

08-3947-CV

IN THE
United States Court of Appeals
FOR THE SECOND CIRCUIT

TIFFANY(NJ) INC. and TIFFANY AND COMPANY,

Plaintiffs-Appellants,

--- against ---

eBAY INC.,

Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF FOR PLAINTIFFS-APPELLANTS

ARNOLD & PORTER LLP
Attorneys for Plaintiffs-Appellants
399 Park Avenue
New York, New York 10022
(212) 715-1000

CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 26.1 of the Federal Rules of Appellate Procedure, plaintiffs-appellants state that plaintiff-appellant Tiffany (NJ) Inc. is a wholly owned subsidiary of plaintiff-appellant Tiffany and Company, which in turn is wholly owned by Tiffany & Co., a Delaware corporation that is publicly traded on the New York Stock Exchange.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|--------------------|
| TABLE OF AUTHORITIES | iii |
| PRELIMINARY STATEMENT..... | 1 |
| STATEMENT OF JURISDICTION..... | 4 |
| STATEMENT OF ISSUES PRESENTED FOR REVIEW | 4 |
| STATEMENT OF THE CASE..... | 6 |
| A. Nature of the Case | 6 |
| B. Course of Proceedings and Disposition Below | 6 |
| STATEMENT OF THE FACTS..... | 10 |
| A. The Importance of the TIFFANY Marks to Tiffany’s Business | 10 |
| B. The eBay Business Model and Its Symbiotic Relationship with Its Sellers | 11 |
| C. eBay Promotes the Sale of Brand Name Goods, Including TIFFANY | 13 |
| D. eBay Becomes the Largest Venue for the Sale of Counterfeit Tiffany Jewelry..... | 15 |
| E. eBay Knows That the Sale of Counterfeit TIFFANY Jewelry on Its Website Is Pervasive..... | 18 |
| F. eBay Has Failed to Stop the Listing and Sale of Counterfeit TIFFANY Jewelry on Its Website..... | 21 |
| G. eBay’s Failure to Prevent Counterfeiting Has Damaged Unsuspecting Customers and Tiffany | 25 |
| ARGUMENT | 27 |
| POINT I THE DISTRICT COURT ERRED AS A MATTER OF LAW IN HOLDING THAT eBAY WAS NOT LIABLE FOR CONTRIBUTORY INFRINGEMENT | 27 |

| | | |
|------------|---|----|
| A. | eBay Is Liable for Contributory Infringement Because It Had Knowledge of the Pervasive Sale of Counterfeit TIFFANY Goods..... | 27 |
| B. | The District Court Should Not Have Evaluated Tiffany’s Efforts Against Counterfeiting | 38 |
| POINT II | THE DISTRICT COURT ERRED AS A MATTER OF LAW IN HOLDING THAT eBAY WAS NOT LIABLE FOR DIRECT INFRINGEMENT | 43 |
| A. | eBay Was Liable for Direct Infringement Because It Advertised the Sale of Counterfeit TIFFANY Goods on Its Site..... | 44 |
| B. | The Nominative Fair Use Doctrine Does Not Shield eBay’s Infringement of Tiffany Marks..... | 45 |
| POINT III | THE DISTRICT COURT ERRED IN HOLDING eBAY NOT LIABLE FOR FALSE ADVERTISING | 47 |
| POINT IV | THE DISTRICT COURT ERRED IN DISMISSING TIFFANY’S CLAIMS FOR TRADEMARK DILUTION | 48 |
| CONCLUSION | | 51 |

TABLE OF AUTHORITIES

| | <u>Page(s)</u> |
|--|--------------------|
| <u>CASES:</u> | |
| <u>A&M Records, Inc. v. Napster, Inc.</u> , 239 F.3d 1004 (9th Cir. 2001)..... | 36, 37 |
| <u>American Stock Exchange, LLC v. Mopex, Inc.</u> , 215 F.R.D. 87 (S.D.N.Y. 2002)..... | 24 |
| <u>Arista Records, Inc. v. Flea World, Inc.</u> , 78 U.S.P.Q.2d 1339 (D.N.J. 2006)..... | 37 |
| <u>Cartier, Inc. v. Symbolix, Inc.</u> , 454 F. Supp. 2d 175 (S.D.N.Y. 2006)..... | 47, 48 |
| <u>Century 21 Real Estate Corp. v. Lending Tree, Inc.</u> , 425 F.3d 211 (3d Cir. 2005)..... | 45, 46, 47 |
| <u>Coca-Cola Co. v. Snow Crest Beverages, Inc.</u> , 64 F. Supp. 980 (D. Mass. 1946), <u>aff'd</u> , 162 F. 2d 280 (1st Cir.), <u>cert. denied</u> , 332 U.S. 809 (1947)..... | 30, 31, 35, 38, 39 |
| <u>Council of Better Business Bureaus, Inc. v. Better Business Bureau of South Florida, Inc.</u> , 200 U.S.P.Q. 282 (S.D. Fla. 1978)..... | 40 |
| <u>Cuban Cigar Brands N.V. v. Upmann International, Inc.</u> , 457 F. Supp. 1090 (S.D.N.Y. 1978), <u>aff'd mem.</u> , 607 F.2d 995 (2d Cir. 1979)..... | 41 |
| <u>Dan-Foam A/S v. Brand Name Beds, LLC</u> , 500 F. Supp. 2d 296 (S.D.N.Y. 2007)..... | 2 |
| <u>Deere & Co. v. MTD Products, Inc.</u> , 41 F.3d 39 (2d Cir. 1994)..... | 49, 50 |

| | |
|--|----------------|
| <u>Design Strategy, Inc. v. Davis,</u> 469 F.3d 284 (2d Cir. 2006) | 27 |
| <u>Diane Von Furstenberg Studio v. Snyder,</u> No. 1:06cv1356(JCC), 2007 WL 2688184 (E.D. Va. Sept. 10, 2007) | 50 |
| <u>Elizabeth Taylor Cosmetics Co. v. Annick Goutal, S.A.R.L.,</u> 673 F. Supp. 1238 (S.D.N.Y. 1987) | 41 |
| <u>Engineered Mechanical Services, Inc. v. Applied Mechanical Technology, Inc.,</u> 584 F. Supp. 1149 (M.D. La. 1984) | 41 |
| <u>Fonavisa, Inc. v. Cherry Auction, Inc.,</u> 76 F.3d 259 (9th Cir. 1996) | passim |
| <u>Fuji Photo Film Co., Inc. v. Shinohara Shoji Kabushiki Kaisha,</u> 754 F.2d 591 (5th Cir. 1985) | 44 |
| <u>Gamut Trading Co. v. United States International Trade Commission,</u> 200 F.3d 775 (Fed. Cir. 1999) | 2 |
| <u>General Motors Corp. v. Autovation Technologies Inc.,</u> 317 F. Supp. 2d 756 (E.D. Mich. 2004) | 50 |
| <u>Gucci America, Inc. v. Duty Free Apparel, Ltd.,</u> 286 F. Supp. 2d 284 (S.D.N.Y. 2003) | 46 |
| <u>Gucci America, Inc. v. Hall and Associates,</u> 135 F. Supp. 2d 409 (S.D.N.Y. 2001) | 34, 35 |
| <u>Hard Rock Café Licensing Corp. v. Concession Services, Inc.,</u> 955 F.2d 1143 (7th Cir. 1992) | 32, 33, 34, 35 |
| <u>Harold F. Ritchie, Inc. v. Chesebrough-Pond’s, Inc.,</u> 281 F.2d 755 (2d Cir. 1960) | 44 |

| | |
|---|--------|
| <u>In re Aimster Copyright Litigation</u> , 334 F.3d 643 (7th Cir. 2003), <u>cert. denied</u> , 540 U.S. 1107 (2004)..... | 40 |
| <u>Inwood Laboratories, Inc. v. Ives Laboratories, Inc.</u> , 456 U.S. 844 (1982)..... | passim |
| <u>Lockheed Martin Corp. v. Network Solutions, Inc.</u> , 985 F. Supp. 949 (C.D. Cal. 1997), <u>aff'd</u> , 194 F.2d 980 (9th Cir. 1999) | 35, 36 |
| <u>Louis Vuitton S.A. v. Lee</u> , 875 F.2d 584 (7th Cir. 1989) | 38, 41 |
| <u>Merck & Co. v. Mediplan Health Consulting, Inc.</u> , 425 F. Supp. 2d 402 (S.D.N.Y. 2006) | 46 |
| <u>Mini Maid Services Co. v. Maid Brigade Systems, Inc.</u> , 967 F.2d 1516 (11th Cir. 1992) | 33 |
| <u>Nora Beverages, Inc. v. Perrier Group of America</u> , 269 F.3d 114 (2d Cir. 2001) | 2 |
| <u>New York Stock Exchange, Inc. v. New York, New York Hotel LLC</u> , 293 F.3d 550 (2d Cir. 2002) | 49 |
| <u>OBH, Inc. v. Spotlight Magazine, Inc.</u> , 86 F. Supp. 2d 176 (W.D.N.Y. 2000)..... | 49 |
| <u>Pebble Beach Co. v. Tour 18 I Ltd.</u> , 155 F.3d 526 (5th Cir. 1998) | 46 |
| <u>Planned Parenthood Federation of America v. Bucci</u> , 42 U.S.P.Q.2d 1430, <u>aff'd mem.</u> , 152 F.3d 920 (2d Cir.), <u>cert. denied</u> , 525 U.S. 834 (1998)..... | 36 |
| <u>Playboy Enterprises, Inc. v. Chuckleberry Publishing, Inc.</u> , 486 F. Supp. 414 (S.D.N.Y. 1980) | 41 |

| | |
|--|----|
| <u>SKF USA Inc. v. International Trade Commission,</u> 423 F.3d 1307 (Fed Cir. 2005), cert. denied, 548 U.S. 904 (2006)..... | 2 |
| <u>STX, Inc. v. Bauer USA, Inc.,</u> 43 U.S.P.Q.2d 1492 (N.D. Cal. 1997)..... | 40 |
| <u>Sealy, Inc. v. Easy Living, Inc.,</u> 743 F.2d 1378 (9th Cir. 1984)..... | 38 |
| <u>Sinco, Inc. v. Metro-North Commuter Railroad Co.,</u> 133 F. Supp. 2d 308 (S.D.N.Y. 2001)..... | 24 |
| <u>Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.,</u> 477 F.3d 765 (2d Cir. 2007)..... | 27 |
| <u>Tea Board of India v. Republic of Tea, Inc.,</u> 80 U.S.P.Q.2d 1881 (T.T.A.B. 2006)..... | 41 |
| <u>Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc.,</u> No. 1:00-CV-1934-BBM, 2003 WL 22331254 (M.D. Ga. May 9, 2003)..... | 38 |
| <u>UMG Recordings, Inc. v. Sinott,</u> 300 F. Supp. 2d 993 (E.D. Cal. 2004)..... | 37 |

