

No. 06-

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IN THE  
**Supreme Court of the United States**

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LORILLARD TOBACCO COMPANY,

*Petitioner,*

v.

ISAAC G. ENGIDA, D.B.A. I & G LIQUORS,

*Respondent.*

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**ON PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE TENTH CIRCUIT**

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**PETITION FOR A WRIT OF CERTIORARI**

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## QUESTIONS PRESENTED

1. Whether undisputed evidence that a retailer sold counterfeit goods establishes “irreparable harm” that supports the entry of a preliminary injunction in a trademark infringement case. The Tenth Circuit, in conflict with other circuits, held that it does not.

2. Whether a court, when balancing the hardships for purposes of a preliminary injunction motion in a counterfeiting case, may consider: (i) harm to the retailer that results from incurring a known risk of infringement; (ii) monetary harm to the retailer from lost sales if the injunction is granted; (iii) the retailer’s difficulty in distinguishing counterfeit goods from genuine goods; and (iv) the size of the retailer’s business. The Tenth Circuit, in conflict with other circuits, held that the court may deny a motion for a preliminary injunction on the basis of these factors.

**PARTIES TO THE PROCEEDINGS  
AND RULE 29.6 STATEMENT**

The parties to the proceedings in the Ninth Circuit were Petitioner Lorillard Tobacco Company and Respondent Isaac G. Engida d.b.a. I and G Liquors. No other party appeared in any proceeding below. Pursuant to Supreme Court Rule 29.6, the following names all parent companies and subsidiaries (except wholly owned subsidiaries) of the petitioner:

Lorillard Tobacco Company is wholly owned by Lorillard, Inc., which is wholly owned by Loews Corporation. There is no other publicly held corporation that owns 10% or more of Petitioner.

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## PETITION FOR A WRIT OF CERTIORARI

Petitioner respectfully petitions for a writ of certiorari to review a judgment of the United States Court of Appeals for the Tenth Circuit. The Tenth Circuit affirmed the denial of a preliminary injunction in a counterfeiting case under the Lanham Act, 15 U.S.C. § 1051 *et seq.*, despite undisputed evidence that Respondent, a retailer, sold counterfeit goods. The court of appeals' decision conflicts with decisions of the Sixth and Eleventh Circuits. The reasons the Tenth Circuit gave for its decision are unsatisfactory and create further conflicts with other courts of appeals.

*First*, the Tenth Circuit, applying circuit precedent, held that a trademark owner's loss of exclusive use of its mark does not necessarily satisfy the "irreparable harm" factor necessary for a preliminary injunction. This holding conflicts with decisions of several other courts of appeals.

*Second*, the Tenth Circuit's decision conflicts with decisions of other circuits holding that harm the defendant brings upon himself, particularly from illegal activity, should not be weighed in the balance of harms.

*Third*, the Tenth Circuit held that potential monetary harm to Respondent in the form of lost sales from a preliminary injunction outweighed the harm to Petitioner from the sale of more counterfeit products in the absence of an injunction. The court of appeals' ruling conflicts with decisions of other courts of appeals that weigh only the defendant's *irreparable* harms, and thus exclude consideration of monetary harms.

*Fourth*, the Tenth Circuit held that it was appropriate for the district court to deny a preliminary injunction against further sales of counterfeit goods if: (i) the retailer is a small company, (ii) the retailer allegedly sold counterfeit goods on only one occasion,

(iii) the retailer did not intend to sell counterfeit goods, or (iv) the counterfeit goods are difficult to distinguish from genuine goods. These rulings conflict with decisions of other courts of appeals, which reject each of these arguments.

### **OPINIONS BELOW**

The opinion of the court of appeals, App., *infra*, 1a-6a, and the order of the district court, App., *infra*, 7a, are unreported.

### **JURISDICTION**

The judgment of the court of appeals was entered on January 8, 2007. App., *infra*, 1a. A petition for rehearing was denied on January 25, 2007. App., *infra*, 8a. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

### **CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED**

The relevant provisions of the Lanham Act are reproduced in the Appendix, App., *infra*, 9a-19a.

### **STATEMENT OF THE CASE**

1. **The Counterfeiting Problem.** Counterfeit goods display a false trademark that is identical to, or substantially indistinguishable from, a genuine trademark. See Lanham Act § 45, 15 U.S.C. § 1127 (defining a “counterfeit” as “a spurious mark which is identical with, or substantially indistinguishable from, a registered mark”). Counterfeit goods typically imitate a well-known product, so that customers are deceived into thinking they are purchasing genuine goods. “Thus, counterfeiting is ‘hard core’ or ‘first degree’ trademark infringement.” 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 25:10, at 25-24 (4th ed. 2007).

Counterfeiting is a serious economic problem. U.S. businesses lose an estimated \$200 billion to \$250 billion each year as a result of counterfeiting.<sup>1</sup> Seizures of goods that violate intellectual property rights have increased substantially at U.S. ports in recent years. In 2006, there were 14,675 seizures, representing an 83 percent increase over 2005 levels.<sup>2</sup> The U.S. Chamber of Commerce estimates that 750,000 U.S. jobs have been lost as a result of counterfeit goods, which frequently are manufactured in other countries using exploitative labor practices.<sup>3</sup> On a worldwide basis, the World Customs Organization estimates that counterfeiting accounts for five to seven percent of global merchandise, and resulted in lost sales of up to \$514 billion in 2004.<sup>4</sup>

In addition to causing economic harm, counterfeit goods present serious threats to the safety and even the lives of consumers. Counterfeit brake parts have been

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<sup>1</sup> U.S. News & World Report, July 14, 2003, at 46-47 (reporting FBI estimate of \$200-\$250 billion each year); U.S. Chamber of Commerce, *The Cost of Counterfeiting and Piracy*, at 3, available at <http://www.thetruecosts.org/portal/truecosts/resources/default> (estimating costs of \$200-250 billion per year); 142 Cong. Rec. H5776, H5778 (June 4, 1996) (remarks of Rep. Moorehead) (1996 estimate of \$200 billion per year).

