

08-3947-CV

United States Court of Appeals
for the
Second Circuit

TIFFANY (NJ) INC. and TIFFANY AND COMPANY,

Plaintiffs-Appellants,

– v. –

EBAY, INC.,

Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK (NO. 04 CIV. 4607 (RJS))

BRIEF OF *AMICUS CURIAE*
THE INTERNATIONAL ANTICOUNTERFEITING COALITION

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Fed. R. App. P. 26.1, *amicus curiae* the International AntiCounterfeiting Coalition (“IACC”) states that it is not a publicly-held corporation or other publicly-held entity. IACC does not have any parent corporation and no publicly-held corporation or other publicly-held entity holds 10% or more of IACC’s stock.

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The International AntiCounterfeiting Coalition (“IACC”) submits this brief as *amicus curiae*¹ in support of the appeal of Tiffany (NJ) Inc. and Tiffany and Company (together, “Tiffany”) from the judgment entered against Tiffany by the District Court. *Tiffany (NJ) Inc. v. eBay, Inc.*, ___ F. Supp. 2d ___, 2008 WL 2755787 (S.D.N.Y. 2008) (“Op.”).

STATEMENT OF INTEREST OF AMICUS CURIAE

IACC, a non-profit organization based in Washington, D.C., is devoted to combating the spread of counterfeit goods. Formed in 1979, the IACC now is comprised of a cross section of businesses, including leaders in the automotive, apparel, luxury goods², pharmaceuticals, food, software and entertainment industries.

IACC promotes laws, regulations and directives designed to make counterfeiting, piracy and related thefts of intellectual property, which generate billions in illegal revenues annually, unprofitable. The IACC serves as an umbrella organization, offering anti-counterfeiting programs

¹ The parties have consented to the filing of this proposed *amicus curiae* brief.

² Tiffany is a member of the IACC; Appellee eBay is not. This *amicus curiae* brief was not authored, in whole or in part, by counsel to any party.

designed to increase protection for patents, trademarks, copyrights, service marks, trade dress and trade secrets.

The trafficking in counterfeit goods and marks creates severe public health and safety hazards, as well as substantial economic harm to legitimate business. According to FBI, Interpol, World Customs Organization and International Chamber of Commerce estimates, roughly 7-8 percent of world trade every year is in counterfeit goods. U.S. Department of Commerce, “Why Protect Intellectual Property?” http://www.stopfakes.gov/sf_why.asp (last visited Oct. 19, 2008). United States “businesses and industries lose about \$200 billion a year in revenue and 750,000 jobs due to the counterfeiting of merchandise;” worldwide, counterfeiting accounts for more than half a *trillion* dollars in global trade each year. U.S. Customs and Border Protection, “U.S. Customs Announces International Counterfeit Case Involving Caterpillar Heavy Equipment,” http://www.cbp.gov/xp/cgov/newsroom/news_releases/archives/legacy/2002/52002/05292002.xml (last visited Oct. 19, 2008); U.S. Customs and Border Protection, “Passage of Anti-Counterfeiting Law Strengthens CBP’s Efforts to Seize Counterfeit Goods,” http://www.cbp.gov/xp/cgov/newsroom/news_releases/archives/2006_news_releases/042006/04032006_5.xml (last visited Oct. 19, 2008).

As a result, counterfeit goods tarnish the carefully-built reputations of legitimate businesses, undermine their credibility, diminish the good will of their trademarks, and reduce the demand for genuine products.

Consumers suffer perhaps the greatest harm of all from the sale of counterfeit goods. Especially when the transactions are completed online, without an opportunity to inspect the goods, consumers are particularly susceptible to unscrupulous counterfeiters who tout their knock-offs as legitimate goods. The inferior quality of counterfeit goods can also pose health and safety concerns. The national and growing scope of this threat to consumers is reflected in Congress' recently-enacted, enhanced criminal penalty provisions for trademark counterfeiting in the Prioritizing Resources and Organization for Intellectual Property Act ("PRO-IP Act"). Public Law No. 110-403 § 205 (amending 18 U.S.C. § 2320) (2008).