STATUTES AND OTHER AUTHORITIES:

| | |
|------------------------------|-------------|
| 15 U.S.C. § 1114 (2005)..... | 3, 4, 44 |
| 15 U.S.C. § 1125 (2006)..... | 48, 49 , 50 |
| 28 U.S.C. § 1291 (1982)..... | 4 |
| 28 U.S.C. § 1331 (1980)..... | 4 |
| 28 U.S.C. § 1338 (1999)..... | 4 |

| | |
|--|--------|
| 2 J. Thomas McCarthy, <u>McCarthy on Trademarks and Unfair Competition</u> § 17:17 (4th ed. 2007)..... | 39, 40 |
| 4 J. Thomas McCarthy, <u>McCarthy on Trademarks and Unfair Competition</u> § 25:26 (4th ed. 2007)..... | 44 |
| 4 Louis Altman, <u>Callmann on Unfair Competition, Trademarks & Monopolies</u> § 22:17 (4th ed. 2007)..... | 45, 46 |
| Cambridge Dictionaries Online, available at www.dictionary.cambridge.org (last visited October 14, 2008) | 34 |
| Dictionary.com available at www.Dictionary.reference.com (last visited October 14, 2008) | 34 |
| The Free Dictionary available at www.thefreedictionary.com (last visited October 14, 2008) | 34 |

PRELIMINARY STATEMENT

Defendant-appellee eBay, Inc. (“eBay”) invented what has become the largest electronic auction site in the world. Goods are not available for inspection prior to sale, the seller can hide its identity from the purchaser and rights holders, the seller can use multiple names, and the speed and volume of transactions is high. Consequently, a substantial number of the TIFFANY goods posted for sale were counterfeit — and eBay knew it.¹ Despite that fact, eBay spent considerable effort encouraging sellers to post, and buyers to buy, even more supposed TIFFANY goods. eBay earned significant revenue and profits from the sale of counterfeit TIFFANY goods.

Although eBay profits handsomely from a system of its own invention that facilitates substantial fraud, the district court believed that the “solution” to the counterfeiting problem is to put the burden on the victim. In its view, plaintiffs-appellants Tiffany and Company and Tiffany (NJ) Inc. (collectively, “Tiffany”) have the full-time responsibility to monitor eBay, examine all TIFFANY listings, make a good faith determination whether any specific item is counterfeit, and then notify eBay. If Tiffany acts quickly enough, the listing can be taken down before the sale is consummated. According to the district court, eBay’s only responsibility is to respond to Tiffany’s notification of specific counterfeit listings by specific sellers.

¹ “Tiffany” is used throughout to refer to appellants and “TIFFANY” to the brand.

The district court's ruling frustrates fundamental policies of trademark law, which are "to protect the consumer and to safeguard the goodwill of the producer." SKF USA Inc. v. International Trade Commission, 423 F.3d 1307, 1313 (Fed. Cir. 2005) (citation omitted), cert. denied, 548 U.S. 904 (2006).² The district court's ruling favors the party that has profited from facilitating the fraud and disfavors the two groups of victims that the trademark law is designed to protect — the consumer who purchases counterfeit goods and the trademark owner, here Tiffany, which has carefully nurtured its brand for more than 170 years.

The district court's failure to apply (or even to acknowledge) these fundamental principles led the district court to make a number of legal errors.

First, the district court misinterpreted the teaching of the Supreme Court's seminal decision concerning contributory infringement, Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844 (1982), as well as the decisions leading to and following Inwood. Those decisions do not stand for the proposition that liability is triggered only by knowledge of a specific infringing occurrence. Rather, Inwood itself, as well as its predecessors and progeny, recognized that contributory liability could attach in two separate situations — (i) when the party providing the goods or services continues to do so when it "knows" that its products or services are being used to further trademark infringement; or (ii) when

² Accord Gamut Trading Co. v. United States International Trade Commission, 200 F.3d 775, 782 (Fed. Cir. 1999); Nora Beverages, Inc. v. Perrier Group of America, 269 F.3d 114, 119 (2d Cir. 2001); Dan-Foam A/S v. Brand Name Beds, LLC, 500 F. Supp. 2d 296, 309 (S.D.N.Y. 2007).

that party has “reason to know” that its products or services are being so used. Because the district court’s ruling requires knowledge of specific counterfeit listings by specific sellers, it has effectively read Inwood’s “reason to know” standard out of the law.

Second, the district court mischaracterized the “heart of this dispute” regarding who should bear the burden of policing Tiffany’s valuable trademarks in internet commerce. The district court erroneously balanced what eBay did and did not do against what Tiffany did and did not do to protect its marks.

But the question is not one of comparative action or inaction. Trademark law teaches that the sole question is whether eBay knew or had reason to know that its web services were being used to advertise and sell counterfeit TIFFANY merchandise. If so, eBay was required to take effective action to eliminate the problem. Here, the district court found that eBay knew that counterfeit TIFFANY goods were being sold on its site. But, as the district court found, eBay did nothing on its own initiative to prevent the listing of counterfeit goods (except when the seller affirmatively stated in its listing that the goods were not genuine or Tiffany gave eBay specific notice). These factual findings should have caused the district court to hold that eBay was liable.

Third, the district court misapplied the doctrine of nominative fair use. It wrongly held that the doctrine shielded eBay from liability for direct infringement. The Lanham Act makes eBay liable if it used Tiffany’s marks in connection with the sale or advertising of goods in a manner that is “likely to cause confusion, or to cause mistake, or to deceive” 15 U.S.C. § 1114 (2005). It is hard to imagine

a situation more likely to cause confusion or mistake or to deceive than the advertising and listing for sale of counterfeit goods. Yet, the district court held that eBay was not liable because it did not know which specific items being listed for sale were counterfeit (even though eBay knew that substantial numbers of counterfeit TIFFANY items were being listed) and because some genuine TIFFANY merchandise was also available for sale.

For these reasons and the reasons discussed below, the Judgment should be reversed and Tiffany's claims should be granted.

STATEMENT OF JURISDICTION

The district court had subject matter jurisdiction pursuant to 28 U.S.C. § 1331 (1980) and 28 U.S.C. § 1338 (1999). This Court has jurisdiction pursuant to 28 U.S.C. § 1291 (1982).

Judgment dismissing Tiffany's claims was entered on July 15, 2008. SPA67. Tiffany timely filed a notice of appeal on August 11, 2008. A17. Appeal is taken from the decision and order of the district court (Sullivan, J.), which is reported at Tiffany (NJ) Inc. v. eBay Inc., No. 04 Civ. 4607, 2008 WL 2755787 (S.D.N.Y. Jul. 14, 2008).

STATEMENT OF ISSUES PRESENTED FOR REVIEW

1. Did the district court err when it held that, under the standard for contributory trademark infringement established by the Supreme Court, a party is not liable unless it knows that a specific seller is using the party's service to sell a particular item that is a counterfeit good, even though that party knows or has reason to know that there is a pervasive use of its service to sell counterfeit goods

and does not take any proactive steps to prevent its service from being used to sell counterfeit goods?

2. Did the district court err when it held that a party is not liable for direct trademark infringement as a result of advertising the sale of brand name goods on its service, knowing that some of them were counterfeit, because there were also some genuine samples sold on the party's service and the party was thus shielded by the doctrine of nominative fair use?

3. Did the district court err when it held that a party is not liable for false advertising as a result of advertising the sale of brand name goods on its service, knowing that some of them were counterfeit, because (i) there were some genuine samples sold on the party's service and the party was thus shielded by the doctrine of nominative fair use, (ii) the party did not have specific knowledge of the illicit nature of the particular listings, as opposed to knowledge that many of the goods sold were counterfeit and (iii) to the extent the advertising was false and/or misleading, the falsity was the responsibility of the sellers?

4. Did the district court err when it held that a party is not liable for dilution of a famous trademark and that the party was protected by the doctrine of nominative fair use because (i) although it had knowledge that many of the goods sold on its service under the famous mark were counterfeit, some of the goods were genuine and (ii) the party removed specific listings of counterfeit goods after receiving notice of those listings from the owner of the famous mark?

STATEMENT OF THE CASE

A. Nature of the Case

Tiffany commenced this action against eBay, alleging that it is entitled to injunctive relief and to damages based on the following claims for relief: (i) direct and contributory trademark infringement of Tiffany's trademarks in violation of Sections 32(1) and 34(d) of the Lanham Act, 15 U.S.C. §§ 1114(1) and 1116(d); (ii) trademark infringement and the use of false descriptions and representations in violation of Section 43(a)(1)(B) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(B); (iii) direct and contributory trademark infringement under New York law; (iv) direct and contributory unfair competition under New York law; (v) trademark dilution under Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c); and (vi) trademark dilution under New York General Business Law § 360-1. A18-54.

eBay denied those allegations, and asserted that it had no affirmative duty to prevent trademark violations by third-party users of its website. A53-63.

B. Course of Proceedings and Disposition Below

A bench trial was held from November 13 through November 20, 2007. A13-14; D75, 76. On July 14, 2008, the district court issued an Opinion and Order dismissing each of Tiffany's claims. SPA66.

First, the district court held that Tiffany had failed to establish that eBay had directly infringed Tiffany's trademarks. SPA29-37. It held that eBay's use of Tiffany's trademarks was permissible under the "doctrine of nominative fair use." SPA32-33. The district court held that eBay did nothing to suggest sponsorship or

endorsement by Tiffany. SPA32-33. Even though the district court acknowledged that significant quantities of TIFFANY counterfeit jewelry were sold on eBay, SPA51, 59, and that eBay exercised control over its sellers and website, SPA42-43, it held that TIFFANY merchandise was sold legally through eBay and that eBay removed potentially infringing listings when it received notices from Tiffany. SPA34. The district court held that eBay's advertising of TIFFANY goods on its own site and its purchase of sponsored-link advertisements on Yahoo! and Google were protected by the doctrine of nominative fair use. SPA35.

Second, the district court held that eBay was not liable for contributory trademark infringement. SPA37-57. The district court applied the principles set forth by the Supreme Court in Inwood. SPA38, 40-42. It held that the Inwood standard applies to infringement claims against providers of a service, such as flea market and website operators. SPA41-42. "Accordingly, the [district court looks] not only to whether eBay provided the necessary market place for the counterfeiting (which it clearly did), but further, to whether eBay had direct control over the means of infringement." SPA42-43. The district court found that eBay did exercise the requisite control, as eBay retained significant control over the transactions conducted on its website, actively promoted the sale of TIFFANY jewelry, profited from the listing and sale of those items and maintained significant control over the listing of those items. SPA43.

