

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 RULE 56.1 STATEMENT OF MATERIAL FACTS ON MOTION FOR SUMMARY JUDGMENT

Pursuant to Local Civil Rule 56.1, Plaintiff Gucci America, Inc. (“Gucci”) hereby submits this statement of material facts as to which there is no genuine issue of fact to be tried.

THE PARTIES

1. Plaintiff Gucci is organized and exists under the laws of New York, with its principal place of business located at 685 Fifth Avenue, New York, New York 10022.
2. Defendant Durango Merchant Services LLC d/b/a Durango Bankcard Systems of Durango (“Durango”) is a Wyoming corporation, with a business address of 2885 Main Avenue, Suite B-105, Durango, Colorado 81301. Defendant Durango Merchant Services, LLC’s Answer (“Durango Ans.”) (Dkt No. 52) ¶ 15.

3. Woodforest National Bank (“Woodforest”) is a bank that is organized and exists under the laws of United States, with a business address of 25231 Grogan’s Mill Road, Suite 175, The Woodlands, Texas 77380. Defendant Woodforest National Bank’s Answer to Complaint (Dkt No. 48) (“WNB Ans.”)¶ 13. Durango, Woodforest, and Frontline National Processing Corporation (“Frontline”) are collectively referred to herein as “Defendants.”

GUCCI’S REGISTERED TRADEMARKS

4. Gucci offers luxury items offered to the public under the Gucci trademarks referenced in the Complaint (the “Gucci Marks”). Complaint (Dkt No. 1), Ex. 1(PTO Registrations); WNB Ans. ¶¶ 24-25 (“[T]he mark Gucci is a recognized trademark for certain luxury items”; WNB Ans. ¶ 26 (Exhibit 1 to the Complaint contains copies of trademark registrations owned by Gucci); Durango Ans. ¶¶ 25-26 (admitting to federal trademark registrations for the Gucci Marks); Declaration of Anne M. Coyle, dated July 22, 2010 (“Coyle Decl.”), Ex. 75 (Declaration of Charles Kennedy, dated July 7, 2010 (Dkt. No. 55), Ex. A at 4).

GUCCI’S SUIT AGAINST THE LAURETTE COMPANY

5. On June 3, 2008, Gucci filed a trademark infringement action against the operators of a website that was accessible to the public under the Uniform Resource Locator of TheBagAddiction.com (the “Laurette Defendants”), captioned *Gucci Am., Inc. et al. v. Laurette Company, Inc. et al.*, 08 Civ. 5065 (L.A.K.) (S.D.N.Y.). Complaint (Dkt. No. 1)

6. TheBagAddiction.com website offered for sale at least twenty different types of counterfeit Gucci products, amounting to hundreds of different counterfeit Gucci handbags, wallets, and other accessories. Declaration of Anne M. Coyle, dated July 22, 2010 (“Coyle Decl.”), Ex. 1 (Exhibit 14 to Transcript of the July 8, 2010 Deposition of Jennifer Kirk (“Kirk Tr.”); *id.*, Ex. 2 (Declaration of Michael Falsone, dated May 29, 2008) ¶ 10.

7. 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. *Id.* ¶ 10.

8. The Laurette Company sold approximately \$2 million worth of replica goods during the time it utilized the credit card processing services of the Defendants. Coyle Decl., Ex. 17 (WNB-00087); *id.*, Ex. 18 (FG00007-8).

9. On December 15, 2008, a Final Order and Judgment on Consent ("Consent Judgment") was entered against the Laurette Defendants. Coyle Decl., Ex. 4.

