

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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GUCCI AMERICA, INC., :  
Plaintiff, :  
v. :  
FRONTLINE PROCESSING CORPORATION; : 09 CIV. 6925 (HB)  
WOODFOREST NATIONAL BANK; and :  
DURANGO MERCHANT SERVICES, LLC d/b/a :  
NATIONAL BANKCARD SYSTEMS OF :  
DURANGO, :  
Defendants. :  
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**PLAINTIFF GUCCI AMERICA, INC.'S MEMORANDUM OF LAW IN  
SUPPORT OF A MOTION FOR SUMMARY JUDGMENT AGAINST  
DEFENDANTS DURANGO MERCHANT SERVICES, LLC AND  
WOODFOREST NATIONAL BANK**

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Plaintiff Gucci America, Inc. (“Gucci”) respectfully submits this memorandum of law in support of its motion for summary judgment against Defendants Durango Merchant Services, LLC (“Durango”) and Woodforest National Bank (“Woodforest”) (collectively, “Defendants”).

## **PRELIMINARY STATEMENT**

Gucci initially commenced a trademark infringement action against the owners and operators of TheBagAddiction.com website (“TheBagAddiction”—Jennifer Kirk, Patrick Kirk, and Laurette Company, Inc. (collectively, “Laurette”). While in operation, TheBagAddiction sold millions of dollars of counterfeit products, a significant portion of which were products bearing counterfeit versions of Gucci’s federally registered trademarks (the “Gucci Marks”). During the course of the Laurette litigation, Gucci discovered that the current Defendants provided services to Laurette and that Defendants knew their services were being used to further the sales of counterfeit products. Gucci then filed this action. On June 23, 2010, the Court denied Defendants’ motion to dismiss. Gucci now moves for summary judgment on the issue of Durango and Woodforest’s liability for contributory trademark infringement and Gucci’s related state law claims.

Even after Durango’s admitted destruction of relevant documents, the evidence that remains conclusively establishes Durango’s liability for contributory trademark infringement— infringement that extends far beyond the services Durango provided to Laurette. Durango intentionally induced at least twenty replica merchants to increase their sales of counterfeit merchandise by using Durango’s services to acquire the capacity to process credit cards. Durango advertised that it could help high risk merchants, including merchants of “Replica Products,” to “increase [their] sales potential” by accepting credit cards. Durango’s Rule 30(b)(6) witness, Nathan Counley, even testified that he helped replica merchants fill out application forms to set up credit card processing accounts. Counley would type in portions of

the account application for his merchants, including the description of goods sold by the website, and send the partially completed application to the replica merchant with a request that they fill out the remainder of the form and return it to him. Durango then received a percentage of its merchants' credit card sales once the merchant was approved for processing.

That Durango knew it was providing services to counterfeiters cannot be disputed. Durango intentionally sought out high risk merchants of "Replica Products." Durango insisted that these merchants disclose on their websites that their products were replicas and not genuine. Durango then visited the replica merchants' websites to confirm that the requisite "disclaimer" was in place. This was done to protect the merchant, Durango and the processor from incurring customer chargebacks. By reducing chargebacks, Durango helped prevent the counterfeit websites from being shut down.

Because Durango deleted emails and intentionally shredded the contents of the hard drives of three computers, it is impossible to know precisely how many applications Durango prepared for counterfeiters specifically to delete merchant applications. Durango's president, Shane Kairalla, testified that he thought Durango helped twenty replica merchants secure accounts with credit card processors. There is no way to confirm these numbers. Nor is it possible to reconstruct the contents of all the applications that Durango prepared for these counterfeiters. The completed applications that do still exist, however, show that Durango solicited the credit card processing business of multiple replica merchants; that Durango filled out applications for multiple replica merchants that explicitly stated—both on the applications and on their websites—that they were selling counterfeits; and that Durango received a portion of the proceeds from the sales of counterfeit goods.

Durango cannot dispute these basic facts. Moreover, in light of its spoliation of relevant evidence, Durango should not even be allowed to try. Durango’s destruction of documents was blatant and intentional. Durango’s purported explanation—that it did so out of a concern that a laptop computer might be lost—does not justify the destruction of three hard drives after this Court permitted counsel to seek their production. Nor does it make any sense—one of the three computers on which the file shredding program was run was a desktop computer that was not going to be carried anywhere and lost. In light of Durango’s complete disregard of its discovery obligations, a sanction prohibiting it from introducing any defense would be appropriate.

Although based on a different prong of the test set forth in *Inwood*, the undisputed facts establish that Woodforest is also liable for contributory trademark infringement. Woodforest effectively admits in its Answer that it “continue[d] to supply its [services] to one whom it kn[e]w[] or ha[d] reason to know [wa]s engaging in trademark infringement.” *See Order*, dated June 23, 2010 (Dkt. No. 42), at 16 (quoting *Inwood Lab., Inc. v. Ives Lab., Inc.*, 456 U.S. 844, 853-54 (1982)). Woodforest’s Answer plainly states: “Woodforest admits that it provided credit card processing services for the BagAddiction.com Web site operated by the Laurette Company under the belief that this Web site sold replica but not counterfeit or illegal products.” Woodforest National Bank Answer (“WNB Answer”) (Dkt. No. 48) ¶ 46. Woodforest’s admission is in accord with the documents it has produced showing multiple approved applications in which the products sold are described as “Replica Products,” “Replica Goods,” and “Replica Watches.”

Woodforest cannot create a triable issue by putting its head in the sand and pretending that it does not understand the plain meaning of the word “replica.” The attempted distinction between “replicas” and counterfeits fails as a matter of law and as a matter of undisputed fact.

*See Chanel, Inc. v. Schwartz*, No. 06 Civ. 3371, 2007 WL 4180615, at \*5 (E.D.N.Y. Nov. 19, 2007) (a disclaimer that all items were “replicas” did not “absolve [the defendant] from liability for the otherwise unlawful sale of counterfeit goods”). Woodforest admits that it knew the products being sold by Laurette were not made by Gucci but were “designed to look like a Gucci product.” WNB Answer ¶ 35. Woodforest produced screenshots of TheBagAddiction website clearly showing replica products bearing several visible Gucci Marks and making repeated use of the trademarked “GUCCI” name to describe these items. TheBagAddiction website showed more Gucci Marks on the “replica” products Laurette was selling. The other replica merchants approved by Woodforest also used Gucci Marks to sell their products. Woodforest knew that the “Gucci” products sold by these merchants were fake Gucci products and that they bore copies of the Gucci Marks—the websites stated as much. Nevertheless, Woodforest continued to provide its services to Laurette and similar websites, all the while profiting from every infringing sale that it processed.

The testimony of Woodforest’s own witnesses establishes that Woodforest had direct control over the websites and could force them to remove products or shut them down altogether. Woodforest also could and did monitor the websites for offending material. Woodforest simply chose not to shut down websites for selling counterfeit products. Instead, Woodforest continued to supply its credit card processing services to multiple websites that it knew were infringing on Gucci’s trademarks.

Accordingly, there are no material issues of fact and Gucci is entitled to summary judgment on liability as to both Durango and Woodforest.

## STATEMENT OF FACTS

### I. THE GUCCI BRAND

It is undisputed that Gucci is a leader in the design and sale of high-quality luxury items offered to the public under the famous Gucci trademarks referenced in the Complaint.<sup>1</sup>

### II. GUCCI'S SUIT AGAINST LAURETTE

After purchasing two counterfeit “Gucci” products from TheBagAddiction, Gucci filed a trademark infringement action against Laurette captioned *Gucci Am., Inc. et al. v. Laurette Company, Inc. et al.*, 08 Civ. 5065 (L.A.K.) (S.D.N.Y.).<sup>2</sup> TheBagAddiction offered for sale at least twenty different types of counterfeit Gucci products, amounting to hundreds of different counterfeit Gucci handbags, wallets, and other accessories.<sup>3</sup> On December 15, 2008, a Final Order and Judgment on Consent (“Consent Judgment”) was entered against the named defendants in the Laurette litigation.<sup>4</sup> In the Consent Judgment, Laurette admitted to liability for their counterfeiting activities and a monetary judgment of \$5.2 million was entered against them.<sup>5</sup> A confidential settlement agreement with Laurette was not honored and only \$10,000 of this judgment has been satisfied.<sup>6</sup>

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<sup>1</sup> Gucci America, Inc. Complaint, filed Aug. 5, 2009 (Dkt. No. 1) (“Compl.”) ¶ 25, Ex. 1; WNB Answer ¶¶ 24-25; Durango Answer ¶¶ 25-26; Declaration of Charles Kennedy, dated July 7, 2010 (Dkt. No. 55); Rule 56.1 Statement of Material Facts on Motion for Summary Judgment (“Gucci 56.1 Statement”) ¶ 5.

<sup>2</sup> Compl. ¶ 5; Gucci 56.1 Statement ¶ 5.

