner the courts of Europe are able to arrive at common answers to these issues, the better.” *L’Oréal* ¶ 480. The same is true on this side of the Atlantic.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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