10. In the Consent Judgment, the named defendants admitted to liability for their counterfeiting activities and a monetary judgment of \$5.2 million was entered against them. *Id.*

11. To date, the Laurette Defendants have not satisfied the judgment. Coyle Decl., Ex. 3 (Kirk Tr.) 115:1-116:22.

THE CREDIT CARD PROCESSING TRANSACTION

12. Credit card transactions involve five key players: the customer cardholder, the card issuing bank, the merchant, the merchant's acquiring bank, and the authorization network (e.g., VisaNet for Visa cards). The credit card transaction begins with the card being swiped or keyed into the merchant's terminal. The merchant's terminal transmits an authorization request to the merchant's acquiring bank, which, in turn, sends the request electronically to the network. The network routes the request to the cardholder's issuing bank. The issuing bank approves or declines the transaction, and this response is forwarded by the network to the acquiring bank;

which forwards it to the merchant. The merchant completes the transaction. All transactions are kept at the terminal until the merchant sends all transactions, usually at the end of the day, to the acquiring bank. The acquiring bank credits the merchant's account and submits the transactions to the network for settlement. The network pays the acquirer and debits the appropriate issuer accounts. The issuers then post the transactions to their cardholders' accounts. *See* Defendant's Memorandum in Support of Motion Under Fed. R. Civ. P. 12(b)(6) to Dismiss Plaintiff's Claims (Dkt No.18) n.1.

**THE LAURETTE COMPANY'S NEED FOR CREDIT CARD
PROCESSING SERVICES**

13. The ability to process credit card transactions was essential to the Laurette Defendants' ability to operate their business selling counterfeit products over the internet. Coyle Decl., Ex. 3 (Transcript of the July 8, 2010 Deposition of Jennifer Kirk ("Kirk Tr.)) 32:15-18 ("Q: Are you aware of any other forms of payment other than credit cards that you could have used for The Bag Addiction? A: No.").

14. Roughly 99% of TheBagAddiction.com's sales were made to customers who paid by credit card. *See* Coyle Decl., Ex. 5 (Declaration of Jennifer Kirk, dated November 13, 2009 ("Kirk Decl.) (Dkt. No. 28)) ¶ 1.

15. Prior to obtaining credit card processing services from Defendants Woodforest National Bank ("Woodforest") and Frontline Processing Corporation ("Frontline"), the BagAddiction processed credit card transactions through Card Service until that processor shut down the account because the site was selling replica products. Coyle Decl., Ex. 3 (Kirk Tr.) 40:10-41:13.

16. TheBagAddiction.com suspended sales for weeks after its credit card processing account was shut down. *Id.* at 45:16-46:3.

DEFENDANTS' BUSINESSES

17. Durango “acts as a referral service, or broker, to bridge retailer/merchants with entities that offer credit card processing services.” Coyle Decl., Ex. 6 (Declaration of Shane Kairilla, October 30, 2009 (Dkt No. 22)) ¶ 6; Durango Ans. ¶ 15.

18. Woodforest provides credit card processing services for merchants through Delta Card Services (“Delta Card”), also known as Merchant Choice Card Services (“MCCS”) or Merchants’ Choice Payment Solutions (“MCPS”). Coyle Decl. Ex. 7 (Transcript of June 29, 2010 Deposition of Mona Boykin (“Boykin Tr.”)) 7:22-8:3 (Woodforest has a “unit” that processes transactions for credit card charges); *id.* 23:1-13; *id.*, Ex. 8 (Transcript of the June 25, 2008 Deposition of Rhonda Lemos (“Lemos Tr.”) 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”); *id.* 118:20-119:5 (Woodforest is the sponsor bank of Delta Card and “we are their service provider for the processing”); *id.*, Ex. 9 (Declaration of Charles A. Vernon, dated October 30, 2009 (Dkt No. 21)) ¶ 9 (“WNB, through MCCS, contracts for processing services for credit card transactions for over 35,000 clients.”); *id.*, Ex. 10 (Exhibit 2 to Coyle Declaration in support of Plaintiff’s Opposition to Motion to Dismiss (Dkt No. 29)) (“Merchants’ Choice Card Services (MCCS), a top-ranked merchant services provider sponsored by Woodforest National Bank, announced that effective today it has changed its name to Merchants’ Choice Payment Solutions (MCPS)”); *id.* (“MCPS is a registered ISO/MSP of Woodforest National Bank”); *id.* (MCPS is “partnered with Woodforest National Bank”).