The district court then considered whether eBay had knowledge or reason to know that sellers using its service were engaging in trademark infringement. SPA44-51. The district court's analysis turned on its definition of knowledge, and

it distinguished between generalized and specific knowledge.³ SPA48, 51. Even though Inwood does not make such a distinction, the court concluded that Inwood required Tiffany to establish that eBay had specific knowledge that an infringer was mislabeling a particular product, and it held that generalized knowledge is not sufficient. SPA45. Thus, the district court held that, unless the party had knowledge of a specific infringing event, there could be no liability for contributory infringement. SPA46-47. The district court concluded that eBay had only “general knowledge” regarding the sale of counterfeit TIFFANY goods on its site. SPA48. Finally, it held that, to the extent that eBay may have had knowledge by virtue of the notices submitted by Tiffany under a program created by eBay permitting brand owners to submit reports about the listing of counterfeit goods (“VeRO”), eBay removed the listings. SPA54. In holding that eBay’s response was sufficient, the district court concluded that Tiffany had the principal responsibility for policing its trademark and that eBay did not have the burden to screen potentially counterfeit listings before they were posted merely because it had the ability to do so. SPA56.

Third, the district court held that Tiffany failed to establish its claims for false advertising under the Lanham Act and the common law because it had failed to establish its contributory and direct infringement claims and because eBay’s use of the TIFFANY marks was protected nominative fair use. SPA57-59. For the

³ In drawing this distinction, the district court also held that it applied to the “reason to know” prong of the Inwood standard. SPA46-47.

same reasons, the district court held that Tiffany had failed to establish trademark dilution under both the Lanham Act and the New York General Business Law. SPA59-65.

STATEMENT OF THE FACTS

A. The Importance of the TIFFANY Marks to Tiffany's Business

For more than 170 years, Tiffany has achieved great renown as a purveyor of luxury jewelry under the TIFFANY marks. SPA4; A174-75. Tiffany's success as a luxury goods retailer hinges on maintaining the quality and integrity of its trademarks. A174. They are "indisputably famous," SPA4, 31, 62, and are of incalculable value. A231.

Tiffany closely controls and limits the distribution of its goods. SPA5; A178-79, 281-82. Since 2000, all new TIFFANY jewelry has been sold in the United States only through Tiffany retail stores, Tiffany catalogs, Tiffany's website and Tiffany's Business Sales division. SPA5-6; A131, 175, 275. Moreover, Tiffany does not use liquidators or sell overstock merchandise or run "sales." SPA6; A281-82. There is no evidence that TIFFANY silver jewelry was diverted from its controlled distribution system. SPA6.

Perhaps the greatest threat to the TIFFANY brand is counterfeiting. A174, 233-34. Tiffany therefore takes many steps to protect and enforce its marks. A174. For example, Tiffany has pursued more than 600 enforcement actions, including customs seizures, cooperation with domestic and international law enforcement agencies and the sending of cease and desist letters to counterfeiters. SPA15; A498-99. Those actions have proved largely successful in combating counterfeits on the street-vendor level. A176, 2499.

B. The eBay Business Model and Its Symbiotic Relationship with Its Sellers

eBay created and operates the well-known online marketplace, located at www.ebay.com. SPA7. On eBay, a party can sell practically anything at anytime. A529. Since its inception in 1995, eBay has grown dramatically. SPA8; A529. There are more than 100 million active listings at any given time, and approximately six million new listings posted throughout each day. SPA8.

eBay's member sellers create listings offering items for sale to eBay's member buyers. SPA7. The seller may list an item in either an auction-style, fixed price or "Buy It Now" format.⁴ SPA7; A531. A seller's listing may be for a single item or multiple items. SPA7. eBay sellers may also sell under multiple eBay user names. SPA7. Sellers "often go by descriptive user names instead of real names", SPA7, thereby allowing them to remain anonymous to everyone except eBay itself. A2441.

eBay uses keywords, such as brand names like "TIFFANY", on its website. SPA8. Clicking on the keyword directs the potential buyer to listings that include the keyword. SPA8. Potential buyers may also browse through eBay's categories or use keywords to search listing titles and descriptions. SPA8.

Although eBay does not sell the items, it is not the online equivalent of a classified ad service. SPA8, 44. Rather, "eBay takes an active role in supplying customers — namely registered buyers — to registered sellers, and actively

⁴ A fixed price listing does not involve bidding. A531. A "Buy It Now" listing is a hybrid, and offers the item at a fixed price only if a buyer is willing to meet the Buy It Now price before the first auction bid is placed. SPA7 n.10.

facilitates transactions between them.” SPA43. eBay takes a fee at every step of the transaction. SPA8.

At the creation of the listing, eBay collects an insertion fee from the sellers, ranging from \$0.20 to \$4.80. SPA8; EX4219-23. If the item is sold, eBay collects a final value fee from the seller, ranging from 5.25% to 10% of the sale price. SPA8; EX4219-23. In 2006, approximately 33% of eBay North America’s income was derived from listing fees and approximately 45% from final value fees. SPA8; A2356. eBay earns additional revenue if the payment is processed through PayPal, an eBay affiliate. SPA8; A2352. PayPal charges the eBay seller a fee ranging from 1.9% to 2.9% of the sales price, plus \$0.30. SPA8; EX4229-30.

eBay’s revenue is directly connected to, and dependent upon, the volume of its sellers’ business. SPA8; A2355-56. As the number of listings and sales prices increase, so too does eBay’s revenue. SPA8. Consequently, “eBay works closely with sellers to foster the increase of their sales on eBay.” SPA8.

eBay provides extensive and wide-ranging assistance to its sellers. SPA8-9; A2355-56. It offers marketing advice about creating the “perfect” listing to attract buyers. SPA9; A2358; EX3196-99. It offers an “Advanced Selling” program that provides data and research to help identify “hot sales opportunities.” SPA9; A2355; EX3132-36. It distributes marketing calendars to enable sellers to list goods to coincide with eBay promotions. SPA9; A2356; EX3128-31.

The bigger the seller, the more support eBay provides. SPA9; A2354. eBay’s top sellers are designated PowerSellers. SPA9. PowerSellers are provided dedicated account managers. SPA9; A2361. eBay publishes newsletters for

PowerSellers that provide further information on eBay promotions and advanced selling education. SPA9; A2360; EX2061-62. eBay offers a co-op advertising program in which it reimburses PowerSellers 25% for advertisements purchased in qualifying publications. SPA9; A2360, 2364; EX2-12, 2061-62. eBay provides its PowerSellers health care benefits, SPA9; A2363-64; EX2-12, business liability insurance, SPA9; EX2065, and working lines of credit to finance their inventory. SPA9; EX98-99.

eBay management teams are responsible for overseeing the growth of products sold on eBay within a product category, such as Jewelry & Watches. eBay devotes a significant effort to assisting the expansion of eBay sellers' business. SPA13-14; A1435, 2358-59. The Jewelry & Watches team runs an account management program for its 20 top sellers, providing them with information on business planning and auction strategy. SPA13; A1479-80, 2358-59; EX138.

C. eBay Promotes the Sale of Brand Name Goods, Including TIFFANY

In spite of its knowledge that substantial amounts of counterfeit TIFFANY goods were sold on its site, see this Brief at 16-19, infra, eBay undertook great efforts to promote the listing and sale of TIFFANY goods. SPA13-14. eBay recognized that its “buyers are very interested in brands,” including TIFFANY. SPA14; A2365. eBay advised its sellers to exploit the demand for TIFFANY merchandise as part of the effort to grow the Jewelry & Watches category. SPA13; A2368-69; EX88-95, 121-22, 3144-78, 3204-09, 3212-16, 3358-67. eBay

conducted group conference calls with sellers and shared information on its marketing programs. SPA13; see A1501; EX121-22, 129. eBay provided its sellers with “the most effective keywords for [sellers’] program,” including the words that provided the best return on investments. SPA13; EX121-22. eBay identified “TIFFANY” as one of the top-searched keywords that sellers should use. SPA13; EX88-95, 121-22.

Additionally, eBay provided all its users with documents such as the “Hot Categories Report.” SPA13; EX3144-78. “TIFFANY” was one of the “hot” brands in the Jewelry & Watches category. EX3169. eBay also provided the “Holiday Hot List”, SPA14; EX3204-09, which is “a detailed list of products predicted to be in high demand and short supply this holiday season.” SPA14; EX3212-13. eBay included “TIFFANY” on its “Holiday Hot List.” SPA14; EX3204-09. Similarly, in September 2006 and March 2007, eBay told users through its Pulse webpage that the terms Tiffany and Tiffany & Co. were top search terms. SPA13; A2369-70; EX3214-16.

eBay regularly conducted promotions to increase sales of luxury brands, including TIFFANY. SPA14; A1484, 1487-88; EX13-76. eBay advertised that TIFFANY merchandise was available for sale. SPA14. Prior to 2003, eBay advertised the availability of TIFFANY merchandise by displaying the TIFFANY marks on its homepage and greeting pages. SPA14; EX2037-56, 3358-67. Additionally, eBay purchased sponsored link advertisements on Yahoo! and Google advertising the availability of “TIFFANY” items. SPA14; A533; EX2246-47, 3368-73. After Tiffany protested in May 2003, eBay removed TIFFANY

advertisements from its homepage and greeting pages, and ceased directly purchasing sponsored link advertisements. SPA14; A533, 535. Nevertheless, eBay continued to place TIFFANY advertisements on other pages on its site, e.g., on eBay Pulse, SPA13-14; EX3358-67, and continued to reimburse sellers registered as “affiliates” for their purchasing sponsored links advertising the sale of TIFFANY jewelry. SPA14; A2371; EX2186-98, 2206-09.

D. eBay Becomes the Largest Venue for the Sale of Counterfeit TIFFANY Jewelry

In early 2003, Tiffany discovered that sellers were using online marketplaces to sell large quantities of counterfeit TIFFANY silver jewelry. A284. Tiffany observed that eBay had become the largest such venue for the sale of counterfeit TIFFANY silver jewelry. A181, 2508. The counterfeits were typically described as new and genuine, but were sold at prices well below Tiffany’s retail prices. A284.

Tiffany’s initial strategy was similar to its strategy in pursuing street-vendor counterfeiters. SPA15; A176-77, 2506-07. Tiffany successfully brought civil actions against four eBay sellers. SPA15; A176-77, 2506-07. Tiffany soon realized, however, that this strategy was not feasible over the long term. A2498-99. There were so many counterfeiters on eBay (many of who operated using multiple user names) that Tiffany would have had to initiate thousands of lawsuits. A2498. Moreover, the counterfeiters’ anonymity made the likelihood of locating them, or enforcing a potential judgment against them, very small. A2498-99. Thus, Tiffany decided that the better approach to combating counterfeiting was to

seek eBay's cooperation and to request eBay to take effective measures to eliminate the deluge of counterfeit merchandise available on its site. A2498-99.