The IACC supports government actions that will ultimately result in increased enforcement of intellectual property rights, lead to the prosecution of infringers, and create stronger deterrents to counterfeiters and pirates. The IACC and its member companies also expend substantial sums of their own money to investigate and prosecute counterfeiters, to educate merchants and the public about how to detect and avoid counterfeit or pirated products,

and to participate as *amicus curiae* in important cases concerning anti-counterfeiting laws.³

Despite these efforts, sales of counterfeit goods continue to flourish. Even before the era of online merchandizing, it had long been recognized that counterfeiting had reached “epidemic” proportions. S. Rep. No. 526, 98th Cong., 2d Sess. 5 (1984), reprinted in 1984 U.S.C.C.A.N. 3627, 3630. The rise of the Internet as a commercial forum has only exacerbated this problem, particularly on online auction sites such as eBay, Inc. (“eBay”). Sites like eBay’s provide counterfeiters with a forum and relative anonymity to transact in counterfeit goods. It is not surprising, therefore, that they are rife with counterfeiting activity. Internet auction fraud is the most commonly reported Internet offense, comprising 62.7% of all complaints, according to the Internet Crime Complaint Center’s 2005 report. Emily Favre, “Online Auction Houses: How Trademark Owners Protect Brand Integrity Against Counterfeiting,” 15 JOURNAL OF LAW AND POLICY 165, 167 n.9 (2007).

³ Other cases in which IACC filed an *amicus curiae* brief were *Fonavisa v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996) and *Perfect 10, Inc. v. Visa Intern. Serv. Ass’n*, 494 F.3d 788 (9th Cir. 2007).

The IACC's membership has a unique interest in stemming this tide. The District Court's opinion, if allowed to stand, will provide a road map for the sale of counterfeit products on the Internet, which will result in even more infringing and counterfeit activity. This will cause even further harm to consumers who rely on trademarks to serve their source-identifying purposes, and to businesses the world over who are the victims of such blatantly illegal activity. If, instead, the decision is reversed and providers of online "flea markets," like eBay, are held accountable for the open and notorious counterfeiting that occurs on their sites, just as their real world counterparts are liable for contributory infringement, that will stimulate them to adopt new policies and procedures and result in less piracy and counterfeiting, thus improving the overall climate for legitimate businesses and consumers of genuine products.

SUMMARY OF THE ARGUMENT

This case presents an issue of great importance to the IACC and its member businesses, and also to consumers: Did the District Court apply the proper standard for determining when the provider of an online marketplace,

such as eBay, should be held contributorily liable for open and notorious acts of trademark infringement and counterfeiting committed on its site?⁴

IACC believes the District Court erred by applying an overly restrictive test that effectively (a) eliminated the previously well-accepted standard that a party is contributorily liable if it has constructive knowledge of infringement and provides assistance to the infringer, and (b) reduced the test for contributory liability to an actual knowledge test. Although the District Court properly found that the test for contributory trademark liability applies not only to those who supply direct trademark infringers with products, but also provide them with services, it incorrectly concluded that eBay could avoid contributory liability even though it (a) had both actual and constructive knowledge of the widespread illegal conduct on its site, and (b) provided material assistance to those engaged in such conduct.

eBay's responsibility for the majority of illegal conduct on its website is controlled by the proper standard for contributory liability. One

⁴ The IACC submits this *amicus* brief to address the appropriate standards for finding contributory liability. Although the IACC is not addressing other aspects of the District Court's decision, IACC's silence should not be interpreted as agreement with the District Court's other conclusions, including with respect to direct liability, keyword advertising practices, and nominative fair use.

articulation of the test for contributory trademark infringement was set forth in *Inwood Lab., Inc. v. Ives*, 546 U.S. 844, 854 (1982). Under *Ives*, a party may be held liable if it either (a) intentionally induces another to infringe, or (b) continues to provide assistance in the form of supplying a product or service to one whom the actor knows (*i.e.*, actual knowledge), or has reason to know (*i.e.*, constructive knowledge), is engaged in trademark infringement.

It has long been accepted law, as for example, summarized in the RESTATEMENT (THIRD) UNFAIR COMPETITION § 27 (1995) (“RESTATEMENT”), that contributory liability is properly imposed on one who is in a position, but fails, to take reasonable precautions against a third person’s infringing conduct under circumstances in which knowledge of the infringing conduct is so apparent that it can be reasonably anticipated. That is the holding of *Ives*: If a marketplace operator is so aware of what is occurring that it at the least should know about counterfeiting, it is obligated to take steps to prevent it.

The District Court’s fundamental substantive error was the holding that *Ives* requires *specific* knowledge of individual acts of infringement before contributory infringement liability can attach. The District Court reached this conclusion through a two-step misinterpretation of *Ives* and how

the *Ives* standard interacts with the summary of the law set forth in the RESTATEMENT. First, the District Court inferred that the “reasonable anticipation” language mentioned in the RESTATEMENT contemplates a lower standard of required knowledge than *Ives*. Second, the Court used this perceived lower standard to hold that, even if “generalized” knowledge of widespread counterfeiting would be sufficient under the “reasonable anticipation” standard, only “specific” knowledge of “specific” infringement or counterfeiting could meet the supposedly higher standard of *Ives*. Op. at *38.