19. The Chairman of MCPS a/k/a Delta Card is the CEO of Woodforest. *Id.*, Ex. 10 (MCPS Press Release).

20. Woodforest and Delta Card are located in the same building. *Id.*, Ex. 8 (Lemos Tr.) 113:2-9.

21. Delta Card relies on Woodforest General Counsel Charles Vernon for legal advice. *Id.* at 126:3-5.

22. Woodforest is responsible for Delta Card's underwriting policies. Coyle Decl., Ex. 11 (Contract between Woodforest and Delta Card Services filed with the SEC filed June 18, 2004) ¶ 16. (“[Woodforest] shall be responsible for establishing and/or approving the merchant credit policy (“Credit Policy”) to be used by [Delta Card] in connection with the services to be provided hereunder by [Delta Card] in compliance with all laws, rules and regulations applicable to all aspects of the operations of its VISA and/or MasterCard programs.); *id.*, Ex. 8 (Lemos Tr. 119:6-121:8) (Regulations require Woodforest as an acquiring bank to monitor Delta Card's risk policies and Woodforest approved changes to Delta Card's underwriting guidelines.).

23. Woodforest and Delta Card “jointly own and have ownership rights to the information, data and records pertaining to the merchant accounts.” *Id.*, Ex. 11 (Contract between Woodforest and Delta Card Services filed with the SEC ¶ 18)).

24. Woodforest and Delta Card jointly own the merchant accounts processed by Delta Card and share the revenue earned from the credit card processing services provided by Delta Card. *Id.* ¶¶ 4-5.

DEFENDANTS' INFRINGEMENT OF PLAINTIFFS' TRADEMARK RIGHTS

A. Durango's Knowledge and Inducement of the Laurette Defendants' Trademark Infringement

25. Durango advertised itself on its website as a broker servicing “High Risk Merchant Accounts” including merchants who sell “Replica Products.” Durango Ans. ¶ 48.

26. Durango advertised on its website that “[a]ccepting credit cards with a merchant account can increase your sales potential by 75 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.”

Durango Ans. ¶¶ 3, 89. Durango further advertised: “Even if you’ve been declined for a merchant account somewhere else and do not have the ability for credit card processing National Bankcard Systems Of Durango an help you get a merchant account and accept credit cards.” Coyle Decl., Ex. 12 (Ex. 30 to Transcript of the June 14, 2010 Deposition of Nathan Counley (“Counley Tr.”)).

27. Durango acted as an agent for Woodforest and Frontline “to locate potential customers, including ‘High Risk’ Internet merchants like the Laurette Counterfeiters who will use the services of the Defendant credit card processing agencies to process credit card transactions or orders placed on their merchants’ websites. Durango collects a referral fee from the credit card processing agencies for bringing the Defendant credit card processing agencies and the Internet merchants together.” Durango Ans. ¶ 49.

28. Jennifer Kirk turned to Durango to seek credit card processing services after Card Services cut off her credit card processing because she was selling replica products. Coyle Decl., Ex. 3 (Kirk Tr.) 41:9-42:5, 39:12-17.

29. Nathan Counley, a Durango employee, reviewed the BagAddiction website. Coyle Decl., Ex. 13 (Counley Tr.) 74:16-75:6, 75:17-20.

30. Durango knew that that TheBagAddiction offered for sale replica products bearing copies of Gucci’s registered trademarks. Durango Ans. ¶ 32 (admitting that TheBagAddiction website “openly boasted that the Counterfeit Products were not authentic, but rather were ‘mirror image[s]’ of Gucci Products”); Coyle Decl., Ex. 3 (Kirk Tr.) 41:18-42:3 (identified business as “replica handbags and accessories” in initial inquiry to Counley); *id.*, Ex. 13 (Counley Tr.) 77:5-6 (“I knew they were selling replica handbags”).