In May 2003, Tiffany wrote eBay about the problem of counterfeit TIFFANY jewelry and to seek eBay's cooperation. SPA15; A177; EX2210-12. Tiffany advised eBay that there were no authorized third-party vendors and that it should therefore "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."⁵ SPA15; see A177-78; EX2210-12. In a June 2003 responsive letter, eBay encouraged Tiffany to use a third party program, Ranger Online, to report counterfeit items to eBay through eBay's Verified Rights Owner or VeRO program. SPA16; EX2246-47. eBay rejected, however, Tiffany's request to remove listings even temporarily so it could investigate further, absent a specific report under VeRO. SPA16; EX2246-47.

In response, Tiffany instituted an internal program to monitor eBay and to report counterfeit listings through VeRO. SPA18; A285-86. Under VeRO, rights owners such as Tiffany could report any listing offering potentially infringing items. SPA11. If a rights owner saw a potentially infringing item on eBay, it

⁵ At that time, Tiffany believed that the number "five" was a conservative indicator that a seller was offering counterfeit TIFFANY merchandise based, in part, on the fact that Tiffany is primarily a gift store and that the purchase of multiple items is not common. A2496-97. Also, Tiffany has a liberal return policy with a 30-day full money-back guarantee. A285. Consequently, it was unlikely that a seller would sell new TIFFANY jewelry for substantially less than retail price on eBay, let alone in quantities of five or more at such prices. A285, 2496-97. The "five" or more piece suggestion was just that, a suggested standard to help identify likely counterfeit merchandise.

could submit a Notice of Claimed Infringement (“NOCI”). SPA11. A NOCI required the rights owner to attest, under penalty of perjury, that it possesses a “good-faith belief” that the particular individual item is infringing. SPA11; EX4669-92, 4727-35. Upon receiving a NOCI from a rights owner, eBay removed the reported item. SPA12.

After approximately one year of Tiffany’s participating in VeRO, the number of listings for counterfeit TIFFANY jewelry actually increased. A179-80, 301; EX4025. Through May 2004, Tiffany had reported 46,252 infringing listings.⁶ SPA18; EX4025. Indeed, in August 2003, Tiffany was the second largest NOCI reporter. SPA18; EX83, 4724-26.

Because the number of counterfeit TIFFANY pieces on eBay was increasing, in June 2004, Tiffany again wrote eBay. SPA16; EX2248-50. Tiffany advised eBay that it had, as eBay recommended, participated in VeRO and had used the Ranger Online tool to report the sale of counterfeit jewelry, but that the flood of counterfeit merchandise had not subsided. EX2248-50. Tiffany again asked eBay to take action to halt the listing and sale of counterfeit TIFFANY jewelry, and expressed a desire to meet. EX2248-50. eBay did not respond to the letter. A180. Tiffany consequently commenced this action. SPA3.

⁶ This number represents only the amount of reported listings. SPA18 n.16; A300-01. The actual number of reported items is significantly higher because a single listing frequently offered multiple items. SPA18 n.16; A301-02; EX4717.

E. eBay Knows That the Sale of Counterfeit TIFFANY Jewelry on Its Website Is Pervasive

There is no dispute that there has been a substantial amount of counterfeit merchandise offered for sale on eBay. SPA59; EX2283-2497, 4025. eBay knew of the large and growing amount of infringing merchandise on its site based on the substantial number of NOCIs that it received monthly. EX331-1878. eBay's monthly reports showed the number of NOCIs filed per rights owner. EX331-1878. The number of NOCIs submitted by the top ten rights owner was: 48,272 during the period October through December 2002; 252,817 in 2003; 315,744 in 2004; and 417,235 in 2005. EX331-1878. In aggregate, during this 39-month period, the top ten monthly reporters filed more than 1 million NOCIs. EX331-1878.

The district court found that a substantial amount of counterfeit TIFFANY silver jewelry was offered for sale on eBay. SPA21. "eBay certainly had generalized knowledge that Tiffany products sold on eBay were often counterfeit." SPA59. Tiffany proffered the results of two buying programs it conducted in 2004 and 2005 to gauge the extent of the problem. SPA19-21. The district court declined to attach significant probative value to the buying programs' conclusions that 73.1% and 75.5% of the TIFFANY sterling silver jewelry purchased was counterfeit, SPA19-21, but nevertheless credited the concession by eBay's statistical expert, Dr. Eugene Ericksen, that, based on his review of the buying program's results, 30% or more of "Tiffany" jewelry on eBay "could safely be deemed counterfeit." SPA21.

There is no “dispute that eBay was generally aware that counterfeit TIFFANY jewelry was being listed and sold on eBay even prior to Tiffany’s demand letter.” SPA51 (emphasis in original) Prior to Tiffany’s May 2003 letter, EX2210-12, Tiffany had already reported 1,182 counterfeit listings in the span of only two months. EX4025. Even after Tiffany commenced this action, it continued to participate in VeRO. A298, 301. From 2003 through 2006, Tiffany reported substantially more listings each year than it had the preceding year. SPA18; EX4025. Tiffany reported 20,915 infringing listings in 2003, 45,242 in 2004, 59,012 in 2005 and 134,779 in 2006. SPA18; A301; EX4025. By trial, Tiffany had reported a total of 284,149 infringing listings. SPA18; A301, 2280. eBay’s own Deputy General Counsel and former Senior Vice President of Trust and Safety, Robert Chesnut, acknowledged that, by virtue of the NOCIs that it received, eBay had long been aware of the problem of counterfeit TIFFANY silver jewelry. A2459.

eBay nevertheless regularly allowed its sellers to offer hundreds, even thousands, of listings for counterfeit TIFFANY jewelry at any one time. For example, in September 2006, eBay allowed “the firstman_vip”, which was designated as a PowerSeller, to post all at once 3,384 listings for TIFFANY items. A89-90; EX3660-3982. eBay did so, even though Tiffany had previously told eBay that this seller was listing counterfeit goods. SPA25 n.24; A89-90; EX3660-3982.

Members of the eBay community also experienced this high volume of counterfeit listings. E.g., A269-73. Sheila Sharp, an Assistant Director with the

Arkansas Department of Corrections, learned in December 2005 that an unauthorized individual had hacked into her eBay account and had used it, over the course of seven days, to post hundreds of listings for counterfeit TIFFANY jewelry.⁷ A270, 272; EX305-30. By the time that she had discovered what was happening, eBay had allowed the hacker to sell approximately 300 TIFFANY items through her account. A270.

Buyers were also complaining directly to eBay about the sale of counterfeit goods. SPA21; EX2283-2497. During the six-week period from October 11, 2004 to December 31, 2004, the only period for which eBay produced consumer complaints, eBay received 125 emails from buyers stating that they had purchased fake TIFFANY jewelry.⁸ SPA21; EX2283-2497. The district court received testimony from three persons who had purchased what they believed to be genuine TIFFANY jewelry, and who had complained to eBay and/or PayPal that the jewelry was, in fact, fake. SPA21.

Despite this extensive knowledge, eBay did not:

conduct a separate investigation into the extent of [the problem]. eBay did not analyze its data, or research and evaluate the number of “Tiffany” listings removed from its website. Nor did it track the number of sellers suspended because they had posted infringing listings.

⁷ Ms. Sharp reported this conduct directly to eBay. A270.

⁸ Although Tiffany sought production of all complaints, eBay chose to produce complaints only for this six week period. Of those complaints, at least four of them concerned sellers about whom Tiffany had previously filed NOCIs. Compare EX2289-92, 2403 (seller Relaxxx122345), 2313 (seller Springnlolo) and 2497 (seller Nufkuhs) with EX3376-77 (items 36, 3381 and 2313).

SPA52; EX4157-65.

F. eBay Has Failed to Stop the Listing and Sale of Counterfeit TIFFANY Jewelry on Its Website

eBay purported to use several methods to combat the sale of counterfeit merchandise on its site: (a) its computer-driven fraud engine; (b) VeRO; and (c) user suspension policies.

eBay operated a “fraud engine” that was purportedly designed to identify “suspicious” listings that might have violated any of eBay’s rules, including rules prohibiting the sale of the counterfeit goods. SPA10-11; A368, 2418-19; EX4795-96, 4831-38. Once the engine identified a listing, eBay employees (known as CSRs) reviewed the listing to determine whether it should be taken off the website. SPA10-11; A369, 2420; EX4612-13.

eBay’s fraud engine, however, was not designed to prevent or identify counterfeit listings. A250-54. eBay’s filters searched solely for listings that admitted that the goods were not genuine. SPA10. Those filters included “counterfeit tiffany,” “faux tiffany,” “tiffany style,” and “inspired by tiffany.” SPA26-27; EX4795-96. The fraud engine was not designed to detect, and thus never detected, listings that falsely told consumers that the goods were new and genuine. A254, 2458.

After it learned in August 2003 that Tiffany had become the second largest VeRO reporter, EX2724-26, eBay talked about adopting better filters. A1541-42, 2459. eBay, however, never adopted any new filters other than more of the

“replica” filters that targeted listings that admitted that the goods were not genuine. A251-54; EX4029-30.

eBay could have implemented different types of filters and taken other measures. A250, 2438-39, 2458. For instance, in late 2006, eBay began to delay the ability of buyers to view on its site listings that use certain brand names, including TIFFANY, for 6 to 12 hours in order to permit its CSRs to review these listings manually and to determine whether the sellers would be allowed to offer the items. SPA27; A2437. Yet, as early as 2004, it was technically feasible for eBay to delay listings, including listings for “Tiffany silver”, SPA28; A2439, 2458, and to implement quantity filters that flagged listings offering multiple items. SPA28; A2438. Had eBay employed these filters in 2004, a CSR could have reviewed such listings, as well as manually searched for and reviewed the sellers’ other listings and history. A2440. If the CSR found that the listings were “suspicious,” the CSR could have temporarily removed them and asked the seller for proof that the goods were genuine. A2420.

eBay did not take these measures and instead relied only on VeRO. A361. That program, however, shifted the responsibility to the rights owners, such as Tiffany. A361-62. eBay took a listing down only after Tiffany submitted a NOCI to eBay. SPA12; A303. VeRO imposed an inordinate burden on rights holders, and in any event was not capable of addressing the severity of the problem. A90, 92-93, 302-03, 2282-83. VeRO did not prevent items from being listed. EX3119-20. Because Tiffany could not observe a listing before it was displayed to

consumers, counterfeit TIFFANY items often were sold before Tiffany could report them to eBay. SPA19; A92; EX3635-49, 3660-3982, 3983-99.