What the District Court failed to realize, however, was that this distinction essentially eliminates the universally accepted constructive knowledge standard and eviscerates the well-settled rule that one cannot avoid contributory infringement liability through willful blindness to prevalent third-party misconduct. That is why swap meet and flea market operators -- the brick-and-mortar equivalent of eBay -- are subject to contributory liability if they are generally aware of pervasive infringement on their premises, regardless of whether they know the specific identities of the counterfeiters or the particulars of the counterfeiting transactions. In short, both the “reason to know” standard articulated by the Supreme Court

and the “reasonably anticipated” standard set forth in the RESTATEMENT (a) are derived from the same source, namely common law principles of contributory liability, and (b) cover essentially the same type of conduct and knowledge. Auction sites like eBay, where massive quantities of counterfeit and infringing goods easily can be found and from which the site knowingly profits, satisfy either standard.

There is no doubt that the authorities relied upon by the RESTATEMENT as the basis for the “reasonable anticipation” standard are precisely the same that underpin the “reason to know” standard of *Ives*. Nothing in the common law, *Ives* or any of the many cases applying *Ives*, requires “specific knowledge as to individual instances of infringing listings or sellers.” Op. at *38. The opposite is true. The District Court’s novel “specific knowledge” requirement is wrong, improperly eliminates the “reason to know” standard from the test for contributory liability, and will result in an increase in infringing and counterfeiting activities that are so harmful to consumers and businesses.

It is particularly important, in an era of massive, global online infringements that were not foreseeable when *Ives* was decided 26 years ago that this Court clarify that the contributory liability standard is satisfied in

trademark cases, just as it is in copyright cases, by (1) either direct or constructive knowledge of infringement, and (2) continued assistance to those engaged in direct infringement. eBay has both direct and constructive knowledge and provides such assistance.

ARGUMENT

I. The Opinion Reflects eBay’s Knowledge Of, And Material Assistance To, Trademark Infringement.

There is no disputing that infringement and counterfeiting on the eBay marketplace is widespread. In 2007 alone, the marketplace eBay created and controls reportedly contained more than 2 million potentially counterfeit listings, and hosted 50,000 sellers attempting to sell fake goods. Suze Bragg, “Courts Weigh Online Practices,” *Casual Living* at 79 (Aug. 1, 2008). Indeed, eBay is estimated to provide the forum for 29 percent of the entire online counterfeit market. *See* Reuters, “Quite Possibly Fake” (Aug. 7, 2007) and Jenn Abelson, “Grim Competition With Counterfeiters,” *BOSTON GLOBE* at A-1 (Aug. 21, 2008). As *The Economist* noted, out of 300,000 products labeled “Dior” and 150,000 labeled “Louis Vuitton” listed on eBay’s site in the second quarter of 2006, “fully 90%” were reportedly fake. “Handbagged,” *The Economist* at 76 (June 21, 2008). The

counterfeiting on eBay is so prevalent that *The New York Times* described eBay as “the center of a new universe of counterfeit products.” Katie Hafner, “Tiffany and eBay in a Fight Over Fakes,” *The New York Times* at C-9 (Nov. 27, 2007).

The District Court’s opinion reflects these widely reported facts. It is chock full of specific findings that demonstrate that eBay had both actual and constructive knowledge of widespread infringement and counterfeiting on its website, and that, even after having this knowledge, eBay continued to provide material assistance to direct infringers. Under a proper application of contributory infringement doctrine, eBay should be liable for the direct acts of infringement and counterfeiting to which it contributes.

eBay’s knowledge of widespread counterfeiting on its website is evident in several ways. First, Tiffany sent eBay 20,915 notices about the “deluge of counterfeit merchandise” in 2003, 45,242 in 2004, 59,012 in 2005 and 134,779 in 2006. Op. at *13-*15. That volume of letters was necessary because of eBay’s unsuccessful efforts to clean up its site. From December 2000 to May 2002, it manually searched listings to identify “blatant instances of potentially infringing activity.” Op. at *8. After May, 2002, eBay automated that system in a fraud search engine that identified listings

using obvious counterfeiting buzzwords like “knock-off,” “counterfeit,” “replica,” or “pirated.” *Id.* The fraud engine flagged “thousands of listings on a daily basis that contained obvious indicia of infringing or otherwise fraudulent activity,” and removed thousands of listings each month it determined were fraudulent. *Op.* at *9. Nonetheless, countless counterfeit items remained, and, in fact, appear to have grown throughout this period despite Tiffany’s notices and eBay’s efforts.