31. Nathan Counley advised Jennifer Kirk that he had “an offshore bank that is willing to accept startup or lower volume (less than \$1000,000/mo) replica merchants.” Durango Ans. ¶ 53; Coyle Decl., Ex. 14 (GUCCI-0048027-0048028) (Counley email dated 9/11/2006).

32. Asked by Nathan Counley about TheBagAddiction.com’s processing history, Jennifer Kirk responded that the “processing history is fine. [W]e had to close because we were selling replicas.” Durango Ans. ¶ 53; Coyle Decl., Ex. 14 (GUCCI-0048026) (Kirk email dated 9/11/2006).

33. In an email dated September 14, 2006, Mr. Counley wrote to Jennifer Kirk, stating “Good News! I just found out that our US bank can do replica accounts now.” Durango Ans. ¶ 54; Coyle Decl., Ex. 14 (GUCCI-0048024-0048025) (Counley email dated 9/14/2006).

34. Counley submitted the Laurette credit card processing application to Frontline on September 15, 2006. Coyle Decl., Ex. 14 (FG000026-000035) (Frontline application for Laurette).

35. The Laurette Company required a second processor in addition to Frontline to process credit card sales on the BagAddiction website due to its high volume of sales. *Id.*, Ex. 3 (Kirk Tr. 42-43).

36. Durango, through Nathan Counley, assisted Jennifer Kirk in obtaining credit card processing services from Woodforest. Durango Ans. ¶ 51 (admitting they assisted Laurette); *id.* ¶ 71 (admitting “Mr. Counley assisted the Laurette Counterfeiters in obtaining a merchant services account with Woodforest”). Counley helped fill in the Laurette Company’s application form for credit card processing services from Woodforest. Coyle Decl., Ex. 13 (Counley Tr.) 61:3-11, 62:19-63:11.

37. Durango, through Nathan Counley, submitted the Laurette Company credit card processing application to Woodforest on November 15, 2006. WNB Ans. ¶ 71; Durango Ans. ¶ 71.

38. Nathan Counley advised Jennifer Kirk to include a box on TheBagAddiction site that customers would be required to check to indicate that they understood the products were not authentic designer goods. Coyle Decl., Ex. 13 (Counley Tr.) 178:8-16; *id.*, Ex. 3 (Kirk Tr.) 19:9-24. The exact language preceding the box to be checked was “I understand these items being purchased are replicas, not originals”. *Id.*, Ex. 13 (Counley Tr.) 178:14-16.

39. Jennifer Kirk referred three acquaintances seeking credit card processing services to Counley to assist them in finding credit card processors for their replica product sites because “[Counley] was the only one we knew in the United States that did high-risk merchant accounts” for replica products. Coyle Decl., Ex. 3 (Kirk Tr.) 111:11-18.

40. Nathan Counley knew that merchants of replica products had been warned by brand owners to cease and desist selling such products. *Id.*, Ex. 16 (GUCCI-0048264-0048267) (Stephanie Walker told Counley she needed to add a new domain name because she “received a email from Louis Vuitton for thepursecene.com . . . that is more than half of my business”).

41. At the time Nathan Counley submitted the Laurette Company’s application for credit card processing for the BagAddiction to Woodforest and Frontline, these were the two primary domestic providers of credit card processing services for merchants selling replica products of which Counley was aware. *Id.*, Ex. 13 (Counley Tr.) 16:13-16.

42. From 2006 to 2008, Woodforest and Frontline provided the Laurette Defendants with credit card processing services in connection with sales by TheBagAddiction website.

Coyle Decl. Ex., 17 (WNB-00087); *id.*, Ex. 18 (FG00006-9). During this time the website's sales totaled approximately \$2,000,000. *Id.*, Exs. 17, 18.