<sup>3</sup> Coyle Decl., Ex. 1 (Screenshots of TheBagAddiction); Ex. 2 (Declaration of Michael F. Falsone, dated May 29, 2008 (“Falsone Decl.”)) ¶ 10; Gucci 56.1 Statement ¶ 6.

<sup>4</sup> Coyle Decl., Ex. 4 (Consent Judgment); Gucci 56.1 Statement ¶ 9.

<sup>5</sup> Coyle Decl., Ex. 4 (Consent Judgment); Gucci 56.1 Statement ¶ 10.

<sup>6</sup> Coyle Decl., Ex. 3 (Transcript of July 8, 2010 Deposition of Jennifer Kirk (“Kirk Tr.”)) at 115:1-116:22.

### **III. LAURETTE'S NEED FOR CREDIT CARD PROCESSING SERVICES**

TheBagAddiction website processed roughly 99% of its sales of counterfeit products through credit cards.<sup>7</sup> The reason for this was that the risks inherent in accepting cash, checks or wire transfers foreclosed other methods of payment as a feasible option.<sup>8</sup> Although Laurette initially had accounts with PayPal and Card Services for payment processing, these were shut down when the processors learned TheBagAddiction was selling replica products.<sup>9</sup> Losing its credit card processing ability forced the website to suspend its sales for several weeks.<sup>10</sup> Laurette then turned to Durango for assistance in obtaining a processor that would agree to provide credit card processing services for her replica products.<sup>11</sup>

### **IV. DURANGO'S CONTRIBUTORY INFRINGEMENT THROUGH INDUCEMENT OF LAURETTE**

Durango, through its sales agent Nathan Counley, assisted Laurette in obtaining credit card processing accounts with Frontline and Woodforest.<sup>12</sup> Durango's website specifically advertised its services to "high risk" merchants of so-called "Replica Products," and was known to Laurette as the only source for replica merchants to obtain accounts with domestic credit card processors.<sup>13</sup> Durango solicited merchants by, among other things, advertising on its website that "[a]ccepting credit cards with a merchant account can increase your sales potential by 75

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<sup>7</sup> Coyle Decl., Ex. 5 (Declaration of Jennifer Kirk, dated November 13, 2009 ("Kirk Decl.")) ¶ 1 (Dkt. Nos. 28, 28-2); Gucci 56.1 Statement ¶ 14.

<sup>8</sup> Coyle Decl., Ex. 3 (Kirk Tr.) at 34:6-17, 35:18-36:5.

<sup>9</sup> Coyle Decl., Ex. 3 (Kirk Tr.) at 40:10-41:13; Gucci 56.1 Statement ¶ 15.

<sup>10</sup> Coyle Decl., Ex. 3 (Kirk Tr.) at 45:16-46:3; Gucci 56.1 Statement ¶ 16.

<sup>11</sup> Coyle Decl., Ex. 3 (Kirk Tr.) at 41:9-42:5, 39:12-17; Gucci 56.1 Statement ¶ 28.

<sup>12</sup> Coyle Decl., Ex. 13 (Transcript of June 14, 2010 Deposition of Nathan Counley ("Counley Tr.") at 61:3-11, 62:19-63:11; Ex. 14 (FG000026-000035); Durango Answer ¶¶ 51, 71; Gucci 56.1 Statement ¶¶ 34, 36.

<sup>13</sup> Durango Answer ¶ 48; Coyle Decl., Ex. 3 (Kirk Tr.) at 44:9-45:4; Gucci 56.1 Statement ¶ 25.

million customers in the U.S. alone! Credit card processing analysts estimate 9 out of 10 people use a credit card for their online orders.”<sup>14</sup>

Durango acted as an agent for Woodforest and Frontline “to locate potential customers, including ‘High Risk’ Internet merchants like the Laurette Counterfeitors who will use the services of the Defendant credit card processing agencies for bringing the Defendant credit card processing agencies and the Internet merchants together.”<sup>15</sup> Durango was fully aware that TheBagAddiction sold “replica” products.<sup>16</sup> Indeed, TheBagAddiction website openly boasted that the merchandise was not authentic, but rather were “mirror images” of Gucci products.<sup>17</sup> Jennifer Kirk informed Counley that although the processing history for TheBagAddiction was fine, “we had to close because we were selling replicas.”<sup>18</sup> Counley knew that Woodforest and Frontline were the only domestic processors who would agree to service such merchant accounts.<sup>19</sup> Counley responded to Kirk: “Good News! I just found out that our US bank can do replica accounts now.”<sup>20</sup> Counley assisted Kirk in filling out and submitting merchant account applications to both Frontline and Woodforest.<sup>21</sup>

Counley also specifically assisted Jennifer Kirk in making her website attractive to the processors by, for example, advising her to include a box on TheBagAddiction website that customers would be required to check to indicate that they understood the products were not

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<sup>14</sup> Durango Answer ¶¶ 3, 89; Coyle Decl., Ex. 2 (Counley Ex. 30); Gucci 56.1 Statement ¶ 26.

<sup>15</sup> Durango Answer ¶ 49; Gucci 56.1 Statement ¶ 27.

<sup>16</sup> Durango Answer ¶ 32; Coyle Decl., Ex. 3 (Kirk Tr.) at 41:18-42:3; Ex. 13 (Counley Tr.) at 77:5-6; Ex. 14 (GUCCI-0048027-0048028); Gucci 56.1 Statement ¶ 30.

<sup>17</sup> Coyle Decl., Ex. 19 (Kirk Ex. 13); Gucci 56.1 Statement ¶ 45.

<sup>18</sup> Durango Answer ¶ 53; Coyle Decl., Ex. 14 (GUCCI-0048026); Gucci 56.1 Statement ¶ 32.

<sup>19</sup> Coyle Decl., Ex. 13 (Counley Tr.) at 16:13-16.

<sup>20</sup> Durango Answer ¶ 54; Coyle Decl., Ex. 14 (GUCCI-0048024-0048025); Gucci 56.1 Statement ¶ 54.

<sup>21</sup> Coyle Decl., Ex. 13 (Counley Tr.) at 61:3-11, 62:19-63:11; Durango Answer ¶¶ 51, 71.

authentic designer goods in order to “avoid chargebacks.”<sup>22</sup> When Laurette required a second processor to handle the large volume of sales on TheBagAddiction, Counley submitted an application to Woodforest on Laurette’s behalf. From 2006 to 2008, Woodforest and Frontline provided Laurette with credit card processing services for TheBagAddiction website.<sup>23</sup> Sales of counterfeits of Gucci products processed by Frontline and Woodforest totaled hundreds of thousands of dollars.<sup>24</sup> Durango profited from each transaction for the sale of counterfeit goods.<sup>25</sup>

#### **V. WOODFOREST’S CONTRIBUTORY INFRINGEMENT THROUGH KNOWINGLY PROVIDING ITS PROCESSING SERVICES TO LAURETTE**

Woodforest is a bank that provides credit card processing services for merchants through Delta Card Services (“Delta Card”), also known as Merchants’ Choice Card Services (“MCCS”) or Merchants’ Choice Payment Solutions (“MCPS”).<sup>26</sup> Counley submitted Laurette’s

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<sup>22</sup> Coyle Decl., Ex. 13 (Counley Tr.) at 178:8-16; Ex. 3 (Kirk Tr.) at 19:9-24; Gucci 56.1 Statement ¶ 38.

<sup>23</sup> Coyle Decl., Ex. 17 (WNB-00087); Ex. 18 (FG-00006-9); Gucci 56.1 Statement ¶ 42.

<sup>24</sup> WNB Answer ¶ 44; Coyle Decl., Ex. 3 (Kirk Tr.) at 22:12-17 (sales of “Gucci” products was the majority of TheBagAddiction’s business).

<sup>25</sup> Coyle Decl., Ex. 13 (Counley Tr.) at 95:24-96:4; Ex. 70 (Durango Residuals for BagAddiction); Gucci 56.1 Statement ¶ 43.

