
No. 10-57019

IN THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

eBAY INC.,

Appellant,

v.

GIBSON GUITAR CORP.,

Respondent.

District Court

Case No. CV10-8884 RGK (RZx)

On Appeal From the United States District Court
For the Central District of California
Honorable Judge R. Gary Klausner

RESPONDENT'S OPPOSITION TO APPELLANT EBAY'S
MOTION FOR STAY PENDING APPEAL

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I. INTRODUCTION

Plaintiff, Gibson Guitar Corp. (“Gibson”) seeks a denial of eBay’s Motion for Stay Pending Appeal filed on December 22, 2010. The United States District Court for the Central District of California issued an order granting Gibson’s Application for Preliminary Injunction on December 21, 2010. (Dkt. 58). Gibson filed an Application for a Temporary Restraining Order and Order to Show Cause Re: Preliminary Injunction on November 19, 2010. (Dkt. 5). Defendant eBay filed an Opposition to the Temporary Restraining on November 22, 2010. (Dkt. 15). The Court denied the TRO on November 24, and issued an Order to Show Cause Re: Preliminary Injunction. eBay filed an Opposition to Order to Show Cause Re: Preliminary Injunction on December 8, 2010. (Dkt. 29). After much consideration the Court granted Gibson’s Request for a Preliminary Injunction on December 21, 2010 (Dkt. 58). eBay filed this Motion for Stay Pending Appeal on December 22, 2010.

Throughout these 26 pages of opposition briefs and its 13 page Motion for Stay Pending Appeal, eBay rehashes the same argument; we should not be responsible for our contributory infringement because Gibson did not use the Verified Rights Owner (“VeRO”) Program to report each listing of infringement. Gibson does not believe the VeRO Program should shield eBay from its contributory infringement by requiring trademark owners to report each listing of an easily identifiable infringing good. Gibson made a judgment call that this argument did not merit filing another Response Brief, thereby providing the Court

with more papers to sift through. By including eBay in the Order Granting Preliminary Injunction, the District Court emphatically agreed. (Dkt. 58).

II. FACTUAL BACKGROUND

eBay is allowing its customers to offer for sale Paper Jamz guitars which infringe on the incontestable trademarks of Gibson. *See* Bates Decl. ¶ 13. Gibson agrees with eBay that only the design trademarks are currently at issue in the contributory infringement. In addition to the 5 marks stated by eBay in its Motion for Stay Pending Appeal, the Les Paul Peg-Head® and the Kramer Peg Head® are also named in the complaint for contributory infringement. Complaint pgs 22:26-7, 23:2 (Dkt. 1). Despite what eBay claims, the infringing Paper Jamz guitars are easily identifiable by “eye-balling” the shape of the guitar or looking at the series number. In the very least, eBay received specific notice of the infringing marks when the complaint was filed on November 19, 2010 but has yet to remove the items from its website.

III. STANDARD OF REVIEW

A district court’s decision regarding preliminary injunctive relief is subject to limited review. *See Harris v. Board of Supervisors, L.A. County*, 366 F.3d 754, 760 (9th Cir. 2004) (“limited and deferential”); *Southwest Voter Registration Educ. Pro. v. Shelley*, 344 F.3d 914, 918 (9th Cir. 2003)(en banc) (same); *Prudential Real Estate Affiliates, Inc. v. PPR Realty, Inc.*, 204 F.3d 867, 874 (9th Cir. 2000). The court should be reversed only if it abused its discretion or based its decision on an erroneous legal standard or on clearly erroneous findings of fact.

See FTC v. Enforma Natural Products, 362 F.3d 1204, 1211-12 (9th Cir. 2004); Harris, 366 F.3d at 760.¹

A preliminary injunction must be supported by findings of fact, reviewed for clear error. *See* Independent Living Center of S. California, Inc. v. Shewry, 543 F.3d 1050, 1055 (9th Cir. 2008); Hawkins v. Comparet Cassani, 251 F.3d 1230, 1239 (9th Cir. 2001). The district court's conclusions of law are reviewed de novo. *See* Shewry, 543 F.3d at 1055; Brown v. California Dep't of Transp., 321 F.3d 1217, 1221 (9th Cir. 2003). Here the District Court concisely stated its reasoning, which is demonstrated by the fact that it edited the "proposed" order from 16 pages to a more manageable 4 pages.