43. Durango profited off of each sale on the BagAddiction website processed by Frontline and Durango. Coyle Decl., Ex. 13 (Counley Tr.) 95:24-96:4; *Id.*, Ex. 70 (Durango Residuals for BagAddiction) .

B. Woodforest's Knowledge and Substantial Assistance of the Laurette Company's Trademark Infringement

44. Woodforest provided credit card processing services to the TheBagAddiction.com Web site with full knowledge that the site sold "replica products." WNB Ans. ¶ 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.com Web site); *id.* ¶ 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.").

45. The BagAddiction website included a disclaimer under the "FAQ" section that said: "Are your handbags authentic? No. All products sold are exact mirrors and are not being sold or represented as originals." Coyle Decl., Ex. 19 (Ex. 13 to Kirk Tr.).

46. Woodforest produced screenshots from TheBagAddiction website that displayed the goods offered for sale on the websites, including several pages of handbags labeled "Gucci" clearly displaying Gucci's registered trademarks. Coyle Decl., Ex. 20 (Screenshots produced by Woodforest).

47. One of the handbags offered for sale on TheBagAddiction.com that appears in the printout provided by Woodforest is listed as a “Gucci Horsebit Hobo in Black Signature” and a description of “list price: \$1,280.00; our price: \$180”). WNB Ans. ¶ 77; Coyle Decl., Ex. 20.

48. The Laurette Company’s application to have Woodforest provide credit card processing services was reviewed and approved. Coyle Decl., Ex. 7 (Boykin Tr.) 66:6-73:22; *id.*, Ex. 20.

49. Woodforest provided credit card processing services for the TheBagAddiction.com until the site was shut down pursuant to Gucci’s temporary restraining order. WNB Ans. ¶ 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 . . . products”); Coyle Decl., Ex. 17 (WNB-00087).

50. The provider of credit card processing services bears the risk of financial loss if a merchant does not ultimately refund returns or disputed transactions (chargebacks) from customers. Coyle Decl., Ex. 13 (Counley Tr.) 48:14-20. Accordingly, the credit card processing services provider carefully investigates each merchant pursuant to underwriting guidelines to ensure that losses are kept to a minimum. *Id.*, Ex. 7 (Boykin Tr.) 31:16-23; *id.* Ex. 8 (Lemos Tr.) 12:3-15.

51. Because internet merchants are considered to be “high risk,” Woodforest, through Delta Card, had in place stringent policies relating to the approval of internet merchant accounts. Coyle Decl., Ex. 7 (Boykin Tr. 14:11-18, 17:3-16, 43:12-22); *id.* Ex. 8 (Lemos Tr.) 15:4-16:18, 17:2-9, 39:18-40:3.

52. As part of the review and approval of internet merchants, Woodforest’s policies required that “Web sites associated with the merchant will be reviewed for restricted content,

contact information and must state the refund policy.” Coyle Decl., Ex. 7 (Boykin Tr. 30:6-9); *id.*, Ex. 21 (WNB-26454 (Ex. 1 to Boykin Tr.)).

53. Woodforest’s policies required analysts to review the websites of internet merchants and to determine what product was being sold and whether the transaction “made sense.” Coyle Decl., Ex. 7 (Boykin Tr.) 31:8-11, 31:24-32:8; *id.*, Ex. 21 (Ex. 1 to Boykin Tr. (WNB-26457)).

54. High risk merchants were subjected to three levels of review before being approved for processing by Woodforest. *Id.*, Ex. 7 (Boykin Tr.) 16:12-17:25; 71:1-72:22.

55. More experienced analysts reviewed high risk accounts for Woodforest. *Id.*, Ex. 7 (Boykin Tr.) 54:22-55:13.

56. Woodforest’s policy with regard to the processing of transactions for the sale of replica products was that replica merchants would be approved as long as the fact that the products were replicas was disclosed on the merchant’s website. *Id.* at 81:16-82:5; *id.*, Ex. 8 (Lemos Tr. 63:2-9).