<sup>2</sup> Department of Homeland Security, U.S. Customs and Border Protection, Seizure Statistics for Intellectual Property Rights, available at [http://www.cbp.gov/xp/cgov/import/commercial\\_enforcement/ipr/seizure/seizure\\_stats.xml](http://www.cbp.gov/xp/cgov/import/commercial_enforcement/ipr/seizure/seizure_stats.xml).

<sup>3</sup> See *The Cost of Counterfeiting and Piracy*, supra n.1 at 7; Edward J. Kelly, Blood Money: The Steep Human Cost of the Counterfeit Culture, International Anti-Counterfeiting Coalitions Annual Fall Conference, Oct. 6, 2005.

<sup>4</sup> *Business Week*, Feb. 7, 2005, at 56. See also U.S. News & World Report, July 14, 2003, at 46-47 (International Chamber of Commerce estimates that pirated goods accounted for up to 8 percent of world trade, or \$375 billion, in 2003).

found to cause automobile accidents.<sup>5</sup> Counterfeit airplane parts “have found their way into the inventory of every commercial airline in the country,”<sup>6</sup> and have been implicated in fatal airline crashes.<sup>7</sup> In 1995, the Food and Drug Administration issued a warning about sales of counterfeit infant formula in 16 States.<sup>8</sup> The World Health Organization has estimated that 8 percent of medicines worldwide are counterfeit; in poorer countries, an estimated 25 percent of all medicines are counterfeit.<sup>9</sup> It has been reported that “[h]undreds if not thousands of people have died” from counterfeit medicines.<sup>10</sup>

Counterfeiting has also been linked to terrorist activity. The U.S. General Accounting Office has reported that “terrorists earn funds through highly profitable crimes involving commodities such as contraband

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<sup>5</sup> Jed S. Rakoff & Ira B. Wolff, *Commercial Counterfeiting and the Proposed Trademark Counterfeiting Act*, 20 Am. Crim. L. Rev. 145 (1982).

<sup>6</sup> *Business Week*, June 10, 1996, at 84.

<sup>7</sup> *Id.* (reporting that, according to FAA records, “from 1973 to 1993 bogus parts played a role in at least 166 U.S.-based aircraft accidents or less serious mishaps.”); C. Gutierrez, et al., *Countering Counterfeits*, Wall St. J., June 20, 2006 (reporting that crash of a Concorde supersonic airplane at de Gaulle Airport in Paris may have been due to a counterfeit part that fell off another airplane).

<sup>8</sup> 42 Cong. Rec. H5776, H5779 (June 4, 1996) (remarks of Rep. Goodlatte).

<sup>9</sup> U.S. News & World Report, July 14, 2003, at 46-47.

<sup>10</sup> Newsweek, Nov. 5, 1990, at 36 (quoting Susan Foster, a health economist at the London School of Hygiene and Tropical Medicine). See also H. Von Tesoriero, *Fake Drug Sites Keep a Step Ahead*, Wall St. J., Aug. 10, 2004 (reporting that head of WorldExpressRx.com pleaded guilty to criminal charges resulting from sales of counterfeit brand name drugs).

cigarettes, counterfeit goods, and illicit drugs.”<sup>11</sup> Congressional hearings have produced evidence that terrorist organizations such as Hezbollah have raised millions of dollars through counterfeit goods, including counterfeit cigarettes.<sup>12</sup>

**2. Congress’s Response to the Counterfeiting Problem.** Congress has responded to the serious problem of counterfeiting with special legislation. The Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, 98 Stat. 1837 (1984), makes intentional trafficking in counterfeit goods a federal crime, *see* 18 U.S.C. § 2320. Congress recognized that government enforcement efforts alone have proven insufficient to stem the tide of counterfeiting, and thus the 1984 legislation granted federal judges authority to issue *ex parte* seizure orders in response to applications from trademark owners.<sup>13</sup>

In 1996, in response to continued increases in counterfeiting despite the 1984 legislation, Congress enacted the Anticounterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, 110 Stat. 1386 (1996). The 1996 Act increases the penalties for counterfeiting and adopts additional procedures to combat it. Section 6 of the 1996 Act authorizes seizures of counterfeit goods

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<sup>11</sup> U.S. General Accounting Office, *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists’ Use of Alternative Financing Mechanisms* (Nov. 2003), at 3.

<sup>12</sup> Hearing before the House Committee on International Relations, *Intellectual Property Crimes: Are Proceeds From Counterfeited Goods Funding Terrorism?*, 108th Cong., 1st Sess. 7 (2003).