In addition to the fraud engine, eBay established a Verified Rights Owner (“VeRO”) program where rights owners can report infringing listings pursuant to a notice of claimed infringement. *Id.* Tiffany evidently participated in VeRO and identified thousands of listings of counterfeit items that the fraud engine apparently did not identify. *Op.* at *15. As part of its participation, Tiffany maintained an “About Me” page which explained that genuine Tiffany merchandise is available only through Tiffany stores, catalogs and Tiffany’s website and advised eBay and others that “most of the purported ‘TIFFANY & CO.’ silver jewelry and packaging available on eBay is counterfeit.” *Op.* at *10.

Despite notice of this extraordinary volume of counterfeit Tiffany jewelry, eBay “actively took steps to grow the sales of Tiffany items on its

website,” Op. at *11, without regard to the extent to which it would increase that volume. Not only did eBay provide the online marketplace necessary to consummate the infringing and counterfeit transactions, but it also took other active measures to promote such activity. These measures included forming a “Jewelry & Watches” team that advised top sellers regarding effective “keywords” to use to drive traffic to their listing, and specifically identified “Tiffany” as one of the most effective keywords because it was one of the most searched terms on the website. *Id.* Before 2003, eBay also “actively advertised the availability of Tiffany merchandise on its website” and “generated substantial revenue from the sale of ‘Tiffany’ silver jewelry on its website.” *Id.* at *12. These undisputed facts, along with its undisputed knowledge of the staggering number of counterfeit Tiffany items on its site, are more than sufficient to establish not only both constructive and actual knowledge, but a willful blindness to the problem.

II. Contributory Trademark Infringement Is Based On Common Law Principles Of Constructive Knowledge.

Neither the Copyright Act nor the Lanham Act contain express contributory liability provisions. Rather, the imposition of contributory infringement liability, under either area of the law, has been derived from

common law tort theories.⁵ John T. Cross, “Contributory Infringement and Related Theories of Secondary Liability for Trademark Infringement,” 80 IOWA L. REV. 101, 109-129 (1994); Mark Bartholomew & John Tehranian, “The Secret Life of Legal Doctrine,” 21 BERKELEY TECH. L. J. 1363, 1368 (2006); *see also Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, 545 U.S. 913, 930-31 (2005) (noting that secondary liability under Copyright Act “emerged from common law principles and are well established in the law”); *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992) (trademark infringement is “species of tort” and “appropriate boundaries” of contributory infringement liability are “guide[d]” by “common law”).

Although formulated slightly differently by courts depending on whether the underlying infringement is of a trademark, *see Ives*, 456 U.S. at 853-54 (contributory liability attaches if defendant “intentionally induces”

⁵ In the Patent Act, by contrast, direct and contributory infringement are defined in the statute. 35 U.S.C. § 271 (defining liability for those who directly infringe, “actively induce[]” infringement, and who sell components “knowing” them to be adapted for use to infringe); *see also Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 440 n.20 (1984). Even under the Patent Act, constructive knowledge, not actual knowledge, is the proper test. *Philips Electronics North America Corp. v. Remote Solution Co., Ltd.*, 411 F. Supp. 2d 479, 483 (D. Del. 2006).

infringement or “continues to supply” goods or services to one it “knows *or has reason to know* is engaging in trademark infringement”) (emphasis added), or a copyrighted work, *Gershwin Pub. Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (contributory liability attaches if defendant “knows or *should know*” of infringement and “material[ly] contribut[es]” to it) (emphasis added), the doctrinal foundation for both is the common law of tort.

III. eBay Has Constructive Knowledge of Infringement And Counterfeiting Under The Applicable Test.

The purported difference between the “reasonable anticipation” standard and the “reason to know” standard should not have led the District Court to impose a requirement of “specific knowledge of individual instances of infringement and infringing sellers before imposing a burden upon eBay to remedy the problem.” Op. at *38. Under the District Court’s test, “generalized” knowledge of infringing and counterfeiting activities, no matter how widespread and no matter what degree of assistance eBay provides to facilitate transactions in such goods, does not trigger secondary liability as a matter of law. Op. at *32.