57. Mastercard and Visa required the merchant acquiring bank to ensure that their cards were “not to be used to process illegal transactions. Product services must be within all state and federal laws.” *Id.*, Ex. 7 (Boykin Tr.) 27:14-24; *id.*, Ex. 21 (Exhibit 1 to Boykin Tr. (WNB-26452)).

58. Analysts were required to review merchant websites to verify that merchant websites were not selling anything illegal before Woodforest would process their credit card transactions. *Id.*, Ex. 8 (Lemos Tr.) 41:4-10, 42:2-12.

59. A program called G2 that searches out websites offering content prohibited by Mastercard and Visa known as “BRAM” was used to monitor Woodforest’s merchant accounts. *Id.*, Ex. 8 (Lemos Tr.) 43:21-44:16.

60. As of May 24, 2007, Woodforest was aware that Visa and Mastercard prohibited servicing merchants who offered “counterfeit merchandise or other violation of intellectual property rights.” *Id.*, Ex. 8 (Lemos Tr.) 49:22-52:3; *id.*, Ex. 22 (WNB-09043 (Exhibit 2 to Lemos Tr.)).

61. Despite this knowledge, Woodforest did not require the G2 program to search out counterfeit merchandise until 2009. *Id.*, Ex. 8 (Lemos Tr.) 45: 4-12; Ex. 23 (WNB-00295-00296 (R. Lemos email dated September 16, 2009 notifying C. Vernon, general counsel of Woodforest, of addition of counterfeits to G2)).

62. After counterfeit merchandise was added to the list of prohibited items, G2 identified sites potentially selling counterfeit goods. *Id.*, Ex. (WNB-02313-02321). One such site was ThePurseBoutique.com, a site operated by Jennifer Kirk’s acquaintance Melissa Gampel, which offered for sale counterfeit items bearing copies of Plaintiff’s Marks. *Id.* (WNB-02321 (G2 Report indicating that “this site sells designer goods that may be counterfeit”); *id.* Ex. 25 (Purseboutique Application & screenshots, WNB-00569-00586).

63. Despite Woodforest’s knowledge of the illegality of counterfeit products, it did not change its policy with regard to servicing replica merchant accounts until late 2008 or 2009, and then only due to chargebacks for non-receipt of merchandise. *Id.*, Ex. 8 (Lemos Tr.) 58: 3-17).

64. Woodforest did not cause counterfeit products to be included on the list of prohibited content on its internet merchant review checklist. *Id.*, Ex. 7 (Boykin Tr.) 76:20-77:17); *id.*, Ex. 20 (Internet Review Checklist) at 8.

C. Woodforest's Control of the Sale of the Counterfeit Products

65. Woodforest had the ability to cause an internet merchant to remove illegal or prohibited content. *Id.*, Ex. 8 (Lemos Tr.) 52:4-13 (website would be reviewed prior to approval to ensure any prohibited content had been removed); *id.*, Ex. 7 (Boykin Tr.) 58:13-17 (“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.”); *id.* 59: 7-12) (“Q: How would you make the merchant remove something? A: You would ask them to get with their processing person and have it removed. It’s an overnight process, and then we’d check it the next day.”).

66. Woodforest would monitor its merchants and required them to remove any prohibited content that appeared on its website. *Id.*, Ex. 8 (Lemos Tr.) 52:14-18 (websites monitored by G2 after approval), 54:10-24 (“we may say you have to close that video. We will turn your cards off until you close the video so you can continue processing.”).

67. Woodforest had complete control at all times over whether a merchant could process credit card transactions. *Id.*, Ex. 8 (Lemos Tr.) 53:3-54:14 (Delta Card would turn off the merchant’s account if it discovered prohibited content). At any time, Woodforest could “turn the cards off” even before contacting a merchant simply by flipping switch. *Id.* 54:22-55:5.