<sup>26</sup> Gucci 56.1 Statement ¶ 18; Coyle Decl., Ex. 7 (Transcript of June 29, 2010 Deposition of Mona Boykin (“Boykin Tr.”)) at 7:15-8:3 (Delta Card is a “unit” that processes transactions for Woodforest); Ex. 8 (Transcript of June 25, 2010 Deposition of Rhonda Lemos (“Lemos Tr.”)) at 7:23-8:4 (“Delta Card is merchant processing company for Woodforest National Bank”), 8:8-17 (MCCS and Delta Card are “the same company”), 118:20-119:5 (Woodforest is the sponsor bank of Delta Card and “we are their service provider for the processing”); Ex. 75 (Declaration of Charles A. Vernon, dated Oct. 30, 2009 (Dkt. No. 21)) ¶ 9 (“WNB, through MCCS, contracts for processing services for credit card transactions for over 35,000 clients.”).

application to Woodforest, and Woodforest provided credit card processing services to Laurette with full knowledge that their website sold “replica products.”<sup>27</sup>

Woodforest provided credit card processing services to Laurette only after Delta Card, acting as Woodforest’s agent and “service provider,” reviewed TheBagAddiction website and approved Laurette’s application.<sup>28</sup> Prior to approving the application, Woodforest knew that TheBagAddiction sold products bearing the Gucci Marks because these counterfeit trademarks were clearly visible in the screenshots reviewed and printed out as part of the approval process.<sup>29</sup> Woodforest also knew that the source of these products was not Gucci, but rather a factory in China.<sup>30</sup> Woodforest processed hundreds of thousands of dollars of sales of replica goods for Laurette.<sup>31</sup> Woodforest earned revenue on every such sale.<sup>32</sup>

Woodforest had in place stringent policies relating to the servicing of “high risk” merchant accounts. These included three levels of review of each website prior to approval to make sure the products were as described and that there was no prohibited content.<sup>33</sup> Additionally, Woodforest monitored the websites of its merchants through a program called G2

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<sup>27</sup> WNB Answer ¶ 46 (“Woodforest admits that it provided credit card processing services for TheBagAddiction.com Web site operated by the Laurette Company under the belief that this Web site sold replica but not counterfeit or illegal products”); *see also id.* ¶¶ 51, 71 (admitting that Durango submitted an application to Woodforest to obtain credit card processing services for TheBagAddiction); Gucci 56.1 Statement ¶ 44.

<sup>28</sup> WNB Answer ¶¶ 46, 51, 71, 73; Coyle Decl., Ex. 7 (Boykin Tr.) at 66:6-73:22; Gucci 56.1 Statement ¶ 48.

<sup>29</sup> Coyle Decl., Ex. 7 (Boykin Tr.) at 79:25-80:25; Ex. 20 (Screenshots produced by Woodforest).

<sup>30</sup> *See* WNB Answer ¶ 73 (“Woodforest admits that the application by the Laurette Company stated that the goods were ‘wholesale/retail Designer Handbags,’ and also states that a vendor from whom the products were purchased is Suijian Liao Wholesale Bags Company of Guangzhou City, China.”).

<sup>31</sup> WNB Answer ¶ 44.

<sup>32</sup> Coyle Decl., Ex. 17 (WNB-00087); Gucci 56.1 Statement ¶ 71.

<sup>33</sup> Coyle Decl., Ex. 7 (Boykin Tr.) at 71:1-72:22; Gucci 56.1 Statement ¶ 54.

to ensure that the websites were not offering illegal products or other materials that violated Visa and MasterCard regulations.<sup>34</sup> Although Woodforest knew as early as May 2007 that Visa and MasterCard prohibited processing the sale of illegal goods, they failed to add counterfeits to the list of prohibited products sent to G2 until 2009.<sup>35</sup> Notwithstanding its knowledge that counterfeit goods were prohibited, Woodforest knowingly processed the sales of counterfeit goods by replica merchants. Indeed, Woodforest's policy was that replica merchants would be approved for processing as long as the merchant's website contained a disclosure that the products being sold were replica products.<sup>36</sup>

Woodforest had absolute control over a merchant's ability to process credit cards. It could require a merchant to remove prohibited content prior to approval.<sup>37</sup> It could shut down an account, or merely temporarily disable the merchants' ability to accept payments by credit.<sup>38</sup> At any time, Delta Card could turn the account off simply by flipping a switch.<sup>39</sup>

## **VI. DEFENDANTS' ADDITIONAL REPLICA MERCHANTS**

Discovery has revealed that both Durango and Woodforest serviced many other replica merchants selling products bearing imitations of Gucci's Marks. Durango submitted at least twenty additional applications to Woodforest on behalf of replica merchants.<sup>40</sup> These were

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<sup>34</sup> Coyle Decl., Ex. 8 (Lemos Tr.) at 43:21-44:16; Gucci 56.1 Statement ¶ 58.

<sup>35</sup> Coyle Decl., Ex. 8 (Lemos Tr.) at 42:22-52:3, 45:4-12; Ex. 10 (WNB-09043); Ex. 23 (WNB-00925); Gucci 56.1 Statement ¶¶ 60-61.

<sup>36</sup> Coyle Decl., Ex. 8 (Boykin Tr.) at 81:16-82:5; Ex. 7 (Lemos Tr.) at 63:2-9; Gucci 56.1 Statement ¶ 56.

<sup>37</sup> Coyle Decl., Ex. 7 (Boykin Tr.) at 58:4-61:20.

<sup>38</sup> Coyle Decl., Ex. 8 (Lemos Tr.) at 53:3-54:14 (Delta Card would turn off the merchant's account if it discovered prohibited content); Gucci 56.1 Statement ¶ 67.

<sup>39</sup> Coyle Decl., Ex. 8 (Lemos Tr.) at 54:22-55:5; Gucci 56.1 Statement ¶ 67.

<sup>40</sup> Coyle Decl., Ex. 25 (WNB-00569-586); Ex. 27 (WNB-27394-27398); Ex. 30 (WNB-00815-826); Ex. 31 (WNB-27462-27466); Ex. 33 (WNB-27473-27477); Ex. 35 (WNB-01058-

[Footnote continued on next page]

approved and Woodforest provided the merchants with credit card processing services.

Judgments have been entered against at least two of Durango's replica merchants—Laurette and Richard Lee—for infringing on the Gucci Marks. On November 25, 2008, a district court for the Southern District of Florida awarded Gucci a default judgment as a result of Lee's infringing sale of counterfeit Gucci products through the websites LeeLuxuryBags.com and LeeLuxuryLines.com.<sup>41</sup> Additionally, another of Durango's merchants, Ilan Ben-Menachem, has been sued for trademark infringement no less than three times—both before and during the time he received services from Durango.<sup>42</sup>

## **VII. DURANGO'S INTENTIONAL DESTRUCTION OF EVIDENCE**

As this Court concluded, "Durango destroyed potentially relevant evidence in violation of its duty to preserve" by running Lavasoft File Shredder on several computers.<sup>43</sup> Counley testified that he continued to delete his emails after Gucci filed this action, and that he ran the Lavasoft program on two laptop computers—the Toshiba he used during the time he submitted applications to Woodforest and Frontline on behalf of Laurette and other replica merchants, and

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1063); Ex. 36 (WNB-27467-27472); Ex. 37 (WNB-27483-27487); Ex. 39 (WNB-27427-27431); Ex. 40 (WNB-00925-926); Ex. 41 (WNB-27438-27443); Ex. 43 (WNB-27432-27437); Ex. 45 (WNB-00470-485); Ex. 46 (WNB-27444-27449); Ex. 48 (WNB-27450-27455); Ex. 50 (WNB-27456-27461); Ex. 52 (WNB-00659-673); Ex. 53 (WNB-27421-27426); Ex. 55 (WNB-27399-27404); Ex. 57 (WNB-27411-27415); Ex. 58 (WNB-27416-27420); Ex. 60 (WNB-27405-27410); Ex. 20 (BagAddiction Application); Gucci 56.1 Statement ¶ 69.

<sup>41</sup> Coyle Decl., Ex. 4 (Consent Judgment); Ex. 73 (Lee Judgment).

<sup>42</sup> See *Louis Vuitton Malletier, S.A. et al. v. Ben-Menachem, et al.*, No. CV. 05-4844 (E.D.N.Y. filed Oct. 14, 2005); *Cartier Int'l B.V., et al. v. Ben-Menachem, et al.*, No. 06 Civ. 3917 (S.D.N.Y. filed May 23, 2006); *Rolex Watch U.S.A., Inc. v. Ben-Menachem, et al.*, No. 06 Civ. 6687 (E.D.N.Y. filed Dec. 20, 2006). Durango submitted an application to Frontline on behalf of Ben-Menachem, who continued being processed through Frontline from October 2006 until September 2007. See Coyle Decl., Ex. 72 (FG000112-121).

<sup>43</sup> Coyle Decl., Ex. 65 (Order dated July 2, 2010 (Dkt. No. 47) ("July 2 Order")) at 4; Gucci 56.1 Statement ¶ 73.

the Asus he currently uses.<sup>44</sup> Counley purchased Lavasoft after the Court indicated that Gucci could seek to compel Durango's hard drives. Counley ran the Lavasoft program "several times" prior to his deposition.<sup>45</sup> Counley testified that he and William Demopolis, one of Durango's principals, ran the software out of security concerns because laptops can be stolen and that they only targeted the "free space" on the computers to permanently delete confidential information contained in merchant applications.<sup>46</sup> Demopolis similarly testified that he ran the software to delete confidential information received from sales agents, and only ran the program on the "free space" of his hard drive.<sup>47</sup>

Further to this Court's Order dated July 2, 2010, Gucci's forensic experts are currently reviewing the images of the hard drives to determine what if any relevant data may be recoverable. However, any files or free space targeted by the file shredding program will likely never be restored.<sup>48</sup> As Counley testified that he used email as his primary means of communicating internally with other Durango employees, prospective and established merchants, and with the banks to which he referred merchants for processing, it is likely that unknown quantities of potentially relevant data have been permanently destroyed.<sup>49</sup>

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<sup>44</sup> Coyle Decl., Ex. 13 (Counley Tr.) at 189:18-22; 190:23-191:3; *see also* Coyle Decl., Ex. 66 (Hearing Transcript, dated June 30, 2010 ("Hr'g Tr.")) at 6:5-17

<sup>45</sup> Coyle Decl., Ex. 13 (Counley Tr.) at 207:3-7; *see also* Ex. 66 (Hr'g Tr.) at 8:8-23; 9:11-13.