The scope of injunctive relief is reviewed for an abuse of discretion or application of erroneous legal principles. *See* United States v. Schiff, 379 F.3d 621, 625 (9th Cir. 2004); Idaho Watersheds Project v. Hahn, 307 F.3d 815, 823 (9th Cir. 2002); Rolex Watch, U.S.A., Inc. v. Michel Co., 179 F.3d 704, 708 (9th Cir. 1999) (finding the scope of injunctive relief granted was inadequate).

IV. ANALYSIS

Defendant eBay has Engaged in Contributory Trademark Infringement and Should be Included in the Preliminary Injunction Thereby Denying Its Motion for Stay Pending Appeal

¹ Paramount Land Co. LP v. California Pistachio Com'n, 491 F.3d 1003, 1008 (9th Cir. 2007) (reversing district court decision); Satava v. Lowry, 323 F.3d 805, 810 (9th Cir.) (reversing district court decision), cert. denied, 540 U.S. 983 (2003); Connecticut Gen. Life Ins. Co. v. New Images of Beverly Hills, 321 F.3d 878, 881 (9th Cir. 2003) (affirming district court decision); In re Dunbar, 245 F.3d 1058, 1061 (9th Cir. 2001) (bankruptcy court); *see also* Ashcroft v. American Civil Liberties Union, 542 U.S. 656, 664 (2004) (noting Supreme Court, "like other appellate courts, has always applied the abuse of discretion standard on the review of a preliminary injunction").

Granting of a preliminary injunction is governed by the Supreme Court's decision in Winter, and Gibson is entitled to preliminary injunction relief against Defendant eBay because it has shown; 1) a likelihood of success on the merits, 2) a likelihood of irreparable injury if the preliminary injunction is not granted, 3) the balance of equities tips in favor of issuing a preliminary injunction, and 4) that granting a preliminary injunction is in the public interest. Winter v. Natural Res. Def. Council, Inc., 129 S. Ct. 365, 374 (2008), *See* also Bates Decl. ¶¶ 2-12 (Dkt. 1, 5, 6, 40-45)

Gibson has proven, and the District Court confirmed by granting order for preliminary injunction, that it will likely succeed on the direct infringement issue, requiring a preliminary injunction to prevent irreparable harm. Gibson will likely succeed on the merits by satisfying the Sleekcraft factors in finding a likelihood of confusion.² Gibson has shown that its trademarks at issue are very strong. Reply Memorandum in Support of a Motion for Preliminary Injunction ("Reply Brief") at 3:17-4:13. Gibson has proven the proximity of the goods between WowWee's Paper Jamz and products containing Gibson Design Marks are close. Reply Brief at 4:14-5:8. Gibson has detailed that the marks used on WowWee's Paper Jamz guitars are identical to Gibson's registered marks. Reply Brief at 5:8-5:22. Gibson has provided ample evidence of actual confusion in the marketplace.

² The eight Sleekcraft factors used by the Ninth Circuit in determining a likelihood of consumer confusion are 1) the strength of the mark; 2) the proximity of the goods; 3) the similarity of the marks; 4) evidence of actual confusion; 5) the marketing channels used; 6) the type of goods and the degree of care likely to be exercised by the purchaser, 7) defendant's intent on selecting the mark in question; and 8) likelihood of expansion of the product lines. AMF Inc. v. Sleekcraft Boats, 599 F.2d 341, 348-49 (9th Cir. 1979).