D. Defendants' Solicitation of and Provision of Services to Additional Replica Merchants

68. Counley sent emails to merchants of replica products boasting that “[o]ur 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.” *Id.*, Ex. 26 (Counley email to Peter Panagiotakos dated 2/4/2008).

69. Durango solicited, and Woodforest approved and provided credit card processing services to, numerous additional Internet merchants that offered “replica” handbags to the public, many of which used the Gucci name and/or Gucci’s Marks. From October 2006 to March 2008, Durango submitted twenty-one applications to Woodforest for merchants selling replica products.

- a. In October 2006, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “Bagarama.net,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Designer bags” and listed “Nathan Counley” as the “Rep Name” for the application. In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website. Coyle Decl., Ex. 27 (Application, WNB-27394-27398); Ex. 29 (Account History, WNB-27516-27529); Ex. 28 (Screenshots, WNB-01038-01041).
- b. In November 2006, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “Discount Replicas,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Replica Goods” and listed “Nathan Counley” as the “Rep Name” for the application. In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website showing images disclosing the offering of replica watches for sale to the public. Coyle Decl., Ex. 30 (WNB-00815-00826).
- c. In November 2006, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the “Laurette Company” website “TheBagAddiction.com”, and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Designer Handbags” and listed “Nathan Counley” as the “Rep Name” for the application. Coyle Decl., Ex. 20 (Woodforest BagAddiction Application).
- d. In November 2006, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “LilTrendyBabies.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the

goods being sold as “Replica Goods” and listed “Nathan Counley” as the “Rep Name” for the application. In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website. Coyle Decl., Ex. 31 (Application, WNB-27462-27466); Ex. 29 (Account History, WNB-27516-27529); Ex. 32 (Screenshots, WNB-01055-01057).

- e. In December 2006, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “LeeLuxuryBags.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Replica Handbags” and listed “Nathan Counley” as the “Rep Name” for the application. In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website disclosing replica bags and “Gucci” products being offered for sale to the public. Coyle Decl., Ex. 33 (Application, WNB-27473-27477); Ex. 29 (Account History, WNB-27516-27529); Ex. 34 (Screenshots, WNB-01065-01066).
- f. In December 2006, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for “Prime Time Enterprises,” and Woodforest approved and provided credit card processing services to the merchant. The application was submitted and approved twice. The first application described the products sold as “Replica & Athletic Wear” and listed Nathan Counley as the “Rep Name.” In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website showing images of deeply discounted “Gucci” products offered for sale to the public. Coyle Decl., Ex. 35 (WNB-01058-01063). The second application, submitted in December 2007, described the goods being sold as “Replicas & Athletic Wear.” Coyle Decl., Ex. 36 (WNB-27467-27472); Ex. 29 (Account History, WNB-27516-27529).
- g. In January 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was by Durango for the website “Freshstyles.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Replica clothing/watches” and listed “Nathan Counley” as the “Rep Name” on the application. In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website. Coyle Decl., Ex. 37 (Application, WNB-27483-27487); Ex. 38 (Screenshots, WNB-01080); Ex. 29 (Account History, WNB-27516-27529).
- h. In February 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “ThePurseBoutique.com,” and Woodforest approved and provided credit

card processing services to the merchant. The application described the goods being sold as “designer handbags/clothing” and listed “Nathan Counley” as the “Rep Name” on the application. The “Laurette Company” was listed as both a “trade reference” and as the “vendor from which product is purchased” on the application. In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website showing images of “Gucci” products being offered for sale to the public. Coyle Decl., Ex. 25 (WNB-00569-00586). ThePurseBoutique.com sold replica products. *Id.*, Ex. 13 (Counley Tr.) 153:16-18.