<sup>13</sup> *See generally* J. Joseph Bainton, *Seizure Orders: An Innovative Judicial Response to the Realities of Trademark Counterfeiting*, 73 *Trademark Rep.* 459, 462-63 (1983) (discussing seizure orders).

pursuant to a court order by any federal, state, or local law enforcement officer. *Id.*, 110 Stat. at 1388; 15 U.S.C. § 1116(d)(9). In addition, the 1996 Act adopted statutory damages provisions that authorize awards of \$500 to \$100,000 per counterfeit mark per type of good. 110 Stat. at 1388; 15 U.S.C. § 1117(c). For willful violations, the Act authorizes damages of up to \$1 million. *Id.*

Most recently, in 2006, Congress enacted the Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, 120 Stat. 285 (2006). The 2006 Act expands criminal prohibitions on trafficking in counterfeit goods to include trafficking in counterfeit labels or other fake packaging. The Act also requires courts to order the destruction of counterfeit products seized as part of a counterfeiting investigation, and to order counterfeiters to forfeit profits and equipment used in the counterfeiting operation and to pay restitution to the legitimate owner of an affected mark.

**3. This Case.** Petitioner is a leading cigarette manufacturer in the United States. Petitioner has registered five trademarks that appear on each package of Newport cigarettes, its best selling brand.<sup>14</sup> On January 31, 2006, Petitioner's employees purchased two packages of counterfeit Newport brand cigarettes from Respondent, a retailer in Denver, Colorado.

Petitioner filed a complaint in federal district court alleging that Respondent had violated the anti-counterfeiting provisions of Sections 32 and 43 of the Lanham Act, 15 U.S.C. §§ 1114 and 1125. The district court granted Petitioner's request for an *ex parte* seizure

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<sup>14</sup> Petitioner's trademarks are registered with the Patent and Trademark Office at Registration Nos. 1,920,066 (LORILLARD); 1,108,876 (NEWPORT); 2,600,870 (NEWPORT (stylized)); 1,178,413 (Spinnaker Design); and 1,191,816 (NEWPORT and Design).

order pursuant to Section 34 of the Lanham Act, 15 U.S.C. § 1116(d).

U.S. Marshals sought to execute the seizure order at Respondent's business during regular business hours. They found the doors locked, even though a lighted "open" sign was displayed and the officers could see that lights were on and a television was playing inside the store. After waiting for some time, the officers departed for the day. When they returned the next day, they found no counterfeit (or genuine) Newport cigarettes, and only 20 packages of cigarettes of any kind. The officers did, however, discover business records indicating the Respondent purchased Newport and other cigarettes from an unknown source outside of ordinary distribution channels. App., *infra*, 2a.

The district court denied Petitioner's motion for a preliminary injunction prohibiting Respondent from selling any additional counterfeit cigarettes. The district court did not issue a written opinion, but indicated in comments from the bench that it denied the motion because Respondent is a small business ("He's a . . . small business"), because Petitioner found only two packages of counterfeit cigarettes ("I need something more substantial than two packages of cigarettes"), and because the court inferred that Respondent did not intend to sell counterfeit goods ("The most reasonable inference that I can make . . . is that he happened to accidentally come into possession in his business of two packages of – purported trademark violations of two packages of cigarettes."). *Id.* at 4a-5a.

A panel of the U.S. Court of Appeals for the Tenth Circuit affirmed the denial of a preliminary injunction. The court of appeals stated that a trademark owner seeking a preliminary injunction must establish, among other factors, that it will suffer irreparable harm. *Id.* at 3a. The court stated that "[i]n defining the contours of irreparable harm," "the injury must be certain and great"



and not “merely serious or substantial.” App., *infra*, 5a, quoting *Dominion Video Satellite, Inc. v. Echostar Satellite Corp.*, 356 F.3d 1256, 1262 (10th Cir. 2004) (internal marks omitted). Although Respondent was shown to have sold packages of counterfeit Newport cigarettes, the court of appeals held that this fact does “not necessarily” establish “certain and great harm.” *Id.* The court held that the lack “of additional counterfeit Newport® cigarettes” found during the officers’ execution of the seizure order undermined Petitioner’s claim of future injury. App., *infra*, 5a.

The court of appeals rejected Petitioner’s argument “that a prima facie case of trademark infringement establishes irreparable harm, per se.” *Id.* Instead, the court held that the potential harm to Respondent if an injunction were granted outweighed the harm that Lorillard would suffer in the absence of an injunction. In particular, the court stated that because “the counterfeit packages are so similar to genuine packages[,] an injunction would probably require [Respondent] to stop selling *any* Newport® cigarettes while the suit was pending.” *Id.* at 6a (emphasis in original). The court thus concluded that Respondent’s lost sales of Newport cigarettes while the case is pending outweighed the potential harm to Petitioner from additional sales of counterfeit products that infringe its trademarks, and the quality of which Petitioner cannot control. In addition, the court of appeals rejected Petitioner’s argument that Respondent would not be harmed by an injunction prohibiting activity already deemed illegal under the Lanham Act – further sales of counterfeit goods. *Id.*

The court of appeals noted Respondent’s contention that this Court’s decision in *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840-41 (2006), “disapproved the use of categorical rules in connection with injunctive relief in intellectual property actions.” App., *infra*, 5a. The court of appeals elected not to

address that argument, relying instead on its analysis of the balance of hardships and its determination that Petitioner failed to establish “certain and great harm” from the denial of an injunction.

The court of appeals further held that “the district court did not clearly err in taking account of [Respondent’s] status as a small business,” and that this factor indicates “that an injunction would weigh more heavily on [Respondent] than the lack of one would affect [Petitioner].” App., *infra*, 6a.