One of the ways the District Court reached this result was its erroneous belief that the “Second Circuit has not defined how much knowledge or what type of knowledge” is required to establish constructive knowledge. Op. at *38. In fact, in the very *Ives* case that was the subject of the Supreme Court decision, the Second Circuit twice considered the type of knowledge relevant to a finding of contributory liability. In neither case did it reject “generalized” knowledge of widespread violations as inadequate. *Ives Labs., Inc. v. Darby Drug Co.*, 601 F.2d 631 (2d Cir. 1979); *id.*, 638 F.2d 538 (2d Cir. 1981). In *Ives*, pharmacists were alleged to have re-labeled cheaper generic forms of certain look-alike pills as the branded product and to have pocketed the difference in price. 601 F.2d at 636. The defendants were not the pharmacists themselves, but rather the generic drug companies that manufactured and sold the generic pills to the pharmacists. *Id.* In an opinion affirming the denial of preliminary injunctive relief, the Second Circuit held that a manufacturer can be contributorily liable if it “suggested, even if only by implication, that a retailer fill a bottle with the generic capsules and apply Ives’ mark to the label, or continued to sell capsules” to those it “knew or had reason to know” were engaging in that practice. *Id.* at 636. If, though, the pill sellers did not have a reason to know

that pharmacists were deceiving consumers in this way, then the sellers could not be held responsible for the pharmacists' conduct.

In determining whether the “reason to know” standard was met, the Second Circuit directly considered, as probative of liability, how “widespread” the knowledge was of these general infringing activities. 601 F.2d at 644. That “widespread” knowledge is no different in kind than the “generalized” knowledge the District Court improperly rejected in favor of a standard limited to “specific knowledge of individual instances of infringement and infringing sellers.” Op. at *38.

In its second *Ives* opinion, the Second Circuit reconfirmed that awareness of widespread infringement was a form of evidence that satisfied the “reason to know” standard. *Ives*, 638 F.2d at 543 (“Since the governing legal principles have already been set forth in Judge Friendly’s opinion upon the earlier appeal, we need not repeat them here”).

The Supreme Court adopted the Second Circuit’s statement of those governing principles as correct, but reversed because it held the Second Circuit “erred in setting aside findings of fact that were not clearly erroneous.” *Ives*, 456 U.S. at 858. It “found no support in the record” for the “far reaching conclusion” that the “illegal substitution and mislabeling”

of a generic drug as CYCLOPASANOL was “neither *de minimis* nor inadvertent.” 456 U.S. at 857. Had such evidence been in the record, there is every reason to believe the Supreme Court would have found the “reason to know” standard to have been satisfied based on the general knowledge by manufacturers that illegal substitution was widespread. That is why it echoed the Second Circuit in agreeing that “frequent improper substitutions” was relevant in determining whether the manufacturer “implicitly had suggested that pharmacists substitute improperly.” *Ives*, 456 U.S. at 852.

The trilogy of *Ives* opinions thus makes clear that courts can, and should, consider generalized knowledge, such as awareness of the frequency and volume of infringing conduct in general, in assessing liability for contributory infringement. Moreover, *Ives* is not alone. In the analogous area of contributory liability for copyright violations, the Supreme Court also has held that information about the general volume of infringing activity on a website could be probative evidence of a contributory infringer’s knowledge and intent. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 939-40 (2005).

In *Grokster*, the Court considered “evidence of infringement on a massive scale” in determining that defendant had an intent to induce

copyright infringement. It specifically rejected the contention that such evidence was irrelevant: “[N]othing in [prior caselaw] requires courts to ignore evidence of intent if there is such evidence” nor “*to foreclose rules of fault-based liability derived from the common law.*” *Id.* at 934-35 (emphasis added).

Those same principles are directly relevant here. The evidence of eBay’s awareness of massive infringing activity on its site is overwhelming. *Op.* at *8-*15. Where, as here, evidence of counterfeiting and infringement is so pervasive, basic common law concepts, endorsed as applicable by the Supreme Court, hold that a reasonable person is chargeable with sufficient knowledge about the conduct to be liable for its assistance.