- i. In March 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “Worldof23.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Replica Shoes” and listed “Nathan Counley” as the “Rep Name” on the application. Coyle Decl., Ex. 39 (Application, WNB-27427-27431); Ex. 29 (Account History, WNB-27516-27529).
- j. In March 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “SimplyChicPurses.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Designer Handbags” and listed “Nathan Counley” as the “Rep Name” on the application. The application lists “Pat Kirk” and “Laurette Company” as “trade references” and lists “Suijian Liao” in “Guangzhou” “Guangdong Province China” as the merchant’s vendor. Coyle Decl., Ex. 40 (Application, WNB-00925-00926); Ex. 29 (Account History, WNB-27516-27529).
- k. In April 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “Kicksisland.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Replica Products” and listed “Nathan Counley” as the “Rep Name” on the application. In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website. Coyle Decl., Ex. 41 (Application, WNB-27438-27443); Ex. 42 (Screenshots, WNB-00948-00950); Ex. 29 (Account History, WNB-27516-27529).
- l. In April 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted to by Durango for the website “Hotshotwatches.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Replica Watches” and listed “Nathan Counley” as the “Rep Name” on the application. The application listed “Laurette

Company” and “Pat Kirk” as “trade references.” In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website making references to the sale of replica products and offering “Gucci” products for sale to the public. Coyle Decl., Ex. 43 (Application, WNB-27432-27437); Ex. 29 (Account History, WNB-27516-27529); Ex. 44 (Screenshots, WNB-00939-00944).

- m. In April 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “CarbonCopyReplicas.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Replica Bags” and listed “Nathan Counley” as the “Rep Name” on the application. In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website disclosing the sale of “replicas” and in particular “Gucci” products. Coyle Decl., Ex. 45 (Application and Screenshots, WNB-00470-485); Ex. 29 (Account History, WNB-27516-27529).
- n. In May 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “GenuineWatches.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Genuine Watches” and listed “Nathan Counley” as the “Rep Name” on the application. In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website disclosing the sale of “Gucci” products to the public. Coyle Decl., Ex. 46 (Application, WNB-27444-27449); Ex. 47 (Screenshot, WNB-00956).
- o. In June 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “Michellesboutiqueonline.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Replica Products & Retail” and listed “Nathan Counley” as the “Rep Name” on the application. In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website disclosing “Inspired/Replica” items being offered for sale to the public. Coyle Decl., Ex. 48 (Application, WNB-27450-27455); Ex. 29 (Account History, WNB-27516-27529); Ex. 49 (Screenshots, WNB-00960-00964).
- p. In June 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “Charismaticstyle.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Replica Products” and listed “Nathan Counley” as the “Rep Name” on the application. In response to Gucci’s request for

production, Woodforest produced screenshots of the merchant's website showing images of deeply discounted "Gucci" products being offered for sale to the public. Coyle Decl., Ex. 50 (Application, WNB-27456-27461); Ex. 29 (Account History, WNB-27516-27529); Ex. 51 (Screenshots, WNB-00976-00977).

- q. In June 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website "Like Mike.com," and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as "Air Jordans". In response to Gucci's request for production, Woodforest produced screenshots of the merchant's website making the statement "Your Authority in Air Jordan Replicas." Coyle Decl., Ex. 52 (WNB-00659-00673).
- r. In November 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted to by Durango for the website "Dress4Envy.com," and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as "Replica Products" and listed "Nathan Counley" as the "Rep Name" for the application. In response to Gucci's request for production, Woodforest produced screenshots of the merchant's website showing images of deeply discounted "Gucci" products offered for sale to the public. Coyle Decl., Ex. 53 (Application, WNB-27421-27426); Ex. 54 (Screenshots, WNB-00909-911); Ex. 29 (Account History, WNB-27516-27529).
- s. In December 2007, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website "Freshnewkickz.com," and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as "Replica Products" and listed "Nathan Counley," as the "Rep Name" for the application. In response to Gucci's request for production, Woodforest produced screenshots of the merchant's website disclosing the sale of "Gucci Shoes" and other deeply discounted "designer" products. Coyle Decl., Ex. 55 (Application, WNB-27399-27404); Ex. 56 (Screenