

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

**BRIEF OF *AMICUS CURIAE* COTY INC.
IN SUPPORT OF PLAINTIFFS-APPELLANTS**

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Fed. R. App. P. 26.1, *amicus curiae* Coty Inc. states that Donata Holding SE is a parent company of Coty Inc.; that Donata Holding SE and Coty Inc. are not publicly held corporations; and that no publicly-held corporation or other publicly-held entity holds 10% or more of the stock of Donata Holding SE or Coty Inc.

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INTRODUCTION

This case requires the Court to determine the scope of the duty of the provider of an internet-based auction service to police the offers on its system to prevent sales of counterfeit versions of trademarked products after it obtained knowledge that pervasive and persistent counterfeiting had occurred. The District Court found that eBay was not liable for contributory trademark infringement because it had no duty to adopt proactive countermeasures to prevent sales of counterfeit Tiffany silver, even though it knew that large quantities of infringing products had been offered through its system for many years. The court plainly erred in applying the settled law to its own findings of facts, based in part on its misperception that a finding of liability would require it to specify which electronic countermeasures eBay should apply.

Amicus curiae Coty Inc., a holder of multiple trademarks, submits this brief, with consent of the parties, to discuss how it has been adversely affected by eBay's failure to prevent sales of counterfeit versions of its fragrance products even though Coty has provided eBay with detailed information that many fraudulent offers have occurred through its system.

Coty submits that eBay should be required to comply with principles of general applicability that hold a person liable for contributory trademark

infringement if it offers a service through which large numbers of counterfeits are sold. eBay imposes policies that inhibit offers on its system of prohibited articles such as drugs, alcohol, and firearms. SPA 9. Similar electronic countermeasures can be developed to address counterfeiting. Coty's experience suggests that there are many available methods from which a sophisticated on-line auction service like eBay can choose in developing filters that would detect counterfeits before they could be offered for sale.

STATEMENT OF INTEREST

Coty, a 100-year old company based in New York City, is a leader in the international beauty industry, with substantial operations in Europe and other parts of the world. Coty is the world's largest fragrance company, with annual sales of fragrances and luxury cosmetics of approximately \$4 billion. Coty markets more than forty brands of fragrances that are protected with trademark registrations in the United States and many other countries.¹ Coty markets both its own proprietary brands and licensed fashion and celebrity brands which Coty helps develop.

¹ These brands include MARC JACOBS, CALVIN KLEIN, CERRUTI, CHLOE, CHOPARD, DAVIDOFF, PHAT FARM, JENNIFER LOPEZ, JETTE LOOP, JIL SANDER, JOOP!, KENNETH COLE, NAUTICA, NIKOS, SARAH JESSICA PARKER, VERA WANG PRINCESS, AND VIVIENNE WESTWOOD.

Coty has suffered substantial harm from the widespread sale of counterfeit versions of its branded goods on eBay's on-line auction markets in both the United States and Europe, particularly on eBay Germany. Those systems have the same basic features and rules, and Coty has followed a three-prong program to address counterfeiting on both platforms:

(1) policing sales of its products offered on eBay, by searching and screening the site and notifying eBay of thousands of infringing offers; (2) taking direct action against sellers of infringing products;² and (3) attempting to persuade eBay to adopt available technological countermeasures to reduce the incidence of counterfeiting.

Sales of Counterfeit Coty Products through eBay.

In 2001, customer complaints made Coty aware that significant sales of counterfeit products were occurring through eBay, especially through its German site www.ebay.de. During 2002, Coty discussed the issue with eBay and sought to persuade it to adopt a cooperative monitoring and filtering system through which Coty and eBay would join forces to detect and prevent infringements. Coty collected data concerning the types of infringement that were occurring through eBay Germany, including typical

² For example, without any cooperation from eBay, Coty's investigative efforts resulted in the recent arrest by German authorities of one eBay seller who apparently was involved in organized crime. Trial is scheduled for December 8, 2008.

patterns of infringing offers, volumes, and heavy sellers. A study conducted in 2004-2005 showed there were approximately 100,000 auctions of major Coty brands through this site over a four month period. Coty found that at least ten percent, and in the case of certain brands up to eighty percent, of the offers were for counterfeits.

Coty has expended substantial amounts of time and money to police offers of its products through eBay Germany.³ Its in-house officials and outside law firm devote hundreds of hours per year to monitoring activity on that system, which averages 750 new offers on Coty brands per day. Coty employs an outside investigation firm that makes test purchases of potential counterfeits and pursues other techniques to address these frauds. Coty also has dealt with numerous complaints from deceived consumers who purchased counterfeit Coty products on eBay.