<sup>46</sup> Coyle Decl., Ex. 67 (Affidavit of Nathan Counley, dated June 23, 2010) ¶ 6; Ex. 66 (Hr'g Tr.) at 8:12-18, 19:14-18; Gucci 56.1 Statement ¶ 78.

<sup>47</sup> Coyle Decl., Ex. 66 (Hr'g Tr.) at 35:16-36:15; Gucci 56.1 Statement ¶ 79.

<sup>48</sup> Coyle Decl., Ex. 66 (Hr'g Tr.) at 31:18-21.

<sup>49</sup> Coyle Decl., Ex. 13 (Counley Tr.) at 22:8-11; 23:12-15; 77:17-25; Gucci 56.1 Statement ¶ 74.

## ARGUMENT

### I. STANDARD OF REVIEW

It is well-settled that “[t]he principles governing the grant of summary judgment are the same in trademark as in other actions.” *Nike, Inc. v. Top Brand Co., Ltd.*, No. 00 Civ. 8179, 2005 WL 1654859, at \*4 (S.D.N.Y. July 13, 2005) (citation omitted). A motion for summary judgment cannot be defeated through mere “conjecture” or “speculation.” *Kulak v. City of N.Y.*, 88 F.3d 63, 71 (2d Cir. 1996) (citation omitted); *Gucci Am., Inc. v. Action Activewear, Inc.*, 759 F. Supp. 1060, 1066 (S.D.N.Y. 1991) (granting plaintiffs’ motion for summary judgment on the issue of liability for trademark infringement). As the Supreme Court noted in *Anderson v. Liberty Lobby, Inc.*, “there is no issue for trial unless there is sufficient evidence favoring the nonmoving party for a jury to return a verdict for that party.” 477 U.S. 242, 250 (1986). Moreover, “only disputes over relevant or necessary facts ‘that might affect the outcome of the suit under the governing law will properly preclude the entry of summary judgment.’” *Nike, Inc.*, 2005 WL 1654859, at \*4 (quoting *Anderson*, 477 U.S. at 248); *see also Major League Baseball Props., Inc. v. Salvino, Inc.*, 542 F.3d 290, 310 (2d Cir. 2008) (“In order to defeat a properly supported summary judgment motion, the opposing party must proffer admissible evidence that set[s] forth specific facts showing a genuinely disputed factual issue that is material under the applicable legal principles.”) (quotations omitted).

The elements of a cause of action for contributory trademark infringement are: (1) direct infringement by a third party using the defendant’s services; and (2) that the defendant either induced such infringement or continued to supply its services to the infringer with knowledge of—or willful blindness to—the infringing conduct while the defendant had sufficient control over the instrumentality used to infringe. *See, e.g., Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93, 106 (2d Cir. 2010) (citing *Inwood*, 456 U.S. at 854); *Cartier Int’l B.V. v. Ben-Menachem*, No. 06

Civ. 3917, 2008 WL 64005, at \*12 (S.D.N.Y. Jan. 3, 2008) (granting plaintiffs' motion for summary judgment finding defendants were "at the very least liable for contributory trademark infringement" where they were "willfully blind to the activities and not only failed to investigate, but also assisted their co-Defendants' sales of the Counterfeit Products"). Gucci has put forth evidence establishing both underlying direct infringement by Defendants' replica merchants and contributory infringement by Defendants themselves. Accordingly, "there is no genuine issue as to any material fact," Fed. R. Civ. P. 56(c), and summary judgment is appropriate.<sup>50</sup>

## **II. UNDERLYING DIRECT INFRINGEMENT IS ADMITTED**

A claim for contributory trademark infringement requires a showing of underlying direct infringement. *See Tiffany*, 600 F.3d at 106 (a defendant may be contributorily liable "for the infringing conduct of another"); *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 591 F. Supp. 2d 1098, 1104 (N.D. Cal. 2008) ("All theories of secondary liability for . . . trademark infringement require some underlying direct infringement by a third party."). Direct infringement requires: (1) ownership of a valid mark; and (2) a likelihood of confusion resulting from another's infringing use of that mark. *See Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 876 (2d Cir. 1986) (affirming summary judgment for appellee trademark holder).

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<sup>50</sup> The same acts that constitute contributory trademark infringement under federal law also support Gucci's remaining claims for contributory trademark infringement and unfair competition under New York law. *See* Compl. ¶¶ 125-128. A claim for unfair competition under New York law also requires evidence of bad faith. *Cartier*, 2008 WL 64005, at \*13. However, "a presumption of bad faith attaches to the use of a counterfeit mark [and] 'Defendants' sale of the Counterfeit Products serves to establish bad faith under New York law.'" *Id.* (internal quotations and citations omitted). Therefore, summary judgment is appropriate as to these claims as well.

### A. The Gucci Marks are Valid and Entitled to Protection

The validity of the Gucci Marks and Plaintiff's ownership of the Gucci Marks is undisputed.<sup>51</sup> Indeed, the Gucci Marks are registered, which serves as *prima facie* evidence that they are protected, *see* 15 U.S.C. § 1057(b), and their existence on the Patent and Trademark Office's principal register for more than five years is also conclusive evidence of Gucci's exclusive rights. *See* 15 U.S.C. § 1115(b). As the Second Circuit has observed, "registered trademarks are presumed to be distinctive and should be afforded the utmost protections." *Lois Sportswear, U.S.A., Inc.*, 799 F.2d at 871. Additionally, courts in this and other jurisdictions have long held that the Gucci Marks are famous, distinctive, and strong. *See, e.g., Gucci Am., Inc. v. Ashley Reed Trading, Inc.*, 00 Civ. 6041, 2003 WL 22327162, at \*9 (S.D.N.Y. Oct. 10, 2003) (finding as established facts under Fed. R. Civ. P. 56(d) that "Gucci owns the two trademarks at issue" and "the trademarks are valid").<sup>52</sup>

### B. Defendants' Replica Merchants Infringed the Gucci Marks

There is no reasonable dispute as to the second element of the underlying direct infringement either. Laurette has admitted infringement of at least six federally registered Gucci

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<sup>51</sup> Compare Compl. ¶¶ 1, 24-26, with WNB Answer ¶¶ 1, 24-26 (admitting that "the mark Gucci is a recognized trademark for certain luxury items") and Durango Answer ¶¶ 25-26 (admitting to federal trademark registrations for the Gucci Marks); Gucci 56.1 Statement ¶ 4.

<sup>52</sup> See also *Action Activewear, Inc.*, 759 F. Supp. at 1064 (finding that the Gucci Marks, including "variations of a 'GG' symbol, green and red stripes, and a heraldic crest" are not only "clearly fanciful," "strong," and "have acquired secondary meaning," but that "the source of the goods completely overshadows the characteristics of the goods themselves, so that what a consumer is purchasing is the [Gucci] name."); *Gucci Shops, Inc. v. Dreyfoos & Assocs., Inc.*, No. 83-709-CIV-ALH, 1983 WL 425, at \*2 (S.D. Fla. Nov. 7, 1983) (because Gucci's "extensive media advertising reaches millions of retail customers throughout the United States," the "Gucci Marks have acquired and now enjoy distinctiveness, goodwill, and a secondary meaning"); *Gucci Shops, Inc. v. R.H. Macy & Co., Inc.*, 446 F. Supp. 838, 839 (S.D.N.Y. 1977) (Gucci name and green-red-green stripe "clearly identify the product with the plaintiff").

Marks.<sup>53</sup> Replica Gucci products were “a majority of the business of what was sold” on TheBagAddiction.<sup>54</sup> While it was Defendants’ relationship with Laurette that led to the instant litigation, discovery has established that Defendants provided their services to nearly two dozen replica merchants, many of whom, without authorization or consent, misappropriated the Gucci Marks for use in connection with their counterfeiting businesses.<sup>55</sup>

Further, many of Defendants’ replica merchants explicitly labeled their replica products as “Gucci” and knowingly trafficked in these counterfeit products in reckless disregard of

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<sup>53</sup> Coyle Decl., Ex. 4; Gucci 56.1 Statement ¶ 39. Through TheBagAddiction.com, Laurette offered for sale hundreds of different counterfeit Gucci handbags and accessories bearing counterfeit Gucci Marks. Laurette categorized its counterfeit Gucci products into at least the following twenty categories: (1) totes; (2) satchels; (3) top handle bags; (4) shoulder bags; (5) hobos; (6) clutches; (7) evening bags; (8) exotic bags; (9) wristlets; (10) belt bags; (11) watches; (12) passport covers; (13) business card holders; (14) belts; (15) women’s wallets; (16) men’s wallets; (17) diaper bags; (18) sunglasses, (19) cosmetic pouches and (20) messenger bags. *See* Coyle Decl., Ex. 2 (Falsone Decl.) ¶ 10; Gucci 56.1 Statement ¶ 7.