From early 2003 through 2006, the daily search conducted by Tiffany for “Tiffany” and “silver” typically generated approximately 1,000 results. SPA19; A302. Because eBay required a good faith attestation that each individual listing was infringing, A2430, Tiffany had to review each and every listing before it could submit any NOCIs. A287, 289. It was physically impossible for Tiffany to review every identified listing in one day. A302, 2282. This problem was compounded because eBay’s website was dynamic and new items were constantly being added — Tiffany could not keep up.⁹ A92, 302, 2282-83, 2430-31.

Tiffany continuously reported infringing items through VeRO. According to eBay’s own monthly records, of the 14,000 rights owners that participated in VeRO, SPA18; A362, Tiffany was among the top 10 reporters in 21 of the 28 months between June 2003 and September 2005. SPA18; EX568-1878. As the district court found, “by any measure, it is clear that Tiffany was one of the most frequent reporters in the VeRO Program.” SPA18; A290-91.

The fundamental inadequacy of VeRO is made plain by the significant number of repeat offenders that eBay allowed to sell counterfeit goods. When Tiffany submitted a NOCI, it regularly requested that the seller be suspended. SPA23; A78-79, 83, 93. Although eBay contends that it did suspend such sellers,

⁹ Tiffany attempted to use certain technologies that purported to facilitate VeRO reporting, but found them ineffective. A292-93, 2288. For instance, with Ranger Online, Tiffany still had to review all the identified listings and report the infringing items to eBay. A2288.

A2422, it did not produce any evidence supporting that contention.¹⁰ A2422, 2431; EX4157-65. Further, the documentary evidence established that eBay frequently allowed sellers to continue to sell counterfeit TIFFANY jewelry even though Tiffany had already reported those sellers. A306-07; EX3374-94. Based on the limited data that Tiffany had about sellers' identity (in contrast to the vast amount that eBay had), Tiffany identified 178 repeat offenders. EX3374-94. The anecdotal evidence of repeat offenders is equally compelling:

- In early July 2005, eBay allowed "Annag9" to post 696 listings. A303-04; EX2858-60. On July 18, 2005, Tiffany submitted a NOCI regarding all of them. A303-04; EX2858-60. On July 22, 2005, eBay notified Tiffany that it had removed them. EX2863-66. Less than two hours later, however, the same seller was offering 524 new TIFFANY listings. SPA25 n.23; A304; EX2867-69.
- In early July 2005, eBay allowed "Freshhunter" to post 135 listings. A305; EX2861-62. On July 18, 2005, Tiffany submitted a NOCI regarding all of them. EX2861-62. eBay notified Tiffany that it had removed these listings on July 19, 2005, EX2861-62, but three weeks

¹⁰ eBay contended that it was unable to provide any data regarding the number of individuals that it suspended as a result of either Tiffany's NOCI's or its own supposed proactive efforts to review Tiffany listings. EX4157-65. Yet, eBay had the ability to retrieve that data. A266-68. Thus, eBay is precluded from contending that it actively suspended sellers of counterfeit TIFFANY goods. See American Stock Exchange, LLC v. Mopex, Inc., 215 F.R.D. 87, 93 (S.D.N.Y. 2002); Sinco, Inc. v. Metro-North Commuter Railroad Co., 133 F. Supp. 2d 308, 311 n.3 (S.D.N.Y. 2001).

later Freshhunter was offering 105 new listings. SPA25 n.23; A305; EX2884-85.

- On August 23, 2004, Tiffany submitted a NOCI that “Tracycwazy” had 113 listings. A305-06; EX2844-45. Yet, two weeks later, eBay allowed Tracycwazy to post 60 new listings for counterfeit TIFFANY items. SPA25 n.23; A305-06; EX2846-47.

G. eBay’s Failure to Prevent Counterfeiting Has Damaged Unsuspecting Customers and Tiffany

The vast majority of counterfeit TIFFANY jewelry sold on eBay is of a significantly inferior quality. A198-99. The sale of those counterfeit TIFFANY goods has led to the defrauding of hundreds, if not thousands, of unsuspecting customers, many of whom complained. SPA21; A64-75, 193-96; EX2283-2497.

Those consumers usually did not obtain any relief. eBay instructed buyers to try to work problems out with the sellers, A68, but many defrauded buyers found that the sellers had “disappeared” or refused to issue a refund. See, e.g., A68, 195; EX2283, 2287, 2293, 2308. If the seller did not issue a refund and the transaction was consummated through PayPal, PayPal would issue a refund, but only if within 10 days the defrauded buyer submitted documentation “from an unbiased, third-party, such as a dealer, appraiser, or another individual or organization that is qualified in the area of the item in question (other than [the buyer]), which clearly identifie[d] the item as not authentic.” A68; EX3096-97.

As to Tiffany, the damage goes well beyond lost sales — the sale of counterfeit goods has diminished the reputation that Tiffany has built and nurtured

during its long history. A235-36. There has been a meaningful loss of goodwill — between April 2003 and October 2007, Tiffany received more than 3,900 emails regarding counterfeit TIFFANY items sold on eBay. SPA22; A198-99; EX2900-01, 2903-15, 2917-21, 2923, 2932, 2935, 2938. Customers expressed their displeasure towards Tiffany. SPA22; e.g., EX2997, 3009E. As a result, the TIFFANY marks and Tiffany's reputation as a purveyor of high quality jewelry have been diluted and tarnished. A235-36.

ARGUMENT

“Following a bench trial, . . . [the Court] review[s] de novo the district court’s conclusions of law and its resolution of mixed questions of law and fact.” Starbucks Corp. v. Wolfe’s Borough Coffee, Inc., 477 F.3d 765, 766 (2d Cir. 2007) (ellipsis in original) (citing Design Strategy, Inc. v. Davis, 469 F.3d 284, 300 (2d Cir. 2006)). Thus, since each of the issues raised on this appeal involves errors of law, this Court reviews them de novo.

POINT I

THE DISTRICT COURT ERRED AS A MATTER OF LAW IN HOLDING THAT eBAY WAS NOT LIABLE FOR CONTRIBUTORY INFRINGEMENT

The relevant standard for contributory trademark infringement was established by the Supreme Court in Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844 (1982). In that decision, the Supreme Court held that a claim for contributory infringement is established if the defendant either (i) intentionally induced another party to infringe a trademark or, alternatively, (ii) continued to supply its product to one whom it knows or has reason to know is engaging in trademark infringement. Id. at 854.

A. eBay Is Liable for Contributory Infringement Because It Had Knowledge of the Pervasive Sale of Counterfeit TIFFANY Goods

The district court properly concluded that eBay is not a mere host, but could be a contributory infringer under the law because “eBay exercises sufficient control and monitoring over its website” and because “eBay retains significant

control over the transactions conducted through eBay.” It found that “eBay actively promoted the sale of Tiffany jewelry items,” that eBay “told its sellers that Tiffany was one of the most-effective keywords” and had one of the best “Returns on Investment” and that eBay profited from the listing of TIFFANY items and successful completion of sales. SPA43. It also found that eBay knew that sellers used its site to list counterfeit TIFFANY items. SPA59.

In spite of these findings, the district court absolved eBay of contributory liability under the Inwood standard by creating a false distinction, appearing nowhere in Inwood or in any decisions preceding or following it, between an alleged contributory infringer’s “general” and “specific” knowledge of infringing activity. The district court held that eBay had “general” knowledge that a substantial proportion of Tiffany products being sold on eBay were counterfeit, but held that this knowledge was not “specific” enough to require eBay to take action. SPA59. Rather the district court held that eBay had no duty to act unless and until it had knowledge of “specific instances of actual infringement.” SPA48 (footnote omitted).

In fact, the courts have not recognized a dichotomy between “general” and “specific” information. General knowledge, particularly if it is knowledge of the pervasive sale of counterfeit goods, may be sufficient to trigger action — at a minimum a duty to investigate — on the part of a potential contributory infringer like eBay. See Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 265 (9th Cir. 1996). It makes no sense to establish an absolute rule that requires “specific” information about a particular sale item and ignores the cumulative weight of more

general information about numerous items. At bottom, Inwood's standard of "know or have reason to know" does not create such a distinction. The question is whether all of the knowledge, when taken together, puts a defendant on notice that there is a substantial problem of trademark infringement. If so and if it fails to act, the defendant is liable for contributory infringement.

We start with Inwood itself. The plaintiff held a patent on a drug that it manufactured and then distributed under a registered trademark. After the patent expired, generic drug companies began to sell their generic drug to pharmacists, with capsules that looked like the capsules that the plaintiff had used to sell its patented drug. 456 U.S. at 847. The plaintiff sued the generic drug manufacturers, claiming that, by supplying similar capsules to pharmacists, the generic companies had made it possible for the pharmacists to dispense the generic drug when the doctors' prescriptions called for the plaintiff's patented drug to be dispensed. Id. at 849-50.

The district court dismissed the claims based in large part on factual findings. The district court found that incidents of substitution had "occurred too infrequently to justify the inference that the [defendant's] catalogs and use of imitative colors [for the pill capsules] had 'impliedly invited' druggists to mislabel." Id. at 853 (citations omitted). This Court reversed because it believed that the district court had given insufficient weight to the evidence of a pattern of illegal substitution and mislabeling by the pharmacists. In turn, the Supreme Court reversed. The Supreme Court, however, did not say — as it might have said — that proof of a pattern of illegal substitution and mislabeling by pharmacists was

insufficient and that there had to be evidence of specific instances of identified pharmacists making identified substitutions. What the Supreme Court said was that this Court should not have ignored the district court's factual findings because they were not clearly erroneous. Id. at 855-56.

Thus, the lesson of Inwood is not that knowledge on the part of the defendant needs to be of specific incidents of specific infringing activity. It is that the evidence — direct or circumstantial, taken as a whole — needs to provide a basis for finding that the defendant knew or should have known that its product or service was being used to further illegal counterfeiting activity.

In defining the standard for contributory infringement, Inwood expressly relied on Judge Wyzanski's seminal decision in Coca-Cola Co. v. Snow Crest Beverages, Inc., 64 F. Supp. 980, 989 (D. Mass. 1946), aff'd, 162 F.2d 280 (1st Cir.), cert. denied, 332 U.S. 809 (1947). See Inwood, 456 U.S. at 854, 860-61. In Snow Crest, a lawyer for Coca-Cola complained to the president of Snow Crest that, "when bars received orders for rum (or whiskey) and Coca-Cola, bars frequently substituted defendant's product, 'Polar Cola.'" 64 F. Supp. at 988. Although the court ultimately determined that Snow Crest was not liable because Coca-Cola's evidence of infringement was too vague and unsubstantiated, see id. at 989-90, the decision contemplated that general knowledge of infringing activity would be sufficient. Judge Wyzanski framed the issue as follows:

After it had notice that some unnamed bars in filling a customer's order for a rum (or whiskey) and Coca-Cola used a substitute cola, was defendant under a duty to investigate such passing off, or to take steps to safeguard

against such passing off, or to eliminate or curtail sales of its product?