Coty has submitted many thousands of notice letters to eBay reporting that it has detected sales of counterfeit products over its European system

³ Coty's Global Director of Enforcement spends a significant part of his time on the eBay issue and negotiating with eBay. A full-time Coty employee devotes approximately twenty percent of her time to monitoring eBay Germany. Coty's outside counsel have spent approximately 900 hours of paralegal and 350 hours of attorney time per year in monitoring activity on e-Bay and in preparing and submitting complaints to eBay about instances of probable counterfeiting.

and demanding that eBay investigate and take action against the fraudulent sellers.⁴

Unlike Tiffany, Coty has not participated in eBay's VeRO program. Coty does not believe this process is an effective response to the counterfeiting problem. VeRO does not provide a mechanism for blocking fraudulent offers from being listed or preventing future sales of counterfeits. VeRO provides only a mechanism by which a trademark owner may seek to have a specific fraudulent offer taken down, if it detects the offer before the offer closes.

Moreover, the VeRO program is entirely backward looking. VeRO operates on a case-by-case basis and provides no mechanism by which the owner may demand that eBay remove future listings by sellers who repeatedly offer counterfeits. In Coty's experience, the effectiveness of VeRO depends primarily on the owner's ability to afford full-time monitoring.

⁴ For example, from January to July 2003, Coty submitted 1,118 complaints (12.5 per day on average) warning eBay of actual infringements, relating to 384 sellers. From July 2004 through December 2007, Coty submitted another 13,153 warning letters to eBay, including 160 letters requesting suspension of notorious repeat infringers.

Coty's Efforts To Persuade eBay To Take Countermeasures to Prevent Sale of Counterfeits.

Starting in 2003, Coty held numerous meetings and telephone conferences with eBay Germany to inform it of Coty's factual findings concerning sales of counterfeit versions of its products and to request that eBay adopt technological countermeasures to prevent future infringement. Coty identified and provided eBay with criteria for auctions of Coty fragrances that raise a red flag for a high likelihood of counterfeiting, including: auctions lasting only one day (likely to evade detection by the owner prior to sale); auctions with a low starting sale price (e.g., one euro); and unfavorable seller reviews by purchasers. Coty requested that eBay adopt additional software filters to screen out and take down offers that meet these criteria, or at least to require the seller to verify the authenticity of the product once red flags were raised.

Coty also explained to eBay how its policing effort had been able to link different aliases back to the same seller of counterfeit branded products, based on common information about the seller included in its offers, such as a common address, a common telephone number, or a common digital photographic file attached to multiple offers. Coty submitted that if a beauty company with limited technical capacity could make such links, then as a world leader in on-line technology, eBay should be able to develop software

countermeasures that would utilize information in its system to detect fraudulent offers before they were listed and to take proactive steps to prevent future infringements from occurring. eBay declined. Over the years, Coty has filed 26 lawsuits against eBay in Germany, which are at various stages in the judicial process. Through these cases, Coty seeks to obtain court rulings that would require eBay to address the high level of counterfeiting occurring through its system.

In Coty's experience, its persistent interventions with and litigation against eBay have resulted in a significant reduction in the number of sales of counterfeit versions of its products through eBay Germany. eBay has not told Coty what technological countermeasures it has taken to reduce the level of sales of counterfeit Coty products. From Coty's perspective, the eBay anti-infringement measures remain a black box. Coty has determined, however, that there has been a significant reduction in the number of counterfeit offers since it first took up this problem with eBay, demonstrating that eBay can indeed take action to decrease counterfeit activity on its service.

While the situation has improved, the level of counterfeiting on eBay remains unacceptable. Despite its policing efforts and eBay's countermeasures, Coty still discovers an average of between five to ten

counterfeit offers per day on eBay Germany. Continuous, expensive policing is required. If Coty were to cease its policing or eBay were to discontinue the countermeasures it appears to have taken, the level of infringing activity undoubtedly would return to a much higher level.

In sum, Coty's experience shows that without cooperation from eBay to prevent fraudulent offers from being listed in the first place, trademark owners cannot effectively police fraud through that auction system.

Decisions by European Courts Ordering eBay To Take Steps To Prevent Sales of Counterfeit Products.

Legal systems in many countries are currently addressing the scope of eBay's duty to prevent, as opposed to merely react to, sales of counterfeit goods through its systems. Trademark owners have sued eBay in several European countries concerning sales of counterfeit versions of their products. Several European courts have found eBay liable for failure to take sufficiently aggressive steps to prevent counterfeiting after it had received appropriate notice that infringing sales were occurring, and have held that merely taking down individual offers after the owner had discovered and reported the fraud was insufficient to discharge eBay's legal duty.

In 2008, two French courts found that eBay had an affirmative duty to take steps to prevent the sale of counterfeit versions of trademarked products

through eBay's European system. For instance, in the Hermes case,⁵ the court ordered eBay to take specific remedial steps to prevent future sales of counterfeits such as requesting that sellers provide information demonstrating the authenticity of the product they were selling and requiring eBay to alert buyers if the seller failed to respond.