The same common sense result has been reached by other courts under similar circumstances. *Mini Maid Services Co. v. Maid Brigade Systems, Inc.*, 967 F.2d 1516, 1522 (11th Cir.1992) (“If the infringement is serious and widespread, it is more likely the franchisor knows about and condones the infringement of its franchisees”); *Ciba-Geigy Corp. v. Bolar Pharmaceutical Co., Inc.*, 747 F.2d 844, 853 (3d Cir. 1984) (evidence that 93 pharmacists illegally substituted defendant’s generic drug for branded

drug sufficient to establish constructive knowledge that infringement would continue); RESTATEMENT § 27 cmt. c.⁶

Indeed, operators of swap meets or flea markets in which counterfeit products are sold can be held contributorily liable, even without specific knowledge, if the operators are willfully blind to the vendors' tortious acts. *Fonavisa v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996), involved the brick-and-mortar equivalent of eBay -- a swap meet rife with the sale of counterfeit recordings. Based on evidence that: (1) the Fresno County

⁶ Courts in Germany and France have applied similar principles to hold the providers of Internet auction sites, including eBay, liable for the infringement and counterfeiting by third parties on their sites. *S.A. Louis Vuitton Malletier v. eBay, Inc.*, Tribunal de Commerce de Paris, Première Chambre B (Paris Commercial Court), Case No. 200677799 (June 30, 2008) (awarding €19 million); *Stokke A/S v. eBay Int'l AG*, Hanseatisches Oberlandesgericht (Hanseatic Provincial High Court and Court of Appeal), Case No. 3U 216 06 (July 24, 2008); *Ricardo v. Rolex, S.A.*, 1 ZR 73/05 (German Federal Supreme Court, Apr. 30, 2008); *Rolex, S.A. v. eBay GmbH*, 1 ZR 35/04 (German Federal Supreme Court, Apr. 19, 2007). Notably, these decisions have not caused eBay to discontinue its services in those countries; instead, in France and Germany, eBay now takes additional steps to prevent the sale of counterfeit items on its country-specific auction sites. Vidya Ram, "eBay Branded By French Ruling," *Forbes.com* (June 30, 2008) (noting that eBay has taken measures, such as limiting the number of items of brands that are commonly faked that sellers can list, discontinuing one-day auctions, and in countries like China, stopping some cross-border sales, to reduce counterfeiting).

Sherriff earlier had seized 38,000 counterfeit recordings; and (2) the Sherriff later sent a letter notifying the swap meet operator of ongoing sales of infringing merchandise, the Ninth Circuit concluded there was “no dispute” that the swap meet operators “were aware that vendors . . . were selling counterfeit recordings.” *Id.* at 261. Applying the Seventh Circuit’s holding in *Hard Rock*, 955 F.2d 1143, the Ninth Circuit held that the swap meet operators could be held contributorily liable because the operators’ “willful blindness” to the pervasive acts of infringement by third parties satisfied the “reason to know” standard of *Ives*. 76 F.3d at 265. Significantly, liability was found based on the generalized knowledge of pervasive counterfeits, not on notice of precisely which vendors were specifically selling counterfeited recordings.

Fonavisa and *Hard Rock* involved the very same type of knowledge as eBay undisputedly possesses here: knowledge of pervasive infringement and counterfeiting conducted on its marketplace. eBay’s knowledge goes even further because it has actual knowledge of massive specific acts of counterfeiting and infringement on its marketplace. Under the well-settled common law principles of contributory liability, eBay -- at a minimum -- had “reason to know” of infringement and counterfeiting on its marketplace

and was under a duty to prevent it. *Coca-Cola Co. v. Snow Crest Bevs., Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946), *aff'd*, 162 F.2d 280 (1st Cir.), *cert. denied*, 332 U.S. 809 (1947); *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1382 (9th Cir. 1984) (party with reason to know of infringement can avoid liability only if it takes “effective measures” to prevent infringement).

The District Court actually turned this rule on its head. It held that Tiffany’s duty to police its marks absolved eBay of responsibility for the widespread infringement and counterfeiting on its site. Op. at *47. Tiffany’s efforts to police its marks are irrelevant to eBay’s liability for its own infringing activity; any alleged failure to prosecute unauthorized third-party users may be relevant to the strength of the mark, but it is not relevant to whether eBay has done enough to prevent counterfeiting on its site. See *University of Georgia Athletic Ass’n v. Laite*, 756 F.2d 1535, 1545 n.27 (11th Cir. 1985) (“proper inquiry” is whether unauthorized third-party uses weaken source-identifying capacity of mark).

Generalized knowledge of widespread tortious conduct by third parties always has been recognized as a basis for the imposition of contributory liability in the common law, as demonstrated by the various restatements of the common law tort contributory liability standard. The

constructive knowledge standard for contributory liability is based on the core common law principle that a party can be liable for creating “unreasonable risk” of injury based on the “expectable action” of third parties. RESTATEMENT (FIRST) OF TORTS § 302(b) (1934). The concept of “expectable action” cannot be reconciled with the District Court’s requirement of specific knowledge.