### **REASONS FOR GRANTING THE WRIT**

The court of appeals has decided important questions of trademark law in a way that conflicts with decisions of other courts of appeals. The practical effect of the court of appeals’ decision is to undermine Congress’s decision to adopt a “zero tolerance” policy to combat the serious problem of counterfeiting. Further review by this Court is warranted to resolve the conflicts in the lower courts and to preserve the effectiveness of federal anti-counterfeiting statutes.

#### **I. The Tenth Circuit’s Opinion Conflicts With Decisions Of Other Circuits On Important Questions Of Trademark Law.**

“In order to succeed on the merits of a trademark infringement claim, [plaintiff] must show that the [defendant] used the mark in commerce without its consent and ‘that the unauthorized use was likely to deceive, cause confusion, or result in mistake.’” *Int’l Cosmetics Exch., Inc. v. Gapardis Health & Beauty, Inc.*, 303 F.3d 1242, 1248 (11th Cir. 2002). When a defendant sells counterfeit goods, “[t]here can be no dispute that the parties’ concurrent use of the [mark] poses a substantial likelihood of confusion among consumers.” *Id.* at 1248-49.

A retailer is strictly liable for selling counterfeit merchandise. *See Hard Rock Café Licensing Corp. v.*

*Concession Servs., Inc.*, 955 F.2d 1143, 1152 n.6 (7th Cir. 1992) (“Sellers bear strict liability for violations of the Lanham Act.”). The plaintiff in a trademark infringement action is not required to show that the defendant intentionally infringed the trademark. *See Davis v. Walt Disney Co.*, 430 F.3d 901, 904 (8th Cir. 2005) (“[P]roof of bad intent is not required for success” in a trademark action.); *AutoZone, Inc. v. Tandy Corp.*, 373 F.3d 786, 799 (6th Cir. 2004) (“Proving intent is not necessary to demonstrate likelihood of confusion.”). The retailer’s intent affects the amount of statutory damages, but is not a defense to liability.

The courts of appeals have developed slightly different formulations of the traditional test to determine the propriety of entering a preliminary injunction in a trademark case, but all consider the same essential factors. 5 *McCarthy* § 30.32, at 30-71 to 30-81. The First Circuit’s factors are typical. The court considers: “(1) the likelihood of the movant’s success on the merits; (2) the anticipated incidence of irreparable harm if the injunction is denied; (3) the balance of relevant equities (*i.e.*, the hardship that will befall the nonmovant if the injunction issues contrasted with the hardship that will befall the movant if the injunction does not issue); and (4) the impact, if any, of the court’s action on the public interest.” *Borinquen Biscuit Corp. v. M.V. Trading Corp.*, 443 F.3d 112, 115 (1st Cir. 2006).

In this case, it is undisputed that Petitioner demonstrated a likelihood of success on the merits by presenting unchallenged evidence that Respondent sold counterfeit Newport cigarettes. Moreover, there is no dispute that the public interest favors an injunction. “[A]s a matter of public policy, trademarks should be protected against infringing uses.” *Id.*; *see also Park ‘n Fly v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 193 (1985) (“Congress determined that ‘a sound public policy requires that trademarks should receive nationally the

greatest protection that can be given them.”). The public interest in enjoining further sales of counterfeit goods is particularly strong, given that counterfeiting is “hard core” trademark infringement that has been repeatedly condemned by Congress.

The Tenth Circuit’s holdings with respect to the remaining preliminary injunction factors – irreparable harm and the balance of hardships between the parties – conflict with the holdings of other courts of appeals.

**A. The Tenth Circuit’s Holding That Sale Of Counterfeit Goods Is Not Sufficient To Establish Irreparable Harm Is Contrary To Decisions Of Other Circuits.**

1. The court of appeals held that undisputed evidence showing Respondent infringed Petitioner’s trademarks by selling counterfeit products did “not necessarily” demonstrate the “certain and great” harm that is a prerequisite to a preliminary injunction in the Tenth Circuit. App., *infra*, 5a. This holding conflicts with decisions of other circuits. As a leading treatise on trademark law has recognized, “trademark infringement damages are by their nature irreparable,” and “[t]he majority of courts will find sufficient irreparable injury to grant a preliminary injunction” when defendant’s products cause a likelihood of confusion. 5 *McCarthy* § 30:47, at 30-109.

The court of appeals’ decision conflicts with the Sixth Circuit’s decision in a virtually identical counterfeiting case, *Lorillard Tobacco Co. v. Amouri’s Grand Foods, Inc.*, 453 F.3d 377 (6th Cir. 2006). In *Grand Foods*, as in this case, Lorillard’s representative discovered that a retailer was selling counterfeit Newport cigarettes. As in this case, Lorillard moved for an *ex parte* seizure order under 15 U.S.C. § 1116 and a preliminary injunction. In both this case and *Grand Foods*, the

district court granted the *ex parte* order but subsequently denied Lorillard's request for a preliminary injunction. The Sixth Circuit in *Grand Foods* – unlike the Tenth Circuit in this case – reversed the denial of the preliminary injunction and directed the district court to enter a preliminary injunction against the retailer. *Grand Foods* is virtually identical to this case, and thus exemplifies the conflict between the Tenth Circuit and other courts of appeals.