In the Stokke case, a German court concluded that eBay must take affirmative, and not merely reactive, steps to prevent the sale of counterfeit products.⁶ The court found that eBay had a duty to act to prevent the sale of counterfeits and that its activities under the VeRO program failed to satisfy this duty. It also found that eBay had been alerted by numerous notifications that counterfeits had been offered repeatedly and for many years. The court concluded that eBay knew that the VeRO program and/or keyword filters had failed to eliminate all fraudulent offers and that eBay had sufficient

⁵ Société Hermes International v. SA eBay France and eBay International AG, Tribunal de Grande Instance, Troyes, Case No. 06/02604, June 4, 2008, Slip Op. (FR). See also SA Louis Vuitton Malletier v. eBay Inc. and eBay International AG, Tribunal de Commerce de Paris, Première Chambre B, Case No. 2006077799, June 30, 2008, Slip Op. (FR) (awarding damages of \$40 million). These decisions have been appealed.

Coty will lodge copies and translations of the European decisions with the Clerk should the Court so wish.

⁶ Stokke A/S/ v. eBay International AG, Hanseatisches Oberlandesgericht, Case No. 3U 216 06 July 24 2008, Slip op. (FRG). This decision also has been appealed.

notice, given the number of complaints, that trademark violations would occur in the future unless it took further preventative efforts. The court held that eBay's knowledge was sufficient to establish liability for its failure to act.

ARGUMENT

I. THE COURT ERRED AS A MATTER OF LAW BY FAILING TO HOLD EBAY LIABLE FOR CONTRIBUTORY INFRINGEMENT BASED ON ITS FINDINGS OF FACT.

The District Court found that eBay was on notice that a high percentage of the Tiffany silver offered on its system was counterfeit, a level that eBay's expert estimated at 30% or more. SPA 21, 50. The court correctly found that liability could be imposed on a "willful blindness" basis if eBay "knew of a high probability of illegal conduct and purposefully contrived to avoid learning of it, for example, by failing to inquire further...." SPA 52, citing Nike, Inc. v. Variety Wholesalers, Inc., 274 F. Supp. 2d 1352, 1369-70 (S.D. Ga 2003). The court refused, however, to impose liability on the basis of this high mathematical probability of infringement. Rather, it held that eBay was under no legal duty to take affirmative countermeasures to prevent infringement because Tiffany had not identified a specific person making a specific offer of a counterfeit. The court thereby erred as a matter of law by failing to hold eBay liable based on

its own findings. The court misapplied the governing case law in a manner that effectively eliminates the “willful blindness” theory of liability.

Based on the District Court’s findings of fact, this Court should hold that eBay is liable for contributory infringement and remand the matter with instructions that an order be entered requiring eBay to adopt effective countermeasures that will prevent the pervasive sale of counterfeit Tiffany products. Based on those factual findings, this remedy is appropriate to compel eBay to carry out its legal duty to avoid infringement of the Tiffany mark and to protect purchasers against fraud. There are a number of electronic filters and other technological countermeasures that eBay can adopt to prevent the recurrent sales of counterfeit Tiffany goods through its system.

A. The Governing Legal Standard.

1. The Willful Blindness Principle.

The general standard governing liability for contributory trademark infringement is set forth in Inwood Laboratories, Inc. v. Ives Laboratories, Inc.:

if a manufacturer or distributor . . . continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorially responsible for any harm done as a result of the deceit.

456 U.S. 844, 854 (1982)(emphasis added).

In Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259 (9th Cir. 1996), the Inwood doctrine was applied to the operator of a swap meet who had been informed repeatedly that vendors to whom they leased space were routinely selling counterfeit recordings that violated plaintiffs' trademarks. The Ninth Circuit reversed the trial court's dismissal of a contributory infringement claim and held that the operator "cannot disregard its vendors' blatant trademark infringements with impunity." Fonovisa, 76 F.3d at 265. The court held that the operator could be held responsible for the torts of those to whom it rented space and from whom it derived revenues, if it knew or had reason to know that the sellers were acting or would act in a manner that violated the owners' trademarks. Id.

Inwood creates two pathways by which an entity may be liable for contributory trademark infringement: (1) the "knowledge" test, which creates a subjective standard of whether the defendant actually knew that goods being sold through use of its service were counterfeit; or (2) the "reason to know" test, which creates an objective standard of whether a reasonably prudent person in defendant's shoes would have known that the goods being sold were counterfeit. Inwood, 456 U.S. at 854; Hard Rock Café Licensing Corp. v. Concession Services, Inc., 955 F.2d 1143, 1151, ftnt. 5 (7th Cir. 1984).