<sup>54</sup> Coyle Decl., Ex. 3 (Kirk Tr.) at 22:15-17 (“[Gucci] was a big name”).

<sup>55</sup> *See, e.g.*, Coyle Decl., Ex. 31 (Woodforest application for LilTrendyBabies.com describing goods as “Replica Goods”); Ex. 33 (Woodforest application for LeeLuxuryBags.com describing goods as “Replica Handbags”); Ex. 35 (Woodforest application for PrimetimeEnterprises.com describing goods as “Replica + Athletic Wear”); Ex. 37 (Woodforest application for FreshStyles.com describing goods as “Replica clothing/watches”); Ex. 43 (Woodforest application for HotShotWatches.com describing goods as “Replica Watches”); Ex. 48 (Woodforest application for MichellesBoutiqueOnline.com describing goods sold as “Replica Products & Retail”); Ex. 50 (Woodforest application for CharismaticStyle.com describing goods as “Replica Products”); Ex. 53 (Woodforest application for Dress4Envy.com describing goods sold as “Replica Products”); Ex. 55 (Woodforest application for FreshNewKickz.com describing goods sold as “Replica Products”); Ex. 57 (Woodforest application for CostLessWatches.com describing goods sold as “Replica Watches”); Ex. 60 (Woodforest application for TheFreshestKicks.com describing goods sold as “Replica Products”). In addition to disclosing on their applications that they sold replica products, certain merchants even used the word “replica” in their domain name. *See* Ex. 30 (application and screenshots from website DiscountReplicas.com); Ex. 45 (Woodforest application and screenshots from website CarbonCopyReplicas.com); Gucci 56.1 Statement ¶ 69. Gucci has identified at least eight federally registered Gucci Marks that were infringed by one or more of Defendants’ replica merchants. *See* Compl. ¶ 25, Ex. 1; Coyle Decl., Ex. 75 (Declaration of Charles P. Kennedy, dated July 7, 2010 (Dkt. No. 53)), Exhibit A (Gucci Interrogatory Response).

trademark laws and Gucci's trademark rights.<sup>56</sup> Indeed, one of Defendants' merchants was sued by Gucci two years ago and a judgment entered in Gucci's favor due to the merchant's sale of counterfeit Gucci products through the websites LeeLuxuryBags.com and LeeLuxuryLines.com, both of which were serviced by Durango and Woodforest from December 2006 through at least July 2007.<sup>57</sup> Indeed, most of the applications submitted to Woodforest state on their face that they are selling "replica" products and the screenshots produced from Woodforest's files show its merchants offering replica "Gucci" products.<sup>58</sup> For example, in December 2006, Durango submitted an application to Woodforest seeking credit card processing services for the website PrimetimeAthleticWear.com, which describes the goods sold on the website as "Replica + Athletic Wear."<sup>59</sup> Further, screenshots of the website produced by Woodforest show text and photos making liberal use of the Gucci name and stating: "Everyone knows the Gucci name. The finest in quality. . . . PLEASE NOTE, GUCCI'S ARE VERY POPULAR. I SUGGEST E-MAILING US TO CHECK STOCK QUANTITY!!!"<sup>60</sup>

### **C. Infringement by Defendants' Replica Merchants Resulted in a Likelihood of Confusion**

Although a proper likelihood of confusion analysis usually looks at the factors set forth in *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961), the Court need not undertake a factor-by-factor analysis under *Polaroid* in this case because counterfeits, by their very nature, cause confusion. *See Cartier*, 2008 WL 64005, at \*11 ("In cases involving counterfeit marks, however, this Court has found it unnecessary to perform a *Polaroid*

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<sup>56</sup> *Id.*

<sup>57</sup> Coyle Decl., Ex. 29 (WNB-27516-27518); Ex. 33 (WNB-2473-27477).

<sup>58</sup> *Id.*

<sup>59</sup> Coyle Decl., Ex. 35 (WNB-1058-1063), at WNB 1059; Gucci 56.1 Statement ¶ 69(f).

<sup>60</sup> Coyle Decl., Ex. 35 (WNB-1058-1063), at WNB-1060, 1062.

examination because counterfeit marks are inherently confusing.”) (quotation marks omitted);

*Gucci Am., Inc. v. Duty Free Apparel, Ltd.*, 286 F. Supp. 2d 284, 287 (S.D.N.Y. 2003).

Defendants’ requirement that their replica merchants include a disclaimer that the products were not authentic<sup>61</sup> does not diminish the likelihood of confusion. *Chanel, Inc.*, 2007 WL 4180615, at \*5 (a disclaimer that all items were “replicas” did not “absolve [the defendant] from liability for the otherwise unlawful sale of counterfeit goods”).<sup>62</sup> In *Chanel*, the defendant’s website contained a disclaimer nearly identical to the ones that appeared on TheBagAddiction (and many of Defendants’ other replica websites) stating: “All products are replicas and are not being represented as the originals.” *Id.* The court found that “the disclaimer is essentially an acknowledgment of [the defendant’s] counterfeiting [and] suggests that defendant is knowingly and intentionally capitalizing on plaintiff’s name, reputation and goodwill and that there is indeed a strong likelihood of consumer confusion.” *Id.* (internal quotations omitted). There is no factual dispute that Defendants’ replica merchants directly infringed the Gucci Marks. *See, e.g., Martal Cosmetics, Ltd. v. Int’l Beauty Exch. Inc.*, No. 01 Civ. 7595, 2007 WL 895697, at \*2 (E.D.N.Y. Mar. 22, 2007).

### **III. GUCCI IS ENTITLED TO SUMMARY JUDGMENT ON ITS CLAIM FOR CONTRIBUTORY TRADEMARK INFRINGEMENT**

Summary judgment is appropriate against Defendants as contributory infringers. It is well settled that “liability for trademark infringement can extend beyond those who actually

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<sup>61</sup> *See, e.g.*, Coyle Decl., Ex. 7 (Boykin Tr.) at 81:16-82:5; Ex. 13 (Counley Tr.) at 178:12-179:16, 184:17-185:6.

<sup>62</sup> *See also Rolex Watch U.S.A., Inc. v. Jones*, No. 99 Civ. 2359, 2000 WL 1528263, at \*3, n.1 (S.D.N.Y. Oct. 13, 2000) (“[I]likelihood of confusion does not focus solely on the party purchasing a product from the defendant”); *see also Hermès Int’l v. Lederer De Paris Fifth Ave., Inc.*, 219 F.3d 104, 108 (2d Cir. 2000) (“We have previously held that post-sale confusion can occur when a manufacturer of knockoff goods offers consumers a cheap, knockoff copy of the original manufacturer’s more expensive product”).

mislabel goods with the mark of another.” *Cartier*, 2008 WL 64005, at \*12 (quoting *Inwood Lab., Inc. v. Ives Lab. Inc.*, 456 U.S. 844, 853 (1982)); *see also Tiffany*, 600 F.3d at 104 (“Courts have, however, extended the [*Inwood*] test to providers of services.”). As the Second Circuit recently observed, “there are two ways in which a defendant may become contributorily liable for the infringing conduct of another: first, if the service provider ‘intentionally induces another to infringe a trademark,’ and second, if the service provider ‘continues to supply its [service] to one whom it knows or has reason to know is engaging in trademark infringement.’” 600 F.3d at 106 (quoting *Inwood*, 456 U.S. at 854). Courts interpreted the knowledge component of the *Inwood* test to require a showing that the defendant “knew or had reason to know of the Lanham Act violations or was ‘willfully blind’ to the violations is liable for trademark infringement.” *Cartier*, 2008 WL 64005, at \*12 (citation omitted); *see also see also Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (“we have held that willful blindness is equivalent to actual knowledge for purposes of the Lanham Act”).

Applying these two theories of contributory trademark infringement, on June 23, 2010, this Court denied Defendants’ motion to dismiss Gucci’s claim for contributory infringement and allowed Gucci to proceed against Durango on the claim “intentionally induced trademark infringement” and against Woodforest on the claim that it “exerted sufficient control over the infringing transactions and knowingly provided its services to a counterfeiter.”<sup>63</sup> The undisputed record establishes these claims.

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<sup>63</sup> Order dated June 23, 2010 (Dkt. No. 42) (“June 23 Order”), at 24.

## A. Durango Knowingly Induced Trademark Infringement

### 1. Durango Knew Its Replica Merchants Were Selling Counterfeit Products

Durango knew it was providing merchant broker services to counterfeiters. Indeed, Durango admits in its Answer that TheBagAddiction website “openly boasted that the Counterfeit Products were not authentic, but rather were mirror image[s] of Gucci Products.”<sup>64</sup> Durango asserts, however, that it should be insulated from liability because it “had no knowledge that any of their activities constituted infringement and thus their actions were innocent.”<sup>65</sup> Durango’s contention fails as a matter of law. *See, e.g., Cartier*, 2008 WL 64005, at \*11 (no genuine issue of material fact even where defendants “continue[d] to deny knowledge of the counterfeiting business operating from their home,” but “they admit[ted] that they were actively involved”); *Martial Cosmetics, Ltd.*, 2007 WL 895697, at \*21 (“there is no genuine dispute of material fact as to whether the seized goods were counterfeit”).