Reply Brief at 6:1-6:24. Gibson has provided undeniable evidence that the marketing channels used to promote WowWee's infringing Paper Jamz guitars are identical to the channels used by some items containing legitimate Gibson trademarks. Reply Brief at 7:1-7:19. Gibson has shown that the consumers purchasing the infringing Paper Jamz guitars are likely to exercise minimal care in their purchase but rather depend on the familiar trademarks. Reply Brief at 7:20-8:2. By showing the identical nature of the WowWee's marks compared to Gibson's registered marks, Gibson has shown that WowWee had the intent of capitalizing on Gibson's goodwill when selecting its marks. Reply Brief at 8:4-8:16. And finally, Gibson has provided evidence that it has already expanded into the identical product line as WowWee's infringing Paper Jamz guitars. Reply Brief at 8:18-8:26. All of these Sleekcraft factors support the District Court's conclusion that a preliminary injunction is necessary to prevent consumer confusion as to the source of the infringing Paper Jamz guitars.

Gibson adopts eBay's standard for a stay, (1) whether the stay applicant has made a strong showing that he is likely to succeed on the merits; (2) whether the applicant will be irreparably harmed absent a stay; (3) whether issuance of the stay will substantially injure the other parties interested in the proceeding; and (4) where the public interest lies. eBay's Motion for Stay Pending Appeal, pg 4. The standard for issuing a preliminary injunction and granting a motion for a stay pending appeal are substantially similar.

A. EBay Has Failed to Comply With the Federal Rules of Appellate Procedure With Good Cause

eBay failed to follow the rules regarding filing the Motion for Stay Pending Appeal with the District Court. The Federal Rules of Appellate Procedure Rule 8 states in part: “(a) Motion for Stay. (1) Initial Motion in the District Court. A party must ordinarily move first in the district court for the following relief: (A) a stay of the judgment or order of a district court pending appeal; (B) approval of a supersedes bond; or (C) an order suspending, modifying, restoring, or granting an injunction while an appeal is pending.” FRAP (8)(a)(1). “Motion in the Court of Appeals; Conditions on Relief. A motion for the relief mentioned in Rule 8(a)(1) may be made to the court of appeals or to one of its judges. (A) The motion must: (i) show that moving first in the district court would be impracticable...” FRAP 8(a)(2).

In addition, pursuant to Circuit Rule 27-3 (a)(4), EBay was required to state in its motion:

If the relief sought in the motion was available in the district court...the motion shall state whether all grounds advanced in support thereof in this court were submitted to the district court...and, if not, why the motion should not be remanded or denied.

EBay has not met the above requirements. It fails to mention any valid reason as to why it chose to file its motion with the Ninth Circuit Court of Appeals, rather than with the District Court who is familiar with the facts of this case and the reasoning based upon its decision. eBay claims the District Court failed to note the distinction between eBay and the other defendants despite having

26 pages of opposition briefs from eBay and 8 days to review them. Instead, it is apparent that having its arguments summarily rejected by the District Court, eBay is now seeking to repeat its arguments to a new audience. Repeating its futile arguments in another forum should simply not change the outcome of Plaintiff's motion for a preliminary injunction and the District Court's granting of said motion. Notwithstanding outright denial of eBay's Motion for Stay Pending Appeal, the Ninth Circuit Court of Appeals, at the very least, should remand eBay's Motion to the District Court who is more familiar with the facts of this case and the reasoning based upon its decision.

B. Irreparable Injury, Balance of Equities, and the Public Interest all Favor the Issuing of a Preliminary Injunction and Denying the Stay Pending Appeal

A brief analysis, plus the granting of a preliminary injunction by the District Court, shows that Gibson has undoubtedly satisfied the final three factors in granting a preliminary injunction and the issue will turn on the likelihood of success on the merits of eBay's contributory infringement. Gibson has shown through clear evidence it will be irreparably harmed by continued sale of the infringing Paper Jamz guitars whether these sales are direct or through an online marketplace such as eBay. *See* Juskiewicz Dec. ¶ 8 (Dkt 6) _____. Defendant eBay is under the mistaken assumption that an irreparable loss of goodwill must necessarily threaten the plaintiff's business with termination. eBay's Opposition to Order to Show Cause Re: Preliminary Injunction (hereinafter "Opposition") at

11:3-14. This is simply not true in an Intellectual Property infringement case and can be shown by many previous precedents.