Tiffany has shown (Br. at 18-20) that the District Court’s factual findings are sufficient to prove that a reasonable person in eBay’s position would have understood that large quantities of counterfeit Tiffany products were being sold through its service. Coty adopts that argument and thus will not further discuss the “reason to know” standard. Coty will focus instead on the legal errors that the court made in applying the “knowledge” test.

Under the “knowledge” standard, an entity may be held liable on the basis of “willful blindness” – that it had reason to suspect wrongdoing and deliberately failed to investigate. Hard Rock Café, 955 F.2d at 1149. As the Seventh Circuit held in Hard Rock Café, “willful blindness is equivalent to actual knowledge for purposes of the Lanham Act.” Id.⁷ “Under the doctrine of willful blindness, ‘knowledge can be imputed to a party who knows of a high probability of illegal conduct and purposefully contrives to avoid learning of it.’” Nike, 274 F. Supp.2d at 1369, citing, inter alia, Williams v. Obstfeld, 314 F.3d 1270, 1271 (11th Cir. 2002)(RICO

⁷ “Willful blindness is knowledge enough” to find a defendant liable for trademark infringement. Louis Vuitton, S.A. v. Lee, 875 F.2d 584, 590 (7th Cir. 1989)(defendant had sufficient knowledge of possible counterfeiting to create a duty of inquiry when she knew, inter alia, that expensive brand name goods were being sold “at bargain-basement prices”; under these circumstances, the seller “was obligated at the very least to ask her supplier whether the items ... were genuine ... merchandise or counterfeit.”)

knowledge requirement could be satisfied by willful blindness or deliberate ignorance).⁸

The service provider need not have physical custody of infringing products to be liable for contributory infringement. Rather, as the District Court properly held, the relevant inquiry is the extent of control exercised by the defendant over the third party's means of infringement. SPA 42. In Fonovisa and Hard Rock Café, although the defendants did not exercise physical control or possession over the counterfeit products, as long as they had the requisite knowledge of counterfeit sales, they faced liability because they were "supplying the necessary marketplace for their sale in substantial quantities." Fonovisa, 76 F.3d at 265. Here, the court properly held that "eBay exercises sufficient control and monitoring over its website such that it fits squarely with the Fonovisa and Hard Rock Café line of cases." SPA 43.

⁸ See also Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc., 2003 WL 22331254, *18-19 (N.D.Ga 2003) (defendants' were willfully blind where they requested proof of legitimacy from the supplier of the counterfeit product because they knew counterfeit activity was possible, but never received proper documentation, experienced unusual delays and circumstances that indicated improper activity; and yet continued purchasing and reselling the product).

2. High Probability of a Fact Satisfies the Willful Blindness Test.

In many areas of the law, courts have found willful blindness, or conscious avoidance of learning the truth when one is on notice of a high probability of an incriminating fact, as a sufficient basis for satisfying the knowledge element of a cause of action.

-- In tort law generally (of which contributory infringement is an outgrowth), a person is responsible for the actions of those it permits on its premises “knowing or having reason to know that the other is acting or will act tortiously” Restatement (Second) of Torts § 877(c) (1979); see Hard Rock Café, 955 F.2d at 1149.

-- Under the Foreign Corrupt Practices Act, the requisite mens rea is established “if a person is aware of a high probability of the existence of [a] circumstance, unless the person actually believes that such circumstance does not exist.” 15 U.S.C. §§ 78dd-1(f)(2)(B), 78dd-2(h)(3)(B).

-- Similarly, “[t]he rule that willful blindness is equivalent to knowledge is essential, and is found throughout the criminal law.” United States v. Jewell, 532 F.2d 697, 700 (9th Cir. 1976) (en banc)(internal citation omitted). The standard for determining “willful blindness” was established in Leary v. United States, 395 U.S. 6 (1969):

“When knowledge of the existence of a particular fact is an element of an offense, such knowledge is established if a person is aware of a

high probability of its existence unless he actually believes that it does not exist.”

395 U.S. at 46 n. 93 (internal citation omitted); see Model Penal Code § 2.02(7). Applying the Leary standard, the courts have repeatedly held:

To act “knowingly” ... is not necessarily to act only with positive knowledge, but also to act with an awareness of the high probability of the existence of the fact in question. When such awareness is present, “positive” knowledge is not required.

Jewell, 532 F.2d at 700; see United States v. Nektalov, 461 F.3d 309, 315 (2d Cir. 2006); United States v. Reyes, 302 F.3d 48, 54 (2d Cir. 2002).

This Court has repeatedly upheld use of the “conscious avoidance” basis for finding guilty knowledge in a wide variety of criminal cases.⁹ As the Court stated in Nektalov, “the rationale for the conscious avoidance doctrine is that a defendant’s affirmative efforts to ‘see no evil’ and ‘hear no evil’ do not somehow magically invest him with the ability to ‘do no evil.’” 461 F.3d at 315, quoting United States v. Adeniji, 31 F.3d 58, 62 (2d Cir. 1994).