Id. (emphasis added). And he answered the question by stating:

Plaintiff would have established a case against defendant if in the fall of 1944 [when the parties met and discussed Snow Crest's alleged infringement] or at any other time prior to November 14, 1944 when this suit was brought 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 product 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 (emphasis added; citation omitted). Subpart (a) of Judge Wyzanski's framework acknowledges that general knowledge of pervasive infringing activity may form the basis for liability for contributory infringement.¹¹

Decisions subsequent to Inwood likewise demonstrate that the district court wrongly required "specific" knowledge and wrongly disregarded evidence of the persuasive listing and sale of counterfeit goods on its site.

¹¹ Judge Wyzanski held that Snow Crest was not liable because Coca-Cola's allegations of infringement were too vague and unsubstantiated to persuade "a normal bottler" that infringing uses of his product were occurring. 64 F. Supp. at 989-90. Snow Crest's only notice occurred in one conversation between Coca-Cola's lawyer and Snow Crest's president, during which Coca-Cola's lawyer provided no specifics regarding the infringing activities. Further, the lawyer's statements were contrary to what Snow Crest understood from sources that it had reasonably believed were more reliable. Id. Because Snow Crest's alleged notice of infringement arose only from "lawyers' argumentative talk," that notice was insufficient to establish liability. Id. at 990.

In Fonovisa, the owner of copyrights and trademarks to various music recordings sued the operator of a swap meet for failure to police its market for counterfeit recordings. The Ninth Circuit reversed the trial court's dismissal of the claims against the operator. 76 F.3d at 261-62. Much like the situation with eBay, the court confronted a situation involving the pervasive sale of counterfeit recordings by numerous vendors operating at the swap meet. Two years before the Fonovisa action was commenced, the sheriff's office had raided the swap meet and seized more than 38,000 counterfeit recordings. Id. at 261. The next year, the sheriff advised the defendant that counterfeit recordings were still being sold at the swap meet, and the plaintiff's own investigator made the same observation. Id. Thus, the swap meet operators' "knowledge" was quite similar to eBay's knowledge here, i.e., knowledge of a pervasive problem of counterfeiting in its marketplace. The Ninth Circuit held that the allegations of the operators' awareness of the pervasive problem were sufficient to establish their knowledge "that vendors in their swap meet were selling counterfeit recordings in violation of Fonovisa's trademarks and copyrights."¹² Id. Applying the holding in Hard Rock Café Licensing Corp. v. Concession Services, Inc., 955 F.2d 1143 (7th Cir.

¹² The district court incorrectly attempted to distinguish Fonovisa on the ground that the defendants' knowledge was not at issue. SPA47. The Fonovisa court's actual analysis belies that conclusion. See 76 F.3d at 261, 264.

1992),¹³ the Ninth Circuit held that “a swap meet can not disregard its vendors’ blatant trademark infringements with impunity.” Id. at 265. The court therefore reinstated the complaint, and remanded the action to the trial court. Id.

Similarly, in Mini Maid Services Co. v. Maid Brigade Systems, Inc., 967 F.2d 1516 (11th Cir. 1992), the court acknowledged that knowledge of a pervasive problem could form the basis of a contributory trademark infringement claim. There, the question was whether a franchisor was contributorily liable for its franchisees’ infringement. The court articulated (in a manner directly relevant to Tiffany’s claim against eBay) how knowledge could be determined in that situation:

In addition, the court may wish to consider the extent and nature of the violations being committed. If the infringement is serious and widespread, it is more likely that the franchisor knows about and condones the acts of its franchisees.

967 F.2d at 1522 (footnotes omitted).¹⁴

¹³ In Hard Rock, the Seventh Circuit held that a flea market would have knowledge if it “suspected wrongdoing and deliberately fail[ed] to investigate.” 955 F.2d at 1149 (citation omitted). The court reversed the dismissal of the case after a bench trial, and remanded it for a new trial. The court observed that there was evidence that the operator of the flea market saw the infringing shirts, their condition and the price and that the operator had not asked if the goods were counterfeit because the infringing parties “were sure to lie to him.” Without prejudging the matter, the court stated that this evidence could give rise to an inference that the operator chose not to investigate because he suspected that the goods were counterfeit. Id.

¹⁴ The court held that the facts did not give rise to a claim for contributory infringement because the trial court had erroneously focused on the defendant’s supervision as opposed to determining whether the defendants had intentionally induced or actively participated in the infringing activities. Mini Maid, 967 F.2d at 1522.

The district court based its general versus specific distinction on four arguments. First, it observed that Inwood finds liability when the defendant “continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement,” SPA45 (emphasis in original). Second, it held that a plaintiff alleging contributory infringement in these circumstances bears a high burden to establish specific knowledge of the claimed infringement. Third, it held that courts have been “reluctant to act where there is some uncertainty as to the extent or nature of the infringement.” Finally, it held that the decisions in Fonovisa and Hard Rock do not support the proposition that generalized knowledge is sufficient. SPA45-48.

The court’s conclusion that the word “one” refers to a specific person engaged in infringing activity, is an erroneous interpretation of Inwood. When considered in light of the factual record in Inwood, the word “one” was a general reference to infringing parties, as in “any person, but not a particular person” (Cambridge Dictionaries Online), or “an unspecified individual; anyone” (the freedictionary.com) or “any person indefinitely; anyone” (Dictionary.com). Based on the misinterpretation of the word “one” noted above, the district court created a new standard, which has not been articulated in any of the cases on which it relies.

The court’s second rationale was that “trademark plaintiffs bear a high burden in establishing ‘knowledge’ of contributory infringement,” citing Gucci America, Inc. v. Hall & Associates, 135 F. Supp. 2d 409, 420 (S.D.N.Y. 2001). SPA45. The statement in Gucci, however, was made in the context of determining whether an internet service provider was liable as a direct as opposed to a

contributory infringer. Gucci did not address the type of “knowledge” required to establish contributory infringement, and thus is not relevant.

The third point, that courts are reluctant to find contributory trademark liability “where there is some uncertainty as to the extent of the nature of the infringement,” is not novel and begs the question. See SPA46. Such “reluctance” does not bear on the type of “knowledge” required. Moreover, in attempting to use Snow Crest to support its observation, the district court misinterpreted Judge Wyzanski’s analysis, and confused the issue of burden of proof with the standard for liability. See this Brief at 30-31, supra.

Similarly, the court’s fourth point relating to Fonovisa and Hard Rock is flawed. See SPA47. The fact that Fonovisa was an appeal from the grant of a motion to dismiss on the pleadings did not make it “not applicable” — in fact, the Fonovisa court necessarily ruled on the sufficiency of the allegations. Moreover, the Fonovisa court cited Hard Rock Café, 955 F.2d 1143, for the proposition that knowledge that vendors were engaged in the sale of counterfeit goods was sufficient to state a claim for contributory trademark infringement. 76 F.3d at 265. Such knowledge did not involve identification of specific infringers.

The district court also relied on Lockheed Martin Corp. v. Network Solutions, Inc., 985 F. Supp. 949 (C.D. Cal. 1997), aff’d, 194 F.3d 980 (9th Cir. 1999), to justify its interpretation of the Inwood standard. SPA46-47. In Lockheed, however, the nature of the defendant’s role was entirely different from eBay’s — a critical distinction when analyzing “knowledge.” In Lockheed, the defendant, NSI, registered Internet domain names. Id. at 961. The plaintiff sued

NSI, seeking to compel NSI to prevent third parties from registering for domain names that used the plaintiffs' trademarks. The court held that, with respect to domain names, infringing acts may occur only when the "domain name is used in a Web site or other Internet form of communication in connection with goods or services." Id. (citing Planned Parenthood Federation of America v. Bucci, 42 U.S.P.Q.2d 1430, 1437 (S.D.N.Y. 1997), aff'd mem., 152 F.3d 920 (2d Cir.), cert. denied, 525 U.S. 834 (1998)). The court found that, after a domain name was registered, NSI's involvement was over. Id. NSI was not involved in "the process of linking domain names with potentially infringing resources such as Web sites." Id. Therefore, NSI could not possibly be involved in the infringing acts.¹⁵ It was in this context that the Lockheed court concluded that submission of a domain registration form, including "a brief statement of purpose from domain name applicants [did] not give NSI sufficient information for the Court to impute knowledge of future infringing uses to NSI." Id. at 963.

The district court also relied on its misreading of a contributory copyright infringement decision, A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001). SPA48 n.37. The district court believed that Napster stands for the proposition that "generalized knowledge that copyright infringement may take place in an Internet venue is insufficient to impose contributory liability." Id. The trial court in Napster actually held "that the law does not require knowledge of

¹⁵ That finding is of no consequence here, as the district court specifically found that eBay controlled all the activities on its website. SPA43.

‘specific acts of infringement’ and rejected Napster’s contention that because the company cannot distinguish infringing from noninfringing files, it does not ‘know’ of the direct infringement.” Napster, 239 F.3d at 1020 (citation omitted). The Ninth Circuit did not reverse that holding.¹⁶ Accord Arista Records, Inc. v. Flea World, Inc., 78 U.S.P.Q.2d 1339, 1353 (D.N.J. 2006) (“Defendants are incorrect that Plaintiffs are required to prove that Defendants had knowledge of ‘specific infringement(s)’ ‘at the time Defendants materially contributed to the direct infringement,’ as Defendants’ argument runs contrary to the holdings of Fonovisa and Napster.” (citation omitted)); UMG Recordings, Inc. Sinott, 300 F. Supp. 2d 993, 998-99 (E.D. Cal. 2004).

The evidence here overwhelmingly shows that eBay was aware of a significant problem involving the sale of counterfeit Tiffany merchandise on its site. eBay knew that a substantial amount of, and as many as 75% of, TIFFANY goods being sold on eBay were counterfeit. See this Brief at 18-19, supra. In spite of that knowledge, as the district court found, “eBay did not conduct a separate investigation into the extent of counterfeit Tiffany jewelry on its website. eBay did not analyze its data, or research and evaluate the number of ‘Tiffany’ listings removed from its website. Nor did it track the number of sellers suspended because they had posted infringing listings.” SPA52 (citations omitted).