The exact same concept also is set forth in the RESTATEMENT (SECOND) OF TORTS § 877(c) (1965). That section provides that contributory liability attaches if one permits use of “premises” or “instrumentalities, knowing or having *reason to know*” that another “is acting or *will act* tortiously,” and expressly defines “reason to know” as “knowledge of facts from which a reasonable man . . . would either infer the existence of the fact in question or *would regard its existence as . . . highly probable.*” *Id.* § 12(1) (emphasis added).

The “reasonable anticipation” test in the RESTATEMENT (THIRD) OF UNFAIR COMPETITION echoes these common law principles. Indeed, the commentary to Section 27 makes clear that the “reasonable anticipation” standard was meant to restate the “reason to know” standard. RESTATEMENT § 27 cmt. c (noting that if defendant has “no reason to know of the

subsequent infringing resales of its product, contributory liability will not be imposed;” specifically contrasting that with a situation where the defendant “can reasonably anticipate that retailers will sell the goods in a manner that infringes another’s trademark”).

The reasonable anticipation articulation in Section 27, furthermore, is based on the very same cases and authorities that are cited by Supreme Court and Second Circuit in *Ives*. The RESTATEMENT specifically cites the Supreme Court’s decision in *Ives*, 465 U.S. at 854, as well as *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924), and *Snow Crest*, 64 F. Supp. 980, the two authorities cited in *Ives*, 456 U.S. at 854, as support for its restatement of both the intentional inducement and reasonable anticipation tests. RESTATEMENT § 27, cmt. c. The Second Circuit relied on the same authorities as well. (*Ives*, 601 F.2d at 636-37 (citing *Warner* and *Snow Crest*)).

The constant running through all these decisions is the seminal decision in *Snow Crest*. The Supreme Court cited and relied upon *Snow Crest* as good authority and adopted, as the standard for contributory infringement liability, the test articulated by Judge Friendly in the first *Ives* opinion, 601 F.2d at 636, that itself was derived directly from *Snow Crest*.

Judge Friendly held that *Snow Crest* stated the “proper criteria” for a contributory infringement claim, 601 F.2d at 636, and the Supreme Court agreed. *See Ives*, 454 U.S. at 854 n.13.

Snow Crest considered as probative the precise type of generalized knowledge the District Court erroneously found insufficient. In *Snow Crest*, Coca-Cola alleged that, “when bars received orders for rum (or whiskey) and Coca-Cola, bars frequently substituted defendant’s product, ‘Polar Cola.’” *Snow Crest*, 64 F. Supp. at 988. The issue was whether the defendant was “under a duty to investigate such passing off . . . or to eliminate or curtail sales of its product” after “it had notice that *some unnamed bars*” had substituted its product for Coca-Cola. *Id.* at 989-90 (emphasis added). The *Snow Crest* court held the defendant could be contributorily liable if the plaintiff had given the 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 product as Coca-Cola, or (b) notice that particular named bars . . . were serving defendant’s product when plaintiff’s product was specifically ordered.” *Id.* at 990. Sub-

section (a) -- which expressly premises liability on the prevalence of general infringing activity -- confirms that generalized knowledge can establish contributory liability.

To be clear, this Court need neither adopt nor reject the “reasonable anticipation” articulation for it to conclude that eBay is chargeable with constructive knowledge. However one looks at it, eBay had ample constructive knowledge of infringement sufficient to trigger contributory liability under any reading of *Ives*. The point is that the RESTATEMENT’S “reasonable anticipation” test and the Supreme Court’s and Second Circuit’s “reason to know” test all derive from the same common law roots as articulated in *Snow Crest* and necessarily overlap. It is *Snow Crest* itself that described the test as “whether wrongdoing by the purchaser might well have been anticipated by the defendant.” *Id.* at 989. Nothing in the case law suggests that generalized knowledge of widespread infringement is insufficient to meet the applicable test.⁷ Even were the RESTATEMENT

⁷ The IACC recognizes that the Supreme Court stated (in *dicta*) that, had the Second Circuit in *Ives* simply applied a “reasonable anticipation” test divorced from considering whether the facts established that a reasonable defendant had “reason to know” of infringement, it would have applied a “watered down” standard. *Ives*, 456 U.S. at 454 n.13. As the majority properly concluded, however, the Second Circuit was not

completely disregarded, then, contributory liability should still have been found under the *Ives* and common law standards, given eBay’s express knowledge of the widespread counterfeiting of Tiffany jewelry on the eBay site and eBay’s continued provision of services to sellers of counterfeit Tiffany jewelry.