The standard for imposing criminal liability is more stringent than the test for liability in a civil case. Since awareness of a “high probability of a

⁹ E.g., Nektalov, 461 F.3d 309 (money laundering); United States v. Ebberts, 458 F.3d 110 (2d Cir. 2006)(conspiracy, securities fraud); United States v. Abreu, 342 F.3d 183 (2d Cir. 2003)(intent to distribute cocaine); United States v. Schultz, 333 F.3d 393 (2d Cir. 2003)(conspiracy to receive stolen property); United States v. Meskini, 319 F.3d 88 (2d Cir. 2003)(conspiracy to provide material support for terrorism).

fact” provides a sufficient predicate for satisfying the mens rea requirement in criminal law, it also constitutes an appropriate standard for determining liability for contributory infringement.

B. Based on Its Own Factual Findings, the District Court Should Have Held eBay Liable for Contributory Infringement.

1. eBay’s Knowledge of a High Probability of Counterfeiting Imposed a Duty to Take Preventative Countermeasures.

As noted, the lower court properly found that an entity may be held liable for contributory infringement on a willful blindness basis if it knew of “a high probability of illegal conduct and purposefully contrived to avoid learning of it, for example, by failing to inquire further” SPA 52, citing Nike, 274 F. Supp.2d at 1369-70. It also concluded that a service provider may be liable if it had knowledge of a “high probability” of sales of counterfeits through its system, which imposes a duty to act that the court characterized as “an affirmative duty to ferret out potential infringement.” SPA 52.

In applying this standard to its own factual findings, the court erred as a matter of law by failing to hold that eBay was under a legal duty to take effective steps to prevent sale of counterfeit Tiffany products and by finding that eBay was not liable because it did not have specific knowledge of specific infringing offers or sellers.

The District Court found all the predicate facts necessary to impose liability on eBay for contributory infringement:

-- Tiffany submitted 284,149 reports through the VeRO program of its good faith determination that specific listings were counterfeits. SPA 18.

-- Tiffany's reports of high levels of counterfeiting persisted for many years. It reported 20,915 potentially counterfeit listings in 2003, 45,242 in 2004, 59,012 in 2005, and 134,779 in 2006. Id.

-- Buyers repeatedly complained to eBay that they had purchased counterfeit Tiffany goods, including 125 consumers in the last six weeks of 2004 alone. SPA 21.

-- eBay's expert conceded that "a substantial amount of the 'Tiffany' jewelry listed on eBay's website – 30% or more – could safely be deemed to be counterfeit." Id.

-- During Tiffany's 2004 Buying Program, 73.1% of the pieces purchased were found to be counterfeit. In the 2005 Program, 75.5% were counterfeit. SPA 20. The court found that "a significant portion of the 'Tiffany' sterling silver jewelry listed on the eBay website during the Buying Programs was counterfeit." SPA 21.

The court also made significant factual findings concerning steps that eBay did not take upon receipt of information that pervasive counterfeiting was occurring through its system.

-- "eBay did not conduct a separate investigation into the extent of counterfeit Tiffany jewelry on its website." SPA 52.

-- "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." Id.

Finally, the court concluded:

To be sure, the amount of counterfeit merchandise discovered in the Buying Programs is voluminous. Nevertheless, the Buying Programs simply put eBay on notice that, absent Tiffany's routine policing efforts via the VeRO Program, a high percentage of the merchandise sold as Tiffany sterling was counterfeit.

SPA 50 (emphasis added).

Based on these findings, the court erred as a matter of law in holding that eBay was not liable for contributory trademark infringement. The cumulative weight effect of the repeated notices provided by Tiffany over the years of pervasive and persistent offerings of counterfeits through eBay is sufficient to impose liability under the "high probability of illegal conduct" standard, especially when considered in conjunction with the Buying Programs' findings that the amount of counterfeit merchandise offered was "voluminous" and constituted a "high percentage of the merchandise sold as Tiffany sterling"

The court concluded that eBay was not liable based in part on its finding that eBay had taken down listings in response to Tiffany's complaints under the VeRO program. SPA 52, 54-55. VeRO is a reactive program under which eBay took no action until Tiffany handed it specific information that a specific person had posted a specific offer of infringing products. eBay refused to take proactive actions to prevent future frauds on

the ground that it did not know which sellers were contributing to the massive number of fraudulent offers. eBay's failure to act violated its "affirmative duty to ferret out potential infringement."