Durango knew that the merchants it solicited and helped to obtain credit card processing services were selling fake Gucci products with real Gucci trademarks. Durango’s merchants made no secret about the fact that they were selling counterfeit products. Jennifer Kirk testified that she was “very up front” with Counley about selling “replica handbags.”<sup>66</sup> She also informed Counley that her other processors had terminated her account because she “was selling replicas.”<sup>67</sup> Further, Durango visited its merchants’ websites.<sup>68</sup> Indeed, Counley testified—and

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<sup>64</sup> Durango Answer ¶ 32.

<sup>65</sup> *See* Durango Answer at 13 “Third Affirmative Defense.”

<sup>66</sup> Coyle Decl., Ex. 3 (Kirk Tr.) at 38:14-15; 50:19-21.

<sup>67</sup> Coyle Decl., Ex. 14 (GUCCI-004826).

<sup>68</sup> *See, e.g.*, Durango Answer ¶ 32; Coyle Decl., Ex. 13 (Counley Tr.) at 16:13-16; 74:16-75:6, 75:17-20.

the documents show—that he visited Laurette’s website, TheBagAddiction.<sup>69</sup> A cursory review of TheBagAddiction showed numerous products bearing counterfeits of the Gucci Marks.<sup>70</sup> The fact—even if true—that Durango thought that was just fine is legally irrelevant and no bar to summary judgment. *See Cartier*, 2008 WL 64005, at \*12 (finding contributory liability and noting that “even an ‘innocent’ individual who sells goods bearing an infringing mark is liable for trademark infringement—intent is not required”) (citation omitted).

Further, by August 2008, Durango also knew that Gucci had sued Laurette for trademark infringement. Indeed, Durango was served with a copy of the preliminary injunction entered against Laurette and a subpoena for documents relating to Laurette’s infringement.<sup>71</sup> Nonetheless, Durango continued to receive and accept business from other merchants selling replicas and “knockoffs” without making any inquiry as to whether the products were counterfeit.<sup>72</sup> The undisputed evidence establishes that Durango knew it was soliciting merchants that were selling counterfeits. Counley’s statement to the proprietor of SummerSunglasses.com—sums it up: “Our bank is able to approve replica accounts, we do not need to ‘lie’ or hide the fact that the products are replica, which means the account will be able to stay open for the long-term, not just terminated in 2-3 months.”<sup>73</sup> More importantly, it is irrelevant. Durango cannot escape liability for contributory trademark infringement by asserting that it believed it was okay to sell fake Gucci products. As the Second Circuit noted in *Tiffany*,

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<sup>69</sup> Coyle Decl., Ex. 13 (Counley Tr.) at 74:16-75:6, 75:17-20; Ex. 14 (GUCCI-0048026); Gucci 56.1 Statement ¶¶ 29-30.

<sup>70</sup> Coyle Decl., Ex. 1.

<sup>71</sup> *Id.*, Ex. 74.

<sup>72</sup> See, e.g., Coyle Decl. Ex. 68 (Feb. 19, 2009 Durango Merchant Pre-application for Mirella Fly Handbags describing the goods as “Knockoffs—Shoes clothing jewelry handbags”); Ex. 69 (Feb. 19, 2009 email from Durango to Mirella Fly Handbags asking if they “would like to start the application process”).

<sup>73</sup> See *id.*, Ex. 26 (Feb. 4, 2008 Counley email to P. Pangiotakos).

“[a] service provider is not, we think, permitted willful blindness. When it has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way.” 600 F.3d at 109-10.

## **2. Durango Induced Trademark Infringement By Soliciting and Servicing “Replica Products” Merchants**

As the Court noted in the June 23 Order, “[a] party can be liable for trademark infringement if it intentionally induces another to engage in trademark infringement.”<sup>74</sup> Although Durango claims that it merely acted as a “bridge” between merchants and credit card processors, Durango’s actions went far beyond merely introducing its replica merchants to credit card processors. Durango engaged in conduct that specifically targeted merchants who were in the counterfeiting business, made it possible for them to sell their counterfeit products and even affirmatively assisted them in selling more counterfeit goods. Specifically, Durango:

(1) solicited and encouraged replica merchants to use Durango’s services to obtain credit card processing accounts; (2) advertised that replica merchants could “increase [their] sales potential” by using Durango’s services; (3) took affirmative steps to locate processors willing to do business with replica merchants, advertised its ability to place such merchants and was known in the replica products field for its ability to find such processors; (4) assisted replica merchants in completing and submitting merchant account applications; (5) advised replica merchants regarding how they could avoid chargebacks; and (6) assisted replica merchants in evading cease and desist notices from trademark holders.

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<sup>74</sup> June 23 Order at 17.

Durango admits advertising on its website that it provided services to merchants of “Replica Products.”<sup>75</sup> Indeed, Durango “was the only one [Kirk and her friends] knew in the United States that did high-risk merchant accounts” for replica products merchants and they had all encountered difficulty finding a domestic credit card processor.<sup>76</sup> Because Durango received a volume-based commission from its merchants’ sales, it had a direct financial interest in increasing the success of its replica merchants’ businesses. Accordingly, Durango provided its replica merchants with services and ideas designed to help their businesses thrive. For his replica merchants, Counley’s customer service included typing the merchants’ information into Woodforest account applications, including disclosing that the goods sold were “replica products.”<sup>77</sup>

Additionally, Counley provided his merchants with “training on helping prevent chargebacks,” so that the merchant could avoid having its account terminated by a processor.<sup>78</sup> Indeed, it was to prevent chargebacks that Counley insisted on having replica merchants include a disclaimer on their website so customers “know that they are buying a replica product.”<sup>79</sup> Disclaimers, like the required “checkbox” on TheBagAddiction website helped merchants avoid chargebacks for the simple reason that if a customer acknowledges that “the items being purchased are replicas, not originals,” then they “cannot complain that [the] products were not as represented . . . in doing the chargeback.”<sup>80</sup>

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<sup>75</sup> See Durango Answer ¶ 48; Gucci 56.1 Statement ¶ 25.

<sup>76</sup> Coyle Decl., Ex. 3 (Kirk Tr.) at 11:11-18, 113:6-9; Gucci 56.1 Statement ¶ 39.

<sup>77</sup> Coyle Decl., Ex. 13 (Counley Tr.) at 61:3-11; 62:7-63:11; 122:23-123:4.

<sup>78</sup> *Id.* at 85:2-7.

<sup>79</sup> *Id.* at 178:12-179:16; 184:17-185:6.

<sup>80</sup> *Id.* at 178:14-16, 179:10-12.

Since Durango, through Counley, had successfully obtained credit card processors for Laurette, Jennifer Kirk made good on her promise to refer several friends in the “replica” field to Durango. Counley submitted applications to Woodforest on behalf of these merchants and was able to obtain credit card processing services for them as well—each of which listed replica “Gucci” products as one of the brands sold.<sup>81</sup> One of the replica merchants referred to Durango by Laurette was Stephanie Walker, who operated ThePurseScene.com. In May 2007, Counley assisted Walker in evading a cease and desist notice from a brand owner. Walker informed Counley that she had “received a email from Louis Vuitton for thepursecene.com” and needed Counley’s help switching her credit card processing to a new website since Louis Vuitton was “more than half of [her] business.”<sup>82</sup> Counley responded that adding more websites to Walker’s processing accounts “isn’t a big problem” and helped set up additional websites for Walker.<sup>83</sup> In short, Durango intentionally induced replica merchants to increase their sales of counterfeit products by using Durango’s services and is liable for contributory infringement.

#### **B. Woodforest Knowingly Provided Its Credit Card Processing Services to Counterfeiter**

The evidence shows that Woodforest knew its replica merchants were selling fake Gucci products bearing real Gucci trademarks and that it simply turned a blind eye to their illegal activities. Woodforest admits “that it provided credit card processing services for TheBagAddiction.com Web site operated by the Laurette Company under the belief that this Web site sold replica but not counterfeit or illegal products.”<sup>84</sup> Woodforest knew its merchants sold counterfeits and had the ability to monitor and control the contents of the websites for which

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<sup>81</sup> Coyle Decl., Exs. 25, 29, 40, 43.

<sup>82</sup> *Id.*, Ex. 16; Gucci 56.1 Statement ¶ 40.

<sup>83</sup> Coyle Decl., Ex. 16.

<sup>84</sup> See WNB Answer ¶ 46.

it provided processing services. Indeed, Woodforest reviewed the websites of replica merchants prior to approving them for credit card processing; would inform potential merchants that they needed to remove prohibited items prior to approval; would monitor merchants it categorized as “risky” to make sure that prohibited content was not put back on the website; and could “shut off” its credit card processing services at any time—with or without providing notice to the merchant—if a merchant’s website contained prohibited content.