The Sixth Circuit held in *Grand Foods* that each of the four preliminary injunction factors favored the entry of a preliminary injunction. *First*, the court held that the retailer's sale of counterfeit merchandise established that Lorillard was likely to succeed on the merits.

*Second*, the Sixth Circuit held that “‘irreparable injury’ ‘ordinarily follows when a likelihood of confusion or possible risk to reputation appears from infringement or unfair competition.’” *Id.* at 382, quoting *Circuit City Stores, Inc. v. CarMax, Inc.*, 165 F.3d 1047, 1056 (6th Cir. 1999), quoting, in turn, *Wynn Oil Co. v. Am. Way Serv. Corp.*, 943 F.2d 595, 608 (6th Cir. 1991)). The harm in a counterfeiting case stems from the trademark owner's “loss of control over the quality of goods that bear its marks.” *Id.*, citing *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986). Accordingly, the court held that where “[g]oods are being offered for sale that purport, via their use of Lorillard's marks, to have been produced by Lorillard, but that were not,” the irreparable harm element is established. *Id.*

*Third*, the Sixth Circuit held that Grand Foods had not established that it would be harmed by the entry of a preliminary injunction. The court noted that the “harm” visited upon Grand Foods “is hardly a legally cognizable one,” since the preliminary injunction simply

prohibited it from selling counterfeit goods, which is “an illegal act to begin with.” *Id.*<sup>15</sup>

*Fourth*, the Sixth Circuit held that the public interest “points strongly in favor of granting injunctive relief” because an injunction “would advance two fundamental purposes of trademark law: preventing consumer confusion and deception in the marketplace and protecting the trademark owner’s property interest in the mark.” *Id.* at 383.

Like the Sixth Circuit in *Grand Foods* – and contrary to the Tenth Circuit’s opinion here – the Eleventh Circuit has held that a trademark owner is entitled to a preliminary injunction where the defendant has sold counterfeit merchandise. In *International Cosmetics Exchange, Inc. v. Gapardis Health & Beauty, Inc.*, 303 F.3d 1242 (11th Cir. 2002), the court affirmed the district court’s holding that where the evidence shows a party was selling counterfeit merchandise, “the threatened injury to [the trademark owner] outweighs any harm to [the opposing party] in preventing it from selling product supplied by third parties.” *Id.* at 1249.

As in *Grand Foods*, the court of appeals held that “there can be no dispute” that a concurrent counterfeit use of a registered mark poses “a substantial likelihood of confusion among consumers,” and that the plaintiff “demonstrated a substantial threat of irreparable injury if injunctive relief was not granted.” *Id.* at 1248-49; *see also Levi Strauss & Co. v. Sunrise Int’l Trading*, 51 F.3d 982, 986 (11th Cir. 1995) (“There is no doubt that the

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<sup>15</sup> The Sixth Circuit specifically rejected the argument that *Grand Foods* would be harmed as a result of the difficulty of distinguishing counterfeit merchandise from genuine merchandise. That aspect of the Sixth Circuit’s decision, which creates an additional conflict with the Tenth Circuit’s decision in this case, is discussed in Part I.B., *infra*.

continued sale of . . . counterfeit jeans would damage [plaintiff's] business reputation and decrease its legitimate sales. This court has previously stated that such trademark infringement 'by its nature causes irreparable harm.'" quoting *Tally-Ho, Inc. v. Coast Community College District*, 889 F.2d 1018, 1029 (11th Cir. 1989)).

The decisions of the Sixth and Eleventh Circuits in *Grand Foods* and *Levi Strauss* are in accord with decisions of six other circuits holding that the damage inflicted on a trademark owner from infringement is by its nature irreparable, and sufficient to establish the irreparable harm element of the preliminary injunction test.<sup>16</sup> Under the law in a majority of the

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<sup>16</sup> *E.g.*, *Kos Pharmaceuticals, Inc. v. Andrx Corp.*, 369 F.3d 700, 726 (3d Cir. 2004) ("[L]ack of control over one's mark 'creates the potential for damage to . . . reputation[, which] constitutes irreparable injury for the purpose of granting a preliminary injunction in a trademark case.'" (alterations in original), quoting *Opticians Ass'n of Am. v. Indep. Opticians of Am.*, 920 F.2d 187, 196 (3d Cir. 1990)); *Brennan's Inc. v. Brennan's Restaurant, L.L.C.*, 360 F.3d 125, 129 (2d Cir. 2004) ("In a trademark infringement case, proof of a likelihood of confusion establishes both a likelihood of success on the merits and irreparable harm."); *Ty, Inc. v. The Jones Group, Inc.*, 237 F.3d 891, 902 (7th Cir. 2001) ("[D]amages occasioned by trademark infringement are by their very nature irreparable and not susceptible of adequate measurement for remedy at law." (citation omitted)); *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 640 (1st Cir. 1992) ("[I]rreparable harm flows from an unlawful trademark infringement as a matter of law."); see also, *e.g.*, *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199, 1205 n.4 (9th Cir. 2000) ("In a trademark infringement claim, 'irreparable injury may be presumed from a showing of likelihood of success on the merits.'"), quoting *Brookfield Commc'ns, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1066 (9th Cir. 1999); *General Mills, Inc. v. Kellogg Co.*, (...continued)

federal courts of appeals, Respondent's sale of counterfeit goods in violation of Petitioner's trademark demonstrated irreparable harm to Petitioner. This broad agreement among the courts of appeals has been noted both by the courts and by the leading treatise on trademarks. See, e.g., *Ferrellgas Ptnrs., L.P. v. Barrow*, 143 Fed. App'x. 180, 191 n.12 (11th Cir. 2005) (collecting cases); 5 *McCarthy* § 30:47, at 30-109. The Tenth Circuit's contrary decision in this case warrants the Court's review to resolve this disagreement in the courts of appeals and to further the important interests safeguarded by the Lanham Act and federal anti-counterfeiting laws at a time when the United States and other countries are being inundated by counterfeit goods.