Under the court's ruling, eBay is in the same position as a bank that was informed that 50% of the wire transfers conducted by its customers were illegal, but refused to investigate or take affirmative steps to prevent further money laundering on the ground that it did not know which 50% of the transfers was illegal. Under those circumstances, there is little doubt that the bank would have sufficient knowledge to trigger its legal duty of care to take steps to prevent money laundering.¹⁰ For the same reasons, eBay had sufficient knowledge of a high probability of offers of counterfeit Tiffany products to require it to take preventative countermeasures, even though it may not have known upon receipt of Tiffany's complaints precisely which sellers were offering counterfeits.

¹⁰ See Financial Crimes Examination Network, In re: American Express International Bank, No. 2007-1 (\$25 million civil money penalty for failure to take affirmative monitoring controls after receiving repeated notice for accounts at high risk of money laundering); Deferred Prosecution Agreement, United States v. Banco Popular de Puerto Rico, D.P.R., (Jan. 16, 2003), available at www.fincen.gov, Enforcement Action No. 2003-1.

2. The Court Erroneously Held that eBay Had No Legal Duty To Act Based on Tiffany's Efforts To Fight the Counterfeiting through eBay.

The court found that eBay had knowledge that a “high percentage” of the Tiffany offers on its system were counterfeits but held that eBay had no duty to take affirmative steps to prevent future sales of counterfeits because Tiffany was taking actions to reduce the massive level of infringement that was occurring. SPA 50, 52. The court subtracted the effects of Tiffany’s policing effort from the high level of counterfeiting on eBay:

[T]he Buying Programs simply put eBay on notice that, absent Tiffany’s routine policing efforts via the VeRO Program, a high percentage of the merchandise sold as Tiffany sterling was counterfeit.

SPA 50 (emphasis added). Having discounted the level of infringement by subtracting the instances that Tiffany succeeded in identifying, the court found that eBay did not have “specific knowledge as to the illicit nature of individual listings” but had only “general knowledge of infringement by sellers using its website.” SPA 48.

The court cited no authority to support its position that the owner’s active policing of its trademark relieves the service provider of a legal duty to take steps to prevent recurrence of a large number of counterfeit offers through its system. Certainly nothing in Inwood, Fonovisa or Hard Rock Café supports the proposition that Tiffany’s longstanding efforts to combat

persistent counterfeiting through eBay somehow cancel out the service provider's duty to take affirmative steps to reduce infringement, especially in light of the tens of thousands of new complaints Tiffany filed each year that demonstrated a continuing high probability of infringement.

The error in the District Court's analysis is apparent from a comparison of the respective duties of the trademark owner and the service provider. As Tiffany noted (Br. 38-41), the trademark owner does have a duty to police its trademark, but that obligation relates only to the strength of the mark.¹¹ The owner does not have an obligation to detect every instance of infringement, and its inability to identify and prevent some sales of counterfeits does not create a defense for a provider that otherwise has committed contributory infringement.

When the service provider obtains knowledge of a "high probability of illegal conduct" through its system, it becomes subject to a separate, affirmative duty to take countermeasures to prevent the recurrence of such counterfeiting. Nike, 274 F. Supp.2d at 1369; Hard Rock Café, 955 F.2d at 1149. This duty may exist simultaneously with the duty of the owner. The two duties do not offset each other. Indeed, it is critical for both the owner

¹¹ See 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 17:17 (4th ed. 2007).

and the service provider to act within their respective spheres of responsibility to prevent massive, recurrent counterfeiting.

The court correctly noted that under Inwood, the service provider does not have a general “affirmative duty to take precautions against potential counterfeiters” (SPA 53), but it misunderstood and misapplied this principle. As reflected in Justice White’s dissent in Inwood, 456 U.S. at 860-61 and the majority’s response (id. at 854 n.13), eBay may not be held liable for contributory infringement “merely by the failure to ‘reasonably anticipate’ that illegal [sales] by some [vendors] was likely”; or that it could “anticipate that some illegal [sales] will occur to some unspecified extent, and by some unknown [vendors].” 456 U.S. at 860-61.

The facts, as found by the court, demonstrate that the situation involving sales of counterfeit Tiffany products on eBay cannot remotely be compared to the limiting principle that Inwood adopted to prevent imposition of liability for isolated or negligent failures by the service provider to prevent sales of counterfeits. The record shows that Tiffany submitted more than one quarter million complaints about counterfeits to eBay in four years. SPA 18. This evidence shows that eBay knew that massive numbers of fraudulent offers were communicated to purchasers through its system but that it never adopted effective countermeasures to

prevent such infringement. What the facts show is not merely a failure to “anticipate that some illegal [sales] will occur to some unspecified extent,” but conscious avoidance of pervasive illegality.

The court therefore erred in holding that Tiffany could recover only upon proof that “eBay had specific knowledge as to the illicit nature of individual listings.” SPA 59. Its approach directly contradicts the case law that defines willful blindness and establishes when a duty to take steps to remedy counterfeiting arises. The decision below improperly converted Inwood into a safe harbor that eliminated eBay’s duty to take preventative countermeasures despite its knowledge of massive infringement.