¹⁶ Because of the evidence of wholesale misuse, the Ninth Circuit sustained the holding that sufficient knowledge existed. Napster, 239 F.3d at 1021.

Under the willful blindness doctrine, if an infringer has reason to know that the goods may infringe a trademark, he has a duty to investigate whether there is an infringement before consummating the transaction, or else he is subject to the enhanced damage provisions of Section 35 of the Lanham Act. See Louis Vuitton S.A. v. Lee, 875 F.2d 584, 590 (7th Cir. 1989); Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc., No. 1:00-CV-1934-BBM, 2003 WL 22331254 at *18-19, 21 (M.D. Ga. May 9, 2003). Put another way, if a party facilitating the infringing activity has reason to know of the infringement, even if it does not know who is responsible for that conduct, it must investigate and take proactive steps to remedy the problem at the moment that it had reason to know that the infringing conduct was occurring. Snow Crest, 64 F. Supp. at 989. The party may avoid liability only if it takes “effective measures to prevent infringing uses” Sealy, Inc. v. Easy Living, Inc., 743 F.2d 1378, 1382 (9th Cir. 1984) (citation omitted).

B. The District Court Should Not Have Evaluated Tiffany's Efforts Against Counterfeiting

A significant part of the district court's opinion was devoted to criticizing what Tiffany did and did not do to protect its trademarks. What Tiffany did to police the use of its trademarks, however, has no impact on eBay's liability for trademark infringement. There is no legal support for the proposition that eBay may be excused from its own infringing behavior because Tiffany could have or should have done more.

The district court, in effect, held that Tiffany's purportedly insufficient efforts to police its marks create a defense to eBay's illegal behavior. The district

court premised that holding on the proposition that “rights holders bear the principal responsibility to police their trademarks.” SPA56. Although as a general proposition a rights owner has an obligation to police its marks, that obligation relates only to the strength of the mark and provides no defense to one who has engaged in direct or contributory trademark infringement.

The law is that “[t]he only relevancy of failure to prosecute others is as to the possible impact such failure may have on the strength of the plaintiff’s mark.” 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 17:17 at 17-33 (4th ed. 2007) (footnote omitted). Consistent with the parties’ stipulation, however, the district court properly found “the TIFFANY Marks are famous. Therefore, the TIFFANY marks are plainly valid and entitled to protection.” SPA31. There was therefore no justification for considering Tiffany’s enforcement activities any further.

None of the decisions determining liability for contributory trademark infringement balances the rights owner’s efforts to police its marks against the burden to be borne by those who facilitate infringing activity. For instance, Inwood did not consider whether the plaintiffs had pursued the pharmacists who were selling generic drugs that infringed plaintiffs’ trademarks. 456 U.S. 844. Similarly, Snow Crest did not consider whether plaintiff Coca-Cola pursued the individual bars that had poured a “rum and Polar Cola” when a “rum and Coca-Cola” was ordered. 64 F. Supp. 980. And Fonovisa did not consider whether the owner of the rights in the music recordings had pursued the individuals selling

bootleg copies of the music when the flea market operator was generally aware of such sales activity. 76 F.3d 259.

Indeed, the courts have rejected the very logic adopted in the decision below. Rather than criticizing a rights owner such as Tiffany for not doing more, they have concluded that the pursuit of infringers is particularly difficult and that pursuing a contributory infringer such as eBay is often a more effective means of confronting the proliferation of counterfeit goods. See Fonovisa, 76 F.3d at 264 (“it would [have been] difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet.”); In re Aimster Copyright Litigation, 334 F.3d 643, 645-46 (7th Cir. 2003) (“Recognizing the impracticability or futility of a copyright owner’s suing a multitude of individual infringers . . . , the law allows a copyright holder to sue a contributor to the infringement instead, in effect as an aider and abettor.” (citation omitted)), cert. denied, 540 U.S. 1107 (2004).

Further, it is well-established that a purported “failure to prosecute” other counterfeiters “is not a ‘defense,’ nor should it be.” 2 McCarthy on Trademarks and Unfair Competition § 17:17 at 17-33; accord STX, Inc. v. Bauer USA, Inc., 43 U.S.P.Q.2d 1492, 1502 (N.D. Cal. 1997) (“[E]vidence of other potential infringers is ‘irrelevant’ to a suit against a particular infringer.”); Council of Better Business Bureaus, Inc. v. Better Business Bureau of South Florida, Inc., 200 U.S.P.Q. 282, 297 (S.D. Fla. 1978) (“the existence of other infringers is irrelevant [because] a defendant trademark infringer cannot rely upon the wrongdoing of others to exculpate itself from its own infringing activities.”).

Moreover, even when policing is arguably relevant (i.e., when assessing a mark's strength), trademark owners have no obligation to chase after every infringer. See, e.g., Louis Vuitton, 875 F.2d at 588; Elizabeth Taylor Cosmetics Co. v. Annick Goutal, S.A.R.L., 673 F. Supp. 1238, 1248 (S.D.N.Y. 1987); Playboy Enterprises, Inc. v. Chuckleberry Publishing, Inc., 486 F. Supp. 414, 422-23 (S.D.N.Y. 1980); Cuban Cigar Brands N.V. v. Upmann International, Inc., 457 F. Supp. 1090, 1097 n.28 (S.D.N.Y. 1978), aff'd mem., 607 F.2d 995 (2d Cir. 1979). Decisions as to when and where to prosecute infringers are left to a party's business judgment. See, e.g., Engineered Mechanical Services, Inc. v. Applied Mechanical Technology, Inc., 584 F. Supp. 1149, 1160 (M.D. La. 1984) ("The owner of a mark is not required to constantly monitor every nook and cranny of the entire nation and to fire both barrels of his shotgun instantly upon spotting a possible infringer. Lawyers and lawsuits come high and a financial decision must be made in every case as to whether the gain of prosecution is worth the candle."); Tea Board of India v. Republic of Tea, Inc., 80 U.S.P.Q.2d 1881, 1888 (T.T.A.B. 2006).

Tiffany's Chief Executive Officer, Michael Kowalski, testified that Tiffany learned early on that pursuing legal action against individual infringers selling on eBay was expensive and often futile. A2498-99. As a result, Tiffany exercised its business judgment in deciding that bringing suit against eBay, the largest single source of counterfeit goods, was the most effective way to pursue enforcement activities. A179-80, 2498-99, 2501-02.

In light of the law and the undisputed facts regarding Tiffany's conduct, the district court had no valid basis to criticize Tiffany for focusing its enforcement efforts on eBay. By way of example, the district court gratuitously criticized Tiffany for its failure to bring lawsuits against individual infringers after May 2003. SPA23 n.22. It speculated that "it seems likely that aggressive pursuit of direct infringement actions against the sellers of counterfeit goods might have had a significant deterrent effect on potential future infringers on eBay and other websites." SPA24 n.22. It also criticized Tiffany for giving "scant consideration to contingent and other fee arrangements" to retain counsel to pursue individual infringers. SPA24 n.22. These ruminations and second-guessing of Tiffany have no bearing on eBay's liability. To the extent they seek to impose an obligation on Tiffany that goes beyond the exercise of its business judgment rule, they are wrong as a matter of law.

The district court's holding would effectively require all rights owners to police eBay 24 hours a day, 365 days a year. It would not matter if the rights owner is a Fortune 500 company or a "mom-and-pop" company. Nor would it matter if there are 1,000 other marketplaces like eBay. Under the district court's standard, rights owners, big and small, must devote some unspecified amount of resources to police those marketplaces around the clock. By placing this extraordinary burden on rights owners, the district court has fundamentally undermined one of the important goals of the Lanham Act: to prevent infringers from depriving trademark owners of the goodwill in the marks that they spent "energy, time, and money to obtain." See Inwood, 456 U.S. at 855 n.14. Because

it would be nearly impossible for rights owners to meet this new burden, the district court also has ensured that another important goal of the Lanham Act will be eviscerated: the protection of brand owners and consumers from the menace of counterfeiters.

POINT II

THE DISTRICT COURT ERRED AS A MATTER OF LAW IN HOLDING THAT eBAY WAS NOT LIABLE FOR DIRECT INFRINGEMENT

eBay does not own the goods that are offered for sale on its website. It makes its money from fees charged for the listing and sale of goods by others on its website. Because of its fee structure, it is in eBay's interest to increase the amount of listings and sales. It achieves this business goal by several means, including by advertising the availability of certain types of valuable merchandise on its site. Aggressive marketing by eBay was certainly true in the case of TIFFANY merchandise, particularly silver jewelry that tended to constitute the lower price points of Tiffany's line. eBay actively advertised the sale of TIFFANY silver jewelry as holiday gifts, purchased or participated in the purchase of sponsored links on Yahoo! and Google for TIFFANY jewelry, directed potential buyers to listings offering TIFFANY jewelry and educated sellers in how popular TIFFANY items were.

A. eBay Was Liable for Direct Infringement Because It Advertised the Sale of Counterfeit TIFFANY Goods on Its Site

eBay's direct participation in the advertising and promotion of TIFFANY merchandise, much of which it knew or should have known was counterfeit, taken together with its profit participation, meet the indicia of direct infringement in violation of Section 32 of the Lanham Act. Certainly, eBay used the registered TIFFANY mark "in connection with the sale, offering for sale, distribution or advertising of goods . . . , which such use is likely to cause confusion, or to cause mistake, or to deceive" See 15 U.S.C. § 1114(1) (2005).

The mere advertising of counterfeit goods for sale violates Section 32. See 4 J. Thomas McCarthy, McCarthy on Trademarks & Unfair Competition § 25:26 (4th ed. 2007). Here, in addition to advertising the sale of such goods, eBay also provided the platform for the sale of counterfeit merchandise, arranged for consummation of the sale and participated in the profits thereof. Contrary to the district court's conclusion, these facts require that eBay be held liable for direct infringement.¹⁷

¹⁷ The VeRO system has no effect on this result. See Fuji Photo Film Co., Inc. v. Shinohara Shoji Kabushiki Kaisha, 754 F.2d 591, 596 (5th Cir. 1985) ("if potential purchasers are confused, no amount of good faith can make them less so."); Harold F. Ritchie, Inc. v. Chesebrough-Pond's, Inc., 281 F.2d 755, 758 (2d Cir. 1960) (second user of a mark has a duty to act so as "to avoid all likelihood of consumers confusing it with the product of the first comer." (footnote omitted)).

B. The Nominative Fair Use Doctrine Does Not Shield eBay's Infringement of Tiffany Marks

Despite eBay's conduct, the district court excused eBay from liability for direct infringement of Tiffany's marks because, in the district court's view, "eBay's use of the TIFFANY marks is a protected, nominative fair use" SPA30. The district court erred as a matter of law, as the nominative fair use doctrine cannot shield eBay's use of Tiffany's marks in connection with the sale of counterfeit goods.