2. The Tenth Circuit suggested, without deciding, that this Court's decision in *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837 (2006), may be applicable to trademark infringement cases under the Lanham Act, including counterfeiting cases. In *eBay*, this Court rejected a categorical rule that patent owners are entitled to a permanent injunction in all cases of patent infringement. The Court held instead that the traditional four-factor test applied by courts of equity when considering whether to enter a permanent injunction applies to disputes arising under the Patent Act. *Id.* at 1839. The Court's opinion in *eBay* does not discuss trademark infringement under the Lanham Act. Nor does it question the well-established principle that trademark infringement, by its nature, causes irreparable injury to the trademark owner.

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824 F.2d 622, 625 (8th Cir. 1987) (“[A] showing of irreparable injury can be satisfied if it appears that [the trademark owner] can demonstrate a likelihood of consumer confusion.”).



Petitioner need not argue in this case that trademark owners are categorically entitled to a preliminary injunction in every case of trademark infringement. When counterfeiting is shown, however, a strong factual predicate necessarily exists for injunctive relief when applying the traditional equitable factors. For example, where counterfeiting has been shown, there is no question of likelihood of success on the merits or likelihood of confusion. Counterfeit products go well beyond confusion; they are intended to deceive.<sup>17</sup> Moreover, the public interest is furthered by preventing counterfeiting because of the harm to consumers and the trademark owner that results when consumers unwittingly purchase counterfeit products. *See supra*, pp. 2-6.

Thus, even assuming for the sake of argument that the Court's decision in *eBay* applies with full force to preliminary injunctions in counterfeiting cases, that decision does not counsel in favor of denying the Petition. There is no dispute that Respondent sold counterfeit goods, and thus that Petitioner is likely to succeed on the merits. The critical issues under the court of appeals' analysis were (i) whether Petitioner made an adequate showing of irreparable harm, and (ii) whether the harm to Petitioner if an injunction is denied outweighs the harm to Respondent if the injunction is granted. Other circuits, including the Sixth and Eleventh Circuits, would have

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<sup>17</sup> Unlike patent litigation, trademark infringement (especially through counterfeiting) involves confusion and outright deception of consumers, not injunctions sought "simply for undue leverage in negotiations" and litigation "primarily for licensing fees." *eBay*, 126 S.Ct. at 1842 (Kennedy, J., concurring). Accordingly, the concern that "past practice" may not "fit[] the circumstance of the cases before [the district courts]" does not arise in the counterfeiting context in the same way as in the patent context. *Id.* at 1842-43.

directed that a preliminary injunction be entered against the retailer in these circumstances. Furthermore, as discussed in Parts I.B-I.D *infra*, the Tenth Circuit considered several factors that other courts of appeals have *rejected* under the traditional four-factor test. The court of appeals' decision to the contrary thus conflicts with decisions of other circuits, and warrants further review.

**B. The Tenth Circuit Weighed Respondent's Potential Harm From Proceeding In Light Of A Known Risk In The Balance Of Hardships, Contrary To The Holdings Of Other Circuits.**

In weighing the balance of hardships, the court of appeals rejected Petitioner's argument that Respondent would not be harmed by an injunction that simply directed Respondent not to break the law. App., *infra*, 6a. Instead, the court accepted Respondent's arguments that "the counterfeit packages are so similar to genuine packages that an injunction would probably require it to stop selling *any* Newport cigarettes while the suit was pending, for fear that it would inadvertently violate the injunction." *Id.*

The court of appeals' holding conflicts with other circuits that have held that the cost to a defendant of complying with an injunction should not be considered if the defendant proceeded with its activity in light of a known risk of infringement. In *Grand Foods*, the Sixth Circuit held that the harm to the defendant from complying with a preliminary injunction against further sales of counterfeit cigarettes "is hardly a legally cognizable one." 453 F.3d at 382. The court explained that "the law favors the innocent producer of legitimate goods over a party that may be an innocent marketer of counterfeit goods." *Id.* As the Sixth Circuit pointed out, the marketing of counterfeit goods – even if unintentional – is unlawful activity. *Id.*

The Sixth Circuit's position is supported by the Seventh Circuit, which has held that where the defendant "proceeded at its own risk [it] cannot now be heard to complain that it will be severely injured if the preliminary injunction is upheld." *Helene Curtis Indus., Inc. v. Church & Dwight Co.*, 560 F.2d 1325, 1334 (7th Cir. 1977). In addition, the Third Circuit has held that "a party 'can hardly claim to be harmed [where] it brought any and all difficulties occasioned by the issuance of an injunction upon itself.'" *Kos Pharms., Inc. v. Andrx Corp.*, 369 F.3d 700, 728 (3d Cir. 2004) (alteration in original), quoting *Opticians Ass'n of Am. v. Indep. Opticians of Am.*, 920 F.2d 187, 197 (3d Cir. 1990).