Similarly, the court erred as a matter of law in holding that eBay was not liable because “Tiffany has failed to establish by a preponderance of the evidence that there were any instances where eBay was given specific notice of a potential infringement and failed to act.” SPA 54. Taking down specific infringing offers is necessary to satisfy a service provider’s general obligation of care. But those actions are not sufficient to discharge eBay’s affirmative duty to take preventative measures to prevent further illegal

conduct when it has received hundreds of thousands of complaints of sales of counterfeits through its system.¹²

Finally, the court erred in finding that eBay was not liable because it had established VeRO and taken “further steps to pursue counterfeiters.” SPA 52. A service provider who has knowledge of a “high probability of misconduct” is under a duty to take effective steps that actually discharge its “affirmative duty to ferret out potential infringement.” SPA 52.¹³ eBay has failed to discharge that duty. These actions were not effective in preventing sales of counterfeits, as demonstrated by the large number of infringing offers detected year after year. VeRO provides only a method for removing a fraudulent offer that already has been posted and possibly preventing an illegal sale, if the owner detects the fraudulent offer and has it removed in time. VeRO does not prevent offers from counterfeiters -- even from the

¹² That “some quantity of the jewelry sold through eBay was, in fact, genuine” does not immunize eBay from liability for its failure to take affirmative steps to prevent sales of counterfeits. SPA 50. By its terms, the “high probability of misconduct” standard recognizes that plaintiff need not prove that 100% of the sales were counterfeits.

¹³ Thus, the court erred in basing its decision on whether it would be cheaper for Tiffany or eBay to police sales of counterfeits. SPA 56. As noted, both entities have obligations. However, Inwood and its progeny do not limit the extent of the service provider’s duty to prevent sales of counterfeits by cost-effectiveness considerations.

same counterfeiter¹⁴ -- from being posted on eBay the next day. Despite VeRO's existence, Tiffany will face the same problem tomorrow as it does today.

In the final analysis, an on-line auction service has no right to continue offering Tiffany or other trademarked products. If eBay ultimately cannot develop effective steps to discharge its duty to prevent sales of counterfeit Tiffany products, it is obligated to stop selling those products. eBay's desire to continue enjoying revenues from sales of Tiffany products (\$4.1 million) cannot justify its failure to implement countermeasures that carry out its legal obligation and actually prevent sales of counterfeits . See SPA 15.

C. eBay Should be Ordered To Adopt Effective Countermeasures Against Counterfeiting.

The District Court's decision that eBay was not liable for contributory infringement was based in part upon its finding that a specific remedy Tiffany proposed was not appropriate. SPA 48-49. The court's concern was misguided, however, because it should not have gone down that path.

¹⁴ eBay primarily employs a "three strikes rule," under which it ordinarily will not suspend a seller until it has been reported three times by the owner. SPA 24. This requires that the seller be caught three times, and it does not prevent a suspended seller from shifting to a different user name. Although the question is not before the Court, it is questionable whether that rule would be consistent with Inwood.

First, selection of countermeasures sufficient to carry out its duty to prevent sales of counterfeits belongs with eBay in the first instance, not the court or the trademark owner. Second, there are many alternative approaches that eBay could consider in deciding how best to carry out its duty to implement effective countermeasures to prevent sales of counterfeits if it wishes to continue selling Tiffany products.

1. eBay Has The Obligation To Select the Appropriate Countermeasures.

In its remedial order, this Court need not and should not direct the District Court to specify the precise technological countermeasures that eBay must adopt to carry out its duty. Determination of the appropriate measures is eBay's responsibility. The courts' role is to determine whether eBay's actions are effective in discharging that duty.

Upon a determination that eBay is liable for contributory infringement, the appropriate equitable remedy is to direct it to implement procedures that will prevent future sales of counterfeit Tiffany products. eBay would have discretion to select any set of countermeasures it wishes, provided that they work. The courts should retain jurisdiction to make certain that the anti-counterfeiting measures do in fact work. The test for determining their adequacy should be objective and empirical. If subsequent studies show that the first set of measures was not effective at suppressing

fraud, then the courts should order eBay to adopt further measures until its anti-counterfeiting measures are finally successful in satisfying its legal obligation to prevent infringing sales through its system.

What eBay may not do is what it has done here: fail to adopt effective countermeasures sufficient to prevent large numbers of offers for counterfeit Tiffany products from appearing on its system.

2. eBay Has Multiple Alternatives Available in Designing Countermeasures.