The balance of equities of allowing eBay to continue to engage in contributory infringement during an interlocutory appeal clearly favors the issuing of a preliminary injunction.³ eBay claims it will be irreparably harmed by a preliminary injunction but gives no example of how, other than the obvious percentage it receives from sellers listing the infringing items. Indeed eBay's claim that it will suffer "irreparable harm" if it is not allowed to let its clients sell infringing items to the American Public is dubious at best. The true gist of eBay's argument for irreparable harm is that it will lose money, which in direct contrast to Gibson's loss of good will for the misuse of its Federally registered trademark, is not in itself irreparable harm. Mere loss of potential income, compensable by a damage award, does not represent irreparable harm. Los Angeles Memorial Coliseum Commission v. National Football League, 634 F.2d 1197, 1202 (9th Cir. 1980). It is difficult to believe that eBay's business reputation or goodwill could be affected in a negative way by taking down auctions that involve infringing goods. In fact, removing the infringing Paper Jamz will likely bolster eBay's reputation and goodwill through notifying customers that they will not tolerate or support confusing consumers through infringing trademark use. *See* Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 98 (2nd Cir. 2010)(recognizing eBay's "countervailing gain...resulting from increased consumer confidence about the

³ A preliminary injunction against a contributory infringer is not only warranted but required." A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1027 (9th Cir. 2001).

bona fides of other goods sold through its website.” Also, Paper Jamz auctions are a minute portion of eBay’s total auctions that contains “more than 200 million listings...at any given time”. Curtis Decl., ¶4. The proving of a likelihood of success on the merits by Gibson obviously is in the public interest by not deceiving the public at large as to the source and or approval by Gibson of the infringing goods. The public has a strong interest in the right not to be deceived or confused by likely infringing trademark use, whether it is direct or contributory.⁴ This public interest easily overshadows eBay’s claim that the public interest is served “by allowing millions of buyers and sellers to buy and sell authentic goods” (eBay’s Motion for Stay Pending Appeal, pg. 12), especially given that the infringing Paper Jamz guitars are not authentic but rather display Gibson Trademarks.

C. Gibson Has Proven It Will Likely Succeed on Direct Infringement and Will Also Likely Succeed on Contributory Infringement

Gibson has shown that eBay will likely be held contributorily liable by continuing to allow sellers to list Paper Jamz guitars on its online marketplace. The applicable test is if eBay has “continue[d] to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.” Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 854 (1982). Gibson has no reason to argue that the Inwood test does not apply to online marketplaces as the Ninth Circuit has adopted this test for contributory trademark infringement

⁴ “The public has a right not to be deceived or confused, the public interest and goals of the Lanham Act favor an injunction” Moroccanoil, Inc. v. Moroccan gold, LLC, 590 F.Supp.2d 1271, 1282 (C.D. Cal. 2008)

in the case of service providers. *See, e.g. Perfect 10, Inc. v. Visa Int'l Service Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007); *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 983 (9th Cir. 1999). Gibson has shown beyond a doubt that since it is likely to succeed on the merits of direct trademark infringement that it is also extremely likely to succeed on contributory infringement. Apparently, eBay believes it is immune to this standard if mark holders do not notify eBay, solely through its VeRO program, of each seller trafficking in counterfeit goods because any other form of notification is only "general knowledge". eBay claims this stance is supported by *Tiffany* in which the Second Circuit adopted the district court's statement; "such generalized knowledge is insufficient under the *Inwood* test to impose upon eBay an affirmative duty to remedy the problem ." *Tiffany* at 107. Despite eBay's claim that *Tiffany* is "directly on-point," in actuality the holding is very narrow and easily differentiated in the present case. *Tiffany's* facts only apply to counterfeits in instances where "determining whether an item is counterfeit will require a physical inspection of the item, and some degree of expertise on the part of the examiner." *Tiffany* at 98. Only then does the distinction of general and specific knowledge come into play. Paper Jamz guitars do not require a physical inspection by an expert and since they are likely infringing on Gibson's Marks, notification will satisfy the "knows or has reason to know" element of the *Inwood* test. The VeRO program requires a mark holder to notify eBay of every seller whom is trafficking in counterfeit goods through submitting a report for each

listing. *See* Bates Decl. ¶ 15. This is also the test laid out in Tiffany. *See Tiffany* at 99 (explaining the VeRO Program). Notifying eBay of every incident of a likely infringement is a substantial burden that **should not** be placed upon a valid trademark holder when the goods do not require a physical inspection by an expert. **Every** seller of a Paper Jamz guitar displaying Gibson Marks is engaging in direct trademark infringement. *See* Bates Decl. ¶ 15.