### **1. Woodforest Knowingly Provided Essential Services to Counterfeitors**

Woodforest’s services were an “essential step in the infringement process” because “[i]t’s not possible to distribute by sale without receiving compensation.” *See June 23 Order at 22, 23* (quoting *Perfect 10, Inc. v. Visa, Int’l Service Ass’n*, 494 F.3d 788, 807, 814 (9th Cir. 2007) (Kozinski, J., dissenting)). The ability to process credit cards was essential to Laurette’s business.<sup>85</sup> Jennifer Kirk testified in great detail as to the difficulties she encountered after being cut off from two service providers for selling replica products and the reasons why other payment methods, such as wire transfer or personal check, were not realistic.<sup>86</sup> In fact, credit cards were the only payment method accepted by TheBagAddiction.<sup>87</sup> Prior to submitting an application to Durango, TheBagAddiction was forced to “completely suspend[] sales” for weeks while seeking a new processor. *Id.* at 42. Once Durango was able to find processors for Laurette—first Frontline and then Woodforest—the website’s sales totaled approximately \$2 million from September 2006 through June 2008. Of this amount, roughly \$900,000 was processed through Woodforest.

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<sup>85</sup> *See id.* Ex. 5 (Kirk Decl.) ¶ 1 (“Approximately 99% of payments from my customers were made using credit cards.”).

<sup>86</sup> *Id.* Ex. 3 (Kirk Tr.) at 32:2-34:18.

<sup>87</sup> *Id.* at 32:3-7.

Woodforest admits that a review of an internet merchant’s website is required before the merchant can be approved to receive Woodforest’s credit card processing services.<sup>88</sup> Further, Woodforest required its reviewers to print out screenshots from each internet merchant’s website that would show clearly the types of goods being offered for sale. Indeed, Woodforest produced screenshots from TheBagAddiction website showing page after page of “Gucci” handbags being offered for sale. In response to Gucci’s allegations comparing photos of authentic Gucci handbags shown on TheBagAddiction, Woodforest “denies that such image is of a counterfeit product, as opposed to a replica designed to look like a Gucci product but not to use the Gucci registered trademark,” and asserts “that the image that Gucci contends is a counterfeit handbag offered for sale on TheBagAddiction.com Web site appears to be a similar looking style bag to a Gucci handbag, i.e., replica, but one which does not show clearly the use of the Gucci registered trademark.”<sup>89</sup> Woodforest’s contentions do not ring true. Shown below is an image of Gucci Marks along with screenshots of TheBagAddiction produced by Woodforest and taken before Woodforest ever approved Laurette’s application. The trademark Gucci name and the Gucci Marks are *clearly* visible, even on the grainy copies produced by Woodforest.

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<sup>88</sup> Mona Boykin, the supervisor who provided second-level approval on internet merchant account applications, including Laurette’s, testified that printing out screenshots from an applicant’s website “was part of our procedure.” *See* Coyle Ex. 7 (Boykin Tr.) at 77:23-78:6, 79:25-80:8; *id.* at 78:4-7 (“It was something that we needed to have in our files to complete it to make sure this was the product he was selling.”). Boykin also testified that if the first-level reviewer did not provide her with screenshots of the website along with the merchant’s application, she would have “[s]ent it back to them.” *Id.* at 79:14-16.

<sup>89</sup> Compare Compl. ¶¶ 33-36, with WNB Answer ¶¶ 34, 36.

Mark	Reg./Serial No.	Date of Registration
INTERLOCKING FACING	1,158,170	06/23/1981
GG DESIGN	1,300,373	10/16/1984
	1,464,522	11/10/1987
	3,376,129	01/29/2008

Mark	Reg./Serial No.	Date of Registration
GUCCI	876,292	09/09/69
	959,338	5/22/73
	972,078	10/30/73
	1,168,477	09/08/81
	1,321,864	02/26/85

Bag Addiction - Designer Handbags & Accessories

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[http://www.bagaddiction.com/category\\_s/4.htm](http://www.bagaddiction.com/category_s/4.htm)

11/16/2006

The screenshots that were taken of the websites as part of the Woodforest application review process clearly show Gucci trademarks on the fake products being sold.<sup>90</sup> The websites—which were reviewed before the applications were approved for credit card processing services—show even more Gucci trademarks on more products.<sup>91</sup> And the websites describe their products as “mirror images” of the real products.<sup>92</sup> As the Court observed in *Corning Glass Works v. Jeannette Glass Co.*, “a defendant’s accountability under the contributory infringer doctrine turns on the issue whether a reasonable person in the defendant’s position would realize either that he himself had created a situation which afforded a temptation to or an opportunity for wrong.” 308 F. Supp. 1321, 1326 (S.D.N.Y. 1970), *aff’d*, 432 F.2d (2d Cir. 1970). Woodforest’s assertion that it knowingly provided its credit card processing services to a “replica” merchant, but did not realize the merchant sold “counterfeit products” does not make any sense. Woodforest knew that the products being sold were not real Gucci products and it knew that they were intended to look like Gucci products and it could plainly see the Gucci Marks on the fake products.

Even ignoring the evidence that Woodforest actually knew its replica merchants were selling fake Gucci products with real Gucci trademarks, Woodforest’s “head in the sand” defense simply does not work. As this Court noted in the June 23 Order, “‘replica’ is in fact often used in conjunction with, or interchangeably, with the term ‘counterfeit’ in case law on trademark infringement.”<sup>93</sup> In *Tiffany v. eBay*, the district court took note of eBay’s efforts to remove listings that “explicitly offered counterfeit items,” which included monitoring and removing

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<sup>90</sup> See, e.g., Coyle Decl., Ex. 20.

<sup>91</sup> See, e.g., *id.*, Ex. 1.

<sup>92</sup> See, e.g., *id.*, Ex. 19.

<sup>93</sup> June 23 Order at 17, n.7 (citations omitted).

listings “that expressly offered ‘knock-off,’ ‘counterfeit,’ ‘*replica*’, or ‘pirated’ merchandise, and listings in which the seller stated he ‘cannot guarantee the authenticity’ of the items being offered.” 576 F. Supp. 2d 463 (S.D.N.Y. 2008) (emphasis added). In contrast, unlike eBay, Woodforest services replica merchants like Laurette whose websites containing explicit disclaimers all of the products being sold were “replicas,” “not presented as originals,” “exact mirrors,” and “not being sold or represented as original.”<sup>94</sup> Indeed, the testimony of Woodforest’s witnesses shows that it had “no concern[s]” about servicing replica merchants so long as the merchant adequately disclosed on their application and on their website that they were selling replica products.<sup>95</sup> Woodforest’s failure to take *any* precautionary measures is, at best, “willful blindness.”

## **2. Woodforest Had the Ability to Monitor and Control Its Merchants’ Trademark Infringement**

A defendant may be liable for contributory trademark infringement “if it supplied services with knowledge or by willfully shutting its eyes to the infringing conduct, while it had sufficient control over the instrumentality used to infringe.” June 23 Order at 18 (citing *Tiffany*, 576 F. Supp. 2d at 505-06. As discussed above, it cannot be disputed that Woodforest had either actual or constructive knowledge that its replica merchants were infringing on the Gucci Marks. The credit card processing services provided by Woodforest to Laurette (and other replica merchants) were critical to the website’s ability to transact business. *See id.* at 21 (“[t]hey knowingly provide a financial bridge between buyers and sellers of [counterfeit products],

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<sup>94</sup> See Coyle Decl., Ex. 13 (Counley Tr.) at 178:14-16; Ex. 19.

<sup>95</sup> See Coyle Decl., Ex. 8 (Lemos Tr.) at 62:9-63:13; 68:7-15 (“The website would have to state specifically what [they] are selling. . . . [I]f the application came in as replica and the website says replica, they are saying they are selling replica and they are selling replica, there was no concern.”).

enabling them to consummate infringing transactions, while making a profit on every sale””)  
(quoting *Perfect 10*, 494 F.3d at 810-11 (Kozinski, J., dissenting)). Moreover, Woodforest had the ability to withdraw these indispensable services from its replica merchants at any time—with or without notice to the merchant.<sup>96</sup>

On appeal in *Tiffany*, the Second Circuit did not disturb the district court’s finding that eBay met the “control” portion of the test for contributory liability. 600 F.3d. at 105-06. The district court’s description of eBay’s role in the transaction is equally applicable to Woodforest: it “connect[s] buyers and sellers and [] enable[s] transactions, which are carried out directly between [the merchant and customer]. . . . it provides the venue for the sale [of goods] and support for the transaction[s], [but] it does not itself sell the items” listed for sale on the site, nor does it ever take physical possession of them. *Tiffany*, 576 F. Supp. 2d at 475. Woodforest similarly “maintains a prohibited list of items, *e.g.*, drugs, firearms, and alcohol, for which it routinely screens in order to prevent such items from being offered for sale.” *Id.* at 476. Indeed, a high risk internet merchant’s application for credit card processing services goes through three levels of review before it is accepted.<sup>97</sup>

During the first level of review, incoming merchant account applications were “logged,” “sent to the data-entry area,” and “the information [fed] into the system.”<sup>98</sup> It was during the second level review that an analyst reviews the merchant’s website for information about the products being sold, confirms that the description of the goods sold contained in the application is consistent with what is described on the website, and determines whether the website contains

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<sup>96</sup> Coyle Decl., Ex. 8 (Lemos Tr.) at 53:3-54:14, 54:22-55:5.