There are various feasible electronic filtering methods that eBay could adopt to prevent sales of counterfeit Tiffany products, even though it never has physical custody of the goods. Coty's experience shows that there are effective technological countermeasures that eBay could implement to reduce the level of counterfeiting substantially, by screening out fraudulent offers before they are ever listed. If eBay can develop and run electronic countermeasures that screen out offers for drugs, alcohol, and firearms, then it can utilize similar techniques to detect and screen out offers for counterfeits.

For example, even with the technology available to a fragrance company, Coty has been able to link different aliases back to the same seller of counterfeit versions of its products by searching for common information about the seller in its offers, such as a common address, a common telephone

number, or a common bank account number.¹⁵ Further, Coty has detected that some counterfeiters attach the same digital photographic file to multiple offers that they make under various aliases.

In addition to these measures, there are other functional approaches that eBay might consider as filters to identify potential red flags for counterfeiters.

(a) One-Day Auction. Auctions that expire in one day are less likely to be spotted by the brand owner's policing program. Even if such an offer is identified, it is likely to have been completed before a notice-and-takedown procedure can be implemented.

(b) Low Starting Sales Price (One Dollar). Resellers of legitimate versions of branded goods who paid full price for the product are unlikely to be willing to start an auction with such a low number, which suggests a desire to sell at any price.

(c) High Selling Completion Rate. From Coty's policing experience, a seller who always or nearly always completes a sale constitutes a red flag for a high probability of counterfeiting. A legitimate reseller of a branded product will cancel the sale if the desired price is not reached. A counterfeiter, however, may be willing to sell at any price. Accordingly, a high rate of completion is correlated with counterfeiting.

(d) Negative Feedback in eBay's Scoring System. Counterfeiters tend to receive more negative feedback from unhappy buyers.

(e) Same Graphics and Text. Counterfeiters often use the same background photograph and text to describe their wares.

¹⁵ eBay has the capability to link different user names to a particular seller through identifying information, internet protocol (IP) address, and PayPal information. SPA 7, 8, 11.

There undoubtedly are other countermeasures, unknown to Coty, that eBay could implement to discharge its duty to adopt effective countermeasures to prevent counterfeit sales. The selection of measures to be pursued ultimately is for eBay to decide. The lower court should not have relied on its assessment of a particular measure suggested by Tiffany as a basis for determining that eBay had no duty to adopt countermeasures despite clear evidence that massive fraud was occurring through its system.

As noted, Coty has been aggressive in seeking to persuade eBay to apply countermeasures to prevent sales of counterfeit versions of its products on the European system. Those efforts have included active policing of sales on eBay, submission of many thousands of notices of counterfeits, repeated face-to-face meetings and telephone calls, and multiple lawsuits. Coty has determined that the volume of offers for counterfeits over eBay's European system has decreased significantly since it undertook this campaign. Coty has not been informed, however, of the steps eBay has taken to produce this result. Coty has, however, continued its expensive policing effort.

To stop the sale of counterfeit goods through a market created by a service provider, what is needed is joint action by both the trademark owner to police its brand and by the entity that offers the service through which

counterfeit products are being sold. This is true whether the entity that provides the service leases space at a swap meet, as in Fonovisa, 76 F.3d 259, and Hard Rock Café, 955 F.2d 1143, or operates the world's most sophisticated on-line auction systems. The District Court erred in placing the entire responsibility on Tiffany to prevent counterfeiting. Without eBay's cooperation, Tiffany cannot carry out this task.

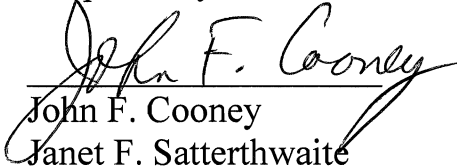
Coty submits that the appropriate equitable remedy is a simple, functional order directing eBay to carry out its legal obligation to take affirmative steps to attack high volume levels of infringement of Tiffany products known to be occurring through its system. eBay should have the discretion in the first instance to determine what countermeasures it will implement, subject to the objective requirement that they be effective in attacking the infringement that is now occurring. Only in this way can trademark owners and eBay carry out their separate but complementary duties to prevent frauds and protect consumers.

CONCLUSION

Amicus curiae Coty, Inc. submits that the judgment of the District Court should be reversed and the case remanded with directions that eBay be

required to adopt effective countermeasures against sales of counterfeit versions of Tiffany's products.

Respectfully submitted,



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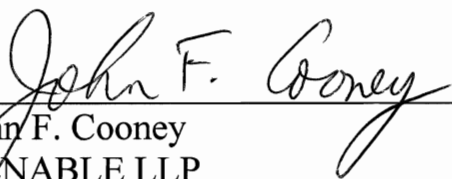
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2. The foregoing brief complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6) because this brief was prepared in proportionally spaced typeface in Microsoft Word 2003 using 14 point Times New Roman font.

Signed October 21, 2008
in Washington, D.C.



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