For all of these reasons, a thorough review of the actual cases cited by *Ives* reveals that the District Court erred by exaggerating whatever slight differences there may be between the “reasonable anticipation” articulation and the “reason to know” articulation. The distinction between “generalized” knowledge and “specific” knowledge does not exist.

IV. Evidence Of Widespread Illegal Conduct Satisfies The “Reason to Know” Standard.

Auction sites like eBay, where literally thousands of auctions involving counterfeit and/or infringing items occur each day, satisfy the constructive knowledge standard, regardless of how it is articulated. As the District Court properly recognized, Op. at *38, the *Ives* test is highly

creating a new, watered-down standard, but rather was “buttress[ing]” its conclusion that the defendant had constructive knowledge by pointing out that such infringement could be reasonably anticipated. *Ives*, 454 U.S. at 854 n.13.

“contextual and fact specific” and courts should consider all manner of evidence to determine the defendant’s intent. Nonetheless, the District Court, believing that the Second Circuit’s and Supreme Court’s guidance was unclear, purported to buttress its conclusion that generalized knowledge of infringement is not a sufficient basis for contributory liability with the following four points.

First, it cited language from *Ives* that held that a manufacturer can be contributorily liable when “it continues to supply its product to *one* whom it knows or has reason to know is engaging in trademark infringement.” Op. at *38 (adding emphasis). The District Court read far too much into the use of the singular pronoun. Read literally, “one” also could mean there is no liability if a defendant continues to supply many direct infringers. Nothing in the facts or reasoning of *Ives* suggests that the Court meant to limit the scope of contributory infringement to specific knowledge based on the provision of assistance to “one” particular individual.

Second, the District Court cited to *Gucci America, Inc. v. Hall & Assoc.*, 135 F. Supp. 2d 409, 420 (S.D.N.Y. 2001), and *Mini Maid*, 967 F.2d at 1522, for the proposition that plaintiffs have a “high burden” to establish “knowledge” and that the test is fact specific. Op. at *38. Both of those

propositions may be true, but they do not lead to the conclusion that specific knowledge must be shown. In fact, in *Mini Maid*, the court specifically considered how “widespread” the infringing activities were in determining whether secondary liability should attach, which reinforces the relevance of generalized knowledge of infringing conduct. 967 F.2d at 1522.

Third, the district court reasoned that courts are “reluctant” to extend contributory infringement liability when there is “uncertainty” as to the “extent or nature” of the infringement. Op. at *38. Although that may be true, the District Court’s own opinion provides clear evidence of generalized knowledge. Whatever the facts of other cases may be, here there is no dispute that infringement and counterfeiting on eBay is pervasive and severe and that eBay knows it. Op. at *9-*11.

Fourth, the District Court cited *Fonavisa* and *Hard Rock* as cases where the issue of constructive knowledge was not present. Op. at *40. That is incorrect. The *Fonavisa* and *Hard Rock* courts both expressly considered what type of knowledge is required to establish contributory liability and concluded that general knowledge of the sale of counterfeit goods on defendants’ premises suffices. *Fonavisa*, 76 F.3d at 265; *Hard*

Rock, 955 F.2d at 1149. Neither case required knowledge of specific acts of infringement, as the District Court required in this case.

* * *

Allowing eBay to ignore all the apparent “red flags” of infringement and counterfeiting occurring daily on its online marketplace promotes bad policy that threatens legitimate business interests and harms consumers. *Ives*, 456 U.S. at 856 n.14 (infringement “subverts” goals of protecting “goodwill” and hurts consumers by “depriv[ing]” them of the “ability to distinguish among goods”); 1 J. Thomas McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:2 (2008) (Lanham Act promotes “policies of consumer protection, property rights, economic efficiency and universal concepts of justice”); RESTATEMENT § 4 (policy of trademark law is to “protect[] and encourag[e] investments in good will,” and to protect purchasers’ ability “to distinguish among the goods and services of competing sellers.”). A proper application of contributory infringement principles does not countenance that result.

CONCLUSION

For the foregoing reasons, the IACC respectfully request that this Court vacate the judgment of the District Court and remand for proceedings consistent with the Court's opinion on this appeal.

Dated: October 22, 2008

Respectfully submitted,

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Dated: New York, New York
October 22, 2008

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