<sup>97</sup> Coyle Decl., Ex. 7 (Boykin Tr.) at 16:12-17:25, 71:1-72:22; Gucci 56.1 Statement ¶ 54.

<sup>98</sup> Coyle Decl., Ex. 7 (Boykin Tr.) at 16:12-19.

any restricted content.<sup>99</sup> The testimony of Mona Boykin, the supervisor responsible for review of internet merchant applications makes clear that even during the initial application review process, Woodforest could tell a merchant that it had to remove prohibited content from its website or the application would not be approved.<sup>100</sup>

Not only did Woodforest have the means to ferret out merchants containing prohibited content or selling restricted products through both its initial application review and the G2 program, but it also had the ability to—and did—force merchants to remove content from their websites or risk losing Woodforest’s credit card processing services.<sup>101</sup> As the court found in

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<sup>99</sup> *Id.* at 16:20-17:2.

<sup>100</sup> *Id.* at 58:4-61:20.

Q. Okay. The next sentence says, “When Internet accounts are approved with an exception, i.e., we make the merchant remove something for approval, we must notify Risk and track changes as stated below.”

\* \* \*

Q. Now, were Internet accounts ever approved with an exception?

A. No, sir. If it was something on there that we didn’t feel needed to be there, we would ask them to remove it, and give Risk a notification that it was going to be approved, and it was up to them to follow up thereafter.

Q. So if somebody had something on their Web site that they shouldn’t be selling, you would say, “We’ll approve you if you take it off,” and you would tell the Risk Department to be on the lookout to make sure they did take it off—

A. That’s correct.

\* \* \*

Q. Okay. And then you would check the next day to make sure it had been removed, and if it had been removed, then you would approve the account?

A. Yes, sir.

<sup>101</sup> Coyle Decl., Ex. 8 (Lemos Tr.) at 53:3-55:5.

Q. If G-two picks up a content violation what steps do you take?

A. We get the report, we review it and if we find that it is verified, it can close the account or contact the merchant and let them know what is going on and/or either have it removed or the account will be closed.

\* \* \*

Q. And if you see that there is prohibited content do you do anything prior to contacting the merchant, for example, shutdown their processing capacity?

A. What I just said, we can close the account.

\* \* \*

[Footnote continued on next page]

*Akanoc*, “Defendants’ services, combined with Defendants’ ability to remove infringing websites, entails a level of involvement that goes beyond rote translation.” 591 F. Supp. 2d at 1112. Woodforest’s ability to locate counterfeiters and “switch off” its services at will, makes it clear that Woodforest had the means and ability to stop merchants from using its credit card processing services to sell counterfeit products.

#### **IV. DURANGO’S INTENTIONAL DESTRUCTION OF EVIDENCE WARRANTS ADDITIONAL SANCTIONS**

On July 30, 2010, the Court held an evidentiary hearing in response to testimony by Durango’s Rule 30(b)(6) witness, Nathan Counley, that he and other Durango employees had run the Lavasoft File Shredder on their hard drives shortly after May 19, 2010, when Gucci raised with the Court the possibility of seeking to compel the production of Durango’s hard drives. At the hearing, Counley testified that he ran the Lavasoft program numerous times in order to delete “merchants’ applications.”<sup>102</sup> With respect to replica merchants in particular, Counley testified

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[Footnote continued from previous page]

Q. So I will give you an example. If during the course of a review or a BRAM report you discovered that an adult site was depicting child pornography, would you immediately close the account?

A. Yes.

Q. Are there other circumstances under which you might only temporarily disable processing as opposed to immediately closing the account?

A. Yes.

Q. And what circumstances would those be?

A. It could be an adult video that states, a title like hypnotized. We may say you have to close that video. We will turn your cards off until you close the video to you can continue processing.

Q. So you would turn the cards off before you actually spoke with the merchant?

A. Correct.

Q. And how do you turn the cards off?

A. It is a switch.

Q. So you can do that any time that you want?

A. Correct.

<sup>102</sup> Coyle Decl., Ex. 66 (Hr’g Tr.) at 8:14-22.

that the types of applications deleted would have included an indication of the volume of sales the merchants estimated, the supplier of the merchants' replica products, and the types of products the merchants sold.<sup>103</sup> Such documents were responsive to Gucci's requests for production and certainly relevant to the claims in this litigation. Counley and Demopolis testified that they ran the Lavasoft program due to concerns about data security following the theft of Mrs. Counley's laptop in December 2008.<sup>104</sup> Durango provided no explanation, however, for why they waited until May 2010 to address a security issue that arose more than a year ago or why they needed to run the Lavasoft program on a desktop computer, as Demopolis appears to have done.

The Court ordered Durango to "allow Gucci to have a forensic expert 'image' the hard drives . . . and provide the imaged drives to Plaintiff."<sup>105</sup> The July 2 Order also included the following findings: there was "little question that a duty to preserve existed . . . well before the erasures occurred"; "Counley is quite obviously a key player in this litigation, and his testimony demonstrates that his actions, whether deliberate or otherwise, ensured that potentially relevant merchant applications he had previously deleted could never be recovered by Gucci"; and "Durango[] destroyed potentially relevant documents in violation of its duty to preserve . . ."<sup>106</sup>

There is no dispute that Durango ran the Lavasoft program and deleted merchant account applications that were responsive to Gucci's requests for production and relevant to this

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<sup>103</sup> *Id.* at 10:19-11:17.

<sup>104</sup> See, e.g., *id.* at 14:25-15:13.

<sup>105</sup> July 2 Order, at 4.

<sup>106</sup> *Id.* at 3-4. Due to Durango's delay in complying with the Court's instruction to provide the hard drives to Gucci's forensic experts, Gucci is still awaiting its experts final report as to the extent of Durango's spoliation. However, preliminary reports suggest, as Gucci suspected, that Durango began running the Lavasoft program on several hard drives after the May 19, 2010 telephonic conference with the Court—indeed, it appears that the program may have been first run *the day after* the conference.

litigation. Durango’s intentional destruction of evidence has caused Gucci substantial prejudice warranting additional sanctions for its misconduct.<sup>107</sup> With less than two months before trial is scheduled in this matter, Gucci has had to devote precious time and resources to addressing Durango’s failures to respond to discovery requests and its spoliation of evidence. Even if it was possible to reconstruct the applications and other deleted documents, and there is no reason to believe it can be done, the fact remains that Gucci will not have had these documents available for use in depositions, which took place all around the country, or in developing its litigation strategy.

As a sanction for Durango’s spoliation of relevant evidence, Gucci respectfully requests that the Court preclude Durango from offering any evidence either in support of the affirmative defenses raised in Durango’s Answer or in opposition to the instant motion. *Id.* at 3 (“The appropriate sanctions for spoliation is within the sound discretion of the district court”). A preclusionary order is entirely appropriate under these circumstances. *See Arista Records LLC v. Usenet.com, Inc.*, 633 F. Supp. 2d 124, 142 (S.D.N.Y. 2009) (Baer, J.) (precluding defendants from asserting affirmative defenses as sanction for having “wiped clean” its hard drives); *see also Residential Funding Corp. v. DeGeorge Fin. Corp.*, 206 F.3d 99, 108 (2d Cir. 2002). As in *Arista Records*, “[t]he evidence that is alleged to have been destroyed or lost in this case would have been directly relevant” to whether “Defendants . . . encouraged or fostered . . . infringement.” *Id.* at 142. Specifically, Durango has destroyed evidence that would have provided further evidence of Durango’s contributory infringement and Durango should not be entitled to introduce contrary evidence when its actions have made evidence unavailable to

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<sup>107</sup> Gucci incorporates by reference the arguments advanced in its Memorandum of Law in Support of an Order Imposing Sanctions Upon Defendant Durango Merchant Services, LLC, dated June 30, 2010 (Dkt. No. 45).

Gucci.<sup>108</sup> The proposed sanctions are appropriate both as a deterrent and to ensure that Durango, the spoliating party, does not benefit from its misconduct.

## CONCLUSION

For the foregoing reasons, Plaintiff respectfully requests that the Court enter an order granting summary judgment against Defendants Durango and Woodforest.

Dated: New York, New York  
July 22, 2010

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<sup>108</sup> See July 2 Order, at 1 (“[Counley] testified that he used email as his main mode of communication and transmission of documents to merchants he worked with, including replica merchants.”).