Here, Respondent engaged in unlawful activity by selling counterfeit goods. Moreover, Respondent purchased the counterfeit goods from an "unknown source." App., *infra*, 2a. By purchasing a highly-regulated product outside the ordinary channels, Respondent assumed the risk of liability not only for selling counterfeit products, but also for selling cigarettes that may not have complied with applicable state and federal laws.<sup>18</sup> Respondent chose to purchase cigarettes from an "unknown source" and now bears the consequences of having taken that risk. Three circuits would have held, contrary to the court of appeals' decision

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<sup>18</sup> Colorado requires all cigarette wholesalers to be licensed, and requires retailers that purchase cigarettes from a licensed wholesaler to provide identifying information to the wholesaler each year. Colo. Rev. Stat. § 39-28-102. It is unlawful for a wholesaler to sell cigarettes without a license or without the required tax stamp; retailers may be liable for aiding and abetting such sales. Colo. Rev. Stat. §§ 30-28-114; 18-1-603. Colorado also imposes criminal liability for any sale or offer for sale of cigarettes that does not comply with federal tax, trademark, copyright, and labeling laws. Colo. Rev. Stat. § 39-28-104.5(2).

here, that Respondent brought on himself the cost of complying with an injunction against further sales of counterfeit goods, and that those costs are not proper to weigh in the balance of harms relevant to a preliminary injunction.

**C. The Tenth Circuit Weighed Respondent's Monetary Harm Against The Potential Harm From Trademark Infringement, Contrary To Other Circuits.**

In considering the balance of hardships in this case, the Tenth Circuit weighed the potential harm that Petitioner would suffer if a preliminary injunction were denied against the potential harm to Respondent if an injunction were granted. The sole harm to Respondent that the court identified was that “an injunction would probably require [Respondent] to stop selling *any* Newport® cigarettes while the suit was pending, for fear that it would inadvertently violate the injunction.” App., *infra*, 6a.<sup>19</sup> Potential monetary harm, such as harm from lost sales, is not a form of “irreparable harm.” The court of appeals’ contrary holding conflicts with two other courts of appeals on the balance of harms factor and is in sharp tension with the holding of a third court.

As the Third Circuit has explained: “The question is whether, and to what extent, the defendants will suffer *irreparable harm* if the preliminary injunction is issued. . . . Irreparable harm must be of a peculiar nature, so that compensation in money alone cannot atone for it.” *Kos Pharmaceuticals*, 369 F.3d at 727 (quotations and

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<sup>19</sup> The court considered other factors in the balance — the size of Respondent’s business, the quantity of counterfeit goods, the number of times Respondent sold counterfeit goods, and the difficulty of distinguishing them — but those factors do not imply any harm to Respondent from an injunction.

alterations omitted, emphasis added). Costs that “are compensable by money damages . . . do not constitute irreparable harm as a matter of law.” *Id.* at 728. *See also S & R Corp. v. Jiffy Lube Int’l, Inc.*, 968 F.2d 371, 374 (3d Cir. 1992) (court considers “the extent to which the defendants will suffer *irreparable* harm if the preliminary injunction is issued.” (emphases added).

The Seventh Circuit likewise considers only “the *irreparable harm* the non-moving party will suffer if the injunction is granted balanced against the *irreparable harm* the moving party will suffer if the injunction is denied.” *Aircraft Owners & Pilots Ass’n v. Hinson*, 102 F.3d 1421, 1425 (7th Cir. 1996) (emphasis added); *see also Promatek Indus., LTD v. Equitrac Corp.*, 300 F.3d 808, 813 (7th Cir. 2002) (“The final factor we must consider is the balance of harms—the irreparable harm [defendant] will suffer if the injunction is enforced weighed against the irreparable harm [plaintiff] will suffer if it is not.”).

The Tenth Circuit’s opinion is also in sharp tension with the Second Circuit’s opinion in *Warner-Lambert Co. v. Northside Development Corp.*, 86 F.3d 3 (2d Cir. 1996). The court there stated that the “decisive issue” in the case was “the standards for injunctive relief,” and found that “the balance of hardships clearly favor[ed]” the plaintiff where the plaintiff showed irreparable harm and the defendant claimed only monetary harm. *Id.* at 8. The court found that plaintiff would suffer a “loss of consumer goodwill” from defendant’s sale of plaintiff’s cough drops that did not meet its freshness standards and that the loss would “be unquantifiable at trial” and “not accurately compensable by monetary damages.” *Id.* The court thus found that the plaintiff’s harm was “irreparable,” while the “only harm to [defendant] from the full preliminary injunction is the loss of profits on sales.” *Id.* The court

reversed the district court and ordered the entry of a preliminary injunction. *Id.*<sup>20</sup>

The Tenth Circuit, in the instant case, departed from decisions of other circuits by weighing the retailer's monetary harm from lost sales against the trademark owner's irreparable harm from sales of counterfeit goods.

**D. The Tenth Circuit Weighed The Size Of Defendant's Business And The Difficulty Of Detecting Counterfeits, Factors That Other Circuits Have Held Are Irrelevant.**

In addition to the conflicts noted above, the court of appeals' decision in this case relies on factors that other courts of appeals have rejected.

1. The sole basis the Tenth Circuit offered for distinguishing this case from the Sixth Circuit's decision in *Grand Foods* is that the *ex parte* seizure order in *Grand Foods*, unlike the seizure order in this case, resulted in the seizure of four additional packages of counterfeit cigarettes. App., *infra*, 5a. This is a wholly unpersuasive basis for distinguishing the two cases.