eBay's only argument is that it was not notified despite Gibson sending a C&D letter to its general counsel on November 15, 2010. eBay has since confirmed receipt of this C&D letter containing the Gibson trademark registrations along with images of the infringing Paper Jamz guitars. Curtis Decl., ¶32, Ex. A. Therefore, eBay "knows or has reason to know" that Paper Jamz are infringing on Gibson's Marks. eBay has even continued to offer the infringing Paper Jamz guitars on its website **after** being named in the lawsuit and submitting two Opposition Briefs. This is not a case of an affirmative duty being placed on eBay to police its website to identify and prevent trademark infringement. Rather, this is a case where eBay has been notified of easily identifiable infringing items and has chosen to hide behind its VeRO Program. Instead of removing the infringing items, eBay elected to claim it is not "willfully blind" because it has onerous takedown procedures that must be initiated by the trademark owner for each listing. It is clear that eBay is hiding behind its VeRO program in an effort to continue to increase its bottom-line with profits from the sale of illicit goods during its "busiest season" of the year. As Gibson noted in its application for a

TRO and in support of its application for the Preliminary Injunction, the sale of the infringing items by all the Defendants, only to increase the individual Defendants bottom line, is at the expense of Gibson's long established good will and reputation of producing or endorsing only products of the highest quality. Juskiewicz Decl. ¶28 (Dkt 6).

eBay claims that a simple "eye-balling" would not suffice to identify the infringing Paper Jamz guitars. This is an absurd claim given the magnitude of the infringing marks. Simple pictures of the Paper Jamz guitars compared to Gibson's Trademarks clearly show which models infringe on Gibson's Trademarks. *See* Bates Decl. ¶ 12. All of the entries from sellers on eBay contain these images. The infringing body designs are easily identified in these eBay listings. All infringing Paper Jamz guitars are manufactured by WowWee. The ease at which the infringing Paper Jamz guitars are identified is what differentiates the facts involved in this case and all of the authority quoted by Defendant eBay. eBay claims that Gibson has never identified which Paper Jamz guitars are infringing. A brief examination of the Court filings, along with the C&D letter sent to eBay show this statement to be simply false and misleading. *See* Bates Decl. ¶ 13.

What eBay is attempting to do is to establish court precedent that it is not required to ever police its offerings, and uses the Tiffany case in a weak attempt to bolster that argument. However, a careful review of Tiffany does not give support to such a broad reading of the case. Plain and simple, eBay has been specifically notified that certain Paper Jamz guitars offered by EBAY's clients directly and obviously

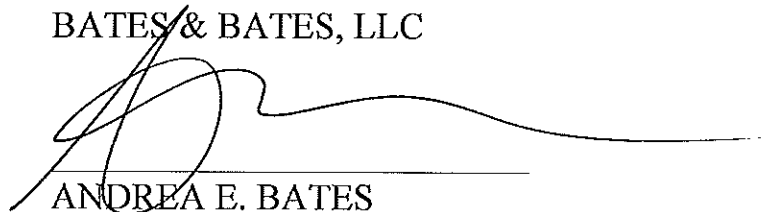
infringe upon the registered Trademarks of Gibson. eBay cannot be allowed to continue this behavior, benefiting at the direct expense of Gibson and the consuming public. eBay has been notified that these items are being offered on their website, for over a month, yet to date, eBay continues to offer the items, receiving its commission, all to the direct detriment of Gibson and the consuming public. This simply cannot be allowed to stand.

CONCLUSION

It is clear from the evidence that since Paper Jamz guitars were found to likely be infringing that eBay has contributed to this infringement by allowing sellers to list the infringing items on its website. eBay has continued to supply its website service to sellers whom it has specific knowledge were engaging in direct trademark infringement. For the reasons stated above, Gibson requests a denial of eBay's Motion for Stay Pending Appeal.

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