The doctrine of nominative fair use, which applies in limited circumstances, has never been stretched so broadly as to encompass use in conjunction with goods that are not authentic. While eBay would have been within its rights under the doctrine of nominative fair use to advertise the sale of TIFFANY silver merchandise on its site if there were no problem as to counterfeits, the doctrine does not give eBay cover here because there was, as the district court found, a substantial problem with the sale of counterfeit TIFFANY silver jewelry of which eBay was aware. SPA44, 51, 59. This fact was confirmed by the trial testimony of eBay's senior executive, Robert Chesnut. A2459.

"[B]y definition, nominative use involves the use of another's trademark in order to describe the trademark owner's own product." Century 21 Real Estate Corp. v. Lending Tree, Inc., 425 F.3d, 211, 224 (2d Cir. 2005) (emphasis in original). "Only if the plaintiff's trademark was put there by authority of the plaintiff himself may the defendant use that mark to inform the public of their true origin." 4 Louis Altman, Callmann on Unfair Competition, Trademarks &

Monopolies § 22:17 at 22-308 (4th ed. 2008) (“resale of genuine goods is the only unauthorized, noncollateral trademark use which one can make of another’s mark that does not constitute infringement.” (emphasis in original)).

Nominative fair use may be found only when the defendant’s “conduct or language reflect[s] the true and accurate relationship between plaintiff and defendant’s products or services[.]” Century 21, 425 F.3d at 232; see also Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526, 546 (5th Cir. 1998) (“This right to use a mark to identify the markholder’s products — a nominative use — however, is limited in that the use cannot be one that creates a likelihood of confusion as to source, sponsorship, affiliation or approval.”). As the district court itself noted, nominative fair use does not apply when there is “likelihood of confusion about the source of defendant’s product or the mark-holder’s sponsorship or affiliation.” SPA32 (quoting Merck & Co. v. Mediplan Health Consulting, Inc., 425 F. Supp. 402, 413 (S.D.N.Y. 2006)).

The nominative use defense may not be employed by a party that participates in or facilitates the sale of counterfeit goods — counterfeits, by their very nature, cause confusion. See Gucci America, Inc. v. Duty Free Apparel, Ltd., 286 F. Supp. 2d 284, 287 (S.D.N.Y. 2003). Here, there is no dispute that counterfeit TIFFANY jewelry is “often” sold on eBay. SPA59. As a result, when eBay uses Tiffany’s name and brand to direct potential buyers to silver jewelry listed on its site, it is knowingly directing them to goods that it cannot confirm as genuine and which are, in some significant part, counterfeit.

The district court attempts to overcome this legal bar to the application of the doctrine by citing its findings that some authentic TIFFANY merchandise was sold on eBay and that “eBay always removed potentially infringing listings when Tiffany filed a NOCI” SPA34. Yet, the district court also found that counterfeit TIFFANY jewelry was “often” sold on eBay and that eBay knew it. SPA44, 51, 59. Thus, even if some genuine goods were sold, eBay may not advertise the sale of counterfeit goods. There is no logical or legal support for the proposition that a defendant may use another’s mark to advertise indiscriminately the availability of goods in a marketplace, so long as a few are authentic, when many of them are known to be counterfeit. See Century 21, 425 F.3d at 231.

POINT III

THE DISTRICT COURT ERRED IN HOLDING eBAY NOT LIABLE FOR FALSE ADVERTISING

The district court also dismissed Tiffany’s false advertising claim under Section 43(a)(1)(B) of the Lanham Act because “Tiffany has not proven that eBay had specific knowledge as to the illicit nature of individual listings.” SPA59. This holding is erroneous for the same reasons discussed in Point II above, namely that eBay’s own advertising of TIFFANY jewelry listings on its website, when eBay knew that many of them were counterfeit, makes the advertising false and misleading on its face. eBay’s constant advertising and promotion of the TIFFANY brand was designed to have consumers believe that the TIFFANY silver jewelry that eBay advertised was genuine. It is indisputable, however, that a significant portion of it was not. This is the essence of false advertising. See

Cartier, Inc. v. Symbolix, Inc., 454 F. Supp. 2d 175, 185 (S.D.N.Y. 2006) (“A would-be purchaser reviewing the advertisement [for a “Cartier” watch] would reasonably believe that defendants were offering a genuine Cartier item.”).

Further, given eBay’s knowledge of the counterfeiting problem and the fact that eBay created the advertising, it was wrong for the district court to hold that, “to the extent that the advertising was false, the falsity was the responsibility of third party sellers, not eBay.” SPA59. While the third party sellers were liable, so was eBay. As a knowing participant in the selling process, by virtue of its advertising of TIFFANY goods, eBay subjected itself to liability.

POINT IV

THE DISTRICT COURT ERRED IN DISMISSING TIFFANY’S CLAIMS FOR TRADEMARK DILUTION

To establish a claim for dilution, “a plaintiff must show that: (1) its mark is famous; (2) the defendant is making use of the mark in commerce; (3) the defendant’s use began after the mark became famous; and (4) the defendant’s use is likely to cause dilution by tarnishment or dilution by blurring.” SPA61 (citing 15 U.S.C. § 1125(c)(1)). “Dilution by tarnishment” is “association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.” 15 U.S.C. § 1125(c)(2)(C). “Dilution by blurring” is “association arising from the similarity between a mark or trade name

and a famous mark that impairs the distinctiveness of the famous mark.” 15 U.S.C. § 1125(c)(2)(B).¹⁸

The district court acknowledged that Tiffany had met some of the requirements of the federal and New York state dilution statutes. It found that the TIFFANY mark is famous and that it was used by Tiffany long before eBay began its use of the mark. It also “assumed” that eBay had used the mark in commerce (the evidence conclusively established the point).¹⁹ Despite those holdings, the district court dismissed the dilution claims on two grounds: first, that Tiffany failed to show dilution by blurring or tarnishment; and second, that eBay’s uses were protected by the statutory defense of nominative fair use.²⁰ SPA63-64. Each basis is wrong.

The record is clear that eBay had advertised TIFFANY products to potential buyers and directed them to sites offering TIFFANY merchandise for sale. The district court specifically found that eBay knew that TIFFANY products sold on eBay were often counterfeit. SPA59.

On these facts, the effect of eBay’s continued promotion of the sale of TIFFANY merchandise to its sellers and buyers was to increase the purchase of

¹⁸ Similarly, under New York law, a plaintiff must show that its trademark is distinctive and that there is a likelihood of confusion. Deere & Co. v. MTD Products, Inc., 41 F.3d 39, 42 (2d Cir. 1994); accord New York Stock Exchange, Inc. v. New York, New York Hotel LLC, 293 F.3d 550, 557 (2d Cir. 2002).

¹⁹ See, e.g., OBH, Inc. v. Spotlight Magazine, Inc., 86 F. Supp. 2d 176, 185-86 (W.D.N.Y. 2000) (use of plaintiff’s trademark in connection with website is a “use in commerce.”).

²⁰ The New York statute contains no such defense.

counterfeit goods to the detriment of Tiffany's marks while providing increased revenue for eBay. The sale of counterfeit goods causes dilution by blurring and tarnishment, and eBay is responsible therefore. See Deere & Co. v. MTD Products, Inc., 41 F.3d 39, 43 (2d Cir. 1994) (tarnishment "generally arises when the plaintiff's trademark is linked to products of shoddy quality" (footnote omitted)); Diane Von Furstenberg Studio v. Snyder, No. 1:06cv1356(JCC), 2007 WL 2688184 at *4 (E.D. Va. Sept. 10, 2007) (granting summary judgment on dilution claim, as defendant sold counterfeit dresses bearing famous DVF trademarks); General Motors Corp. v. Autovation Technologies Inc., 317 F. Supp. 2d 756, 763 (E.D. Mich. 2004) (use of counterfeit trademarks on automotive parts "would likely cause "blurring" of the source of the goods" (citation omitted)).

The district court's reliance on nominative fair use is no more appropriate with regard to dilution than it is with regard to Tiffany's other claims. None of the examples listed as "fair use" in the federal statute, *i.e.*, "advertising or promotion that permits consumers to compare goods or services" or parody or comment, apply.²¹ See 15 U.S.C. § 1125(c)(3)(A)(i) (2006). eBay is making a commercial use of TIFFANY's famous brand in order to increase its own profits, despite the fact that significant amounts of counterfeit TIFFANY merchandise were listed for sale. This conduct constitutes dilution, not fair use.

²¹ Examples of "fair use" include use of a "famous mark" in connection with: "(i) advertising or promotion that permits consumers to compare goods or services; or (ii) identifying and parodying, criticizing, or commenting upon the famous mark or the goods or services of the famous mark owner." See 15 U.S.C. § 1125(c)(3)(A)(i)-(ii) (2006).

CONCLUSION

THE JUDGMENT OF THE DISTRICT COURT DISMISSING THE COMPLAINT SHOULD BE REVERSED, AND THE CASE SHOULD BE REMANDED TO THE DISTRICT COURT WITH INSTRUCTIONS TO CRAFT APPROPRIATE INJUNCTIVE RELIEF FOR PLAINTIFFS-APPELLANTS AND TO AWARD THE APPROPRIATE DAMAGES AND COSTS.

Dated: New York, New York
October 15, 2008

ARNOLD & PORTER LLP

By: 

James B. Swire

H. Peter Haveles, Jr.

Peter L. Zimroth

Erik C. Walsh

Eleanor M. Lackman

Attorneys for Plaintiffs-Appellants

399 Park Avenue

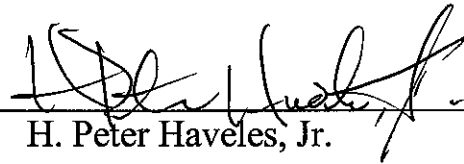
New York, New York 10022

(212) 715-1000

CERTIFICATE OF COMPLIANCE WITH RULE 32(a)(7)

Pursuant to Rule 32(a)(7)(B) of the Federal Rules of Appellate Procedure, appellants hereby certify that the foregoing Brief was prepared with Microsoft Word, and, excluding the corporate disclosure statement, table of contents, table of authorities, signature block and this certificate, contains 12,732 words according to the Word Count feature in Microsoft Word, and otherwise that it complies with the type-volume limitations imposed by that Rule and the Local Rules of this Court.

Dated: October 15, 2008

A handwritten signature in black ink, appearing to read "H. Peter Haveles, Jr.", is written over a horizontal line. The signature is stylized and cursive.

H. Peter Haveles, Jr.

Counsel for Plaintiffs-Appellants