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<sup>20</sup> In *MicroStrategy, Inc. v. Motorola, Inc.*, 245 F.3d 335, 339-40 & n.3 (4th Cir. 2001), the Fourth Circuit's balance of harms analysis considered a defendant's alleged \$24 million investment in a disputed mark. The court held that there was no "decided imbalance of hardship" because both parties alleged irreparable harm, but the defendant may have demonstrated "that it will suffer more from a grant of an injunction than [plaintiff] will from its denial," based on its investment in the mark. *Id.* In a dissenting opinion, Judge Niemeyer argued that the majority "gives too much weight to [defendant's] professed hardships." *Id.* at 344. Judge Niemeyer stated that in a trademark infringement case, the defendant's expenditures to develop the disputed mark are "irrelevant" and that the majority's consideration of these costs was "glaring" error. *Id.* at 345.

There is no suggestion in the Sixth Circuit's opinion that its decision turned on the discovery of additional counterfeit goods during the execution of the seizure order. To the contrary, the court explained that both likelihood of success on the merits and irreparable injury were established by evidence that the retailer sold counterfeit goods – not that the retailer sold the counterfeits goods on more than one occasion. *Grand Foods*, like this case, involved a relatively small quantity of counterfeit goods (eight packages versus two in this case), but the Sixth Circuit nevertheless directed the district court to enter a preliminary injunction.

The court of appeals also allowed the district court to consider the relatively small size of Respondent's business as a factor supporting the denial of a preliminary injunction, on the theory that granting injunctive relief would cause more harm to Respondent than denying it would cause to Petitioner. Other courts have reached the opposite conclusion. Judge Posner, writing for the Seventh Circuit in *Louis Vuitton, S.A. v. Lee*, concluded that the size of the retailer is not a reason to deny monetary relief, let alone an injunction:

Most of the infringing sellers are small retailers . . . . Obtaining an injunction against each and every one of them would be infeasible. Trademark owners cannot hire investigators to shop every retail store in the nation. And even if they could and did, and obtained injunctions against all present violators, this would not stop the counterfeiting. Other infringers would spring up, and would continue infringing until enjoined. . . . [T]he violator will know that he won't be caught every time, and merely confiscating his profits in cases in which he is caught will leave him with a net profit

from infringement. From this we can see that the disparity in size between the typical owner of a trademark on fashionable goods and the typical seller of counterfeits of those trademarked goods is not reason to deny monetary relief to the former; for the smaller the violator, the less likely he is to be caught, and the more needful therefore a heavy punishment if he is caught. The fact that palming off counterfeit goods is not a substantial part of [the retailer's] business is not, as the district court believed, an extenuating circumstance.

875 F.2d 584, 588 (7th Cir. 1989). *See also Microsoft Corp. v. CMOS Techs.*, 872 F. Supp. 1329, 1340-41 (D.N.J. 1994) (“The fact that defendants are smaller retailers does not create an ‘extenuating circumstance’ . . . Equity is not a roving commission to redistribute wealth from large companies to small ones. The Lanham Act was not written by Robin Hood.”).<sup>21</sup>

The Seventh Circuit’s decision in *Louis Vuitton* assumed that the trademark owner could obtain an injunction against a small retailer, but the Tenth Circuit’s decision allows district courts to consider the size of the retailer as a basis for denying a preliminary injunction. The Tenth Circuit’s decision is incorrect, for the same reasons that a decision not to require small retailers to pay monetary damages would be incorrect. Because

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<sup>21</sup> In contrast to the Seventh Circuit, the Ninth Circuit has held that “[i]n evaluating the balance of hardships a court must consider the impact granting or denying a preliminary injunction will have on the respective enterprises. Thus the relative size and strength of each enterprise may be pertinent to this inquiry.” *Int’l Jensen, Inc. v. Metrosound U.S.A., Inc.*, 4 F.3d 819, 827 (9th Cir. 1993).



manufacturers of counterfeit goods operate in a clandestine manner, trademark owners typically have no way to combat counterfeiting other than to identify counterfeit goods sold by retailers – which frequently are small businesses. If the size of the retailers’ business is a reason to deny an injunction, trademark owners’ ability to combat counterfeiting will be substantially undermined. The practical effect of the Tenth Circuit’s ruling is to create a safe haven for counterfeiting among small retailers, and to undermine Congress’s “zero-tolerance” policy for counterfeit goods.

**II. The Questions Presented Are Important And Recurring, And This Case Presents A Good Vehicle To Decide Them.**

The Tenth Circuit’s decision in this case conflicts with decisions of other courts of appeals on several important questions of trademark law. The varying standards that the courts of appeals apply have resulted in inconsistent application of the federal trademark laws. This Court’s intervention is needed to restore the uniformity of federal law.

Given the insidious nature of the counterfeiting problem, and Congress’s repeated efforts to combat the problem through legislation, there can be no doubt that the questions presented are important. The growing prevalence of counterfeiting in terms of volume and dollar value of counterfeit goods, *see supra*, pp. 2-5, demonstrates that the questions will recur, as is shown by the diametrically opposite results that the courts of appeals reached in the instant case and *Grand Foods*.

This case provides a good vehicle to decide the questions presented. The relevant facts are clear and undisputed, and the basis of the court of appeals’ decision is straightforward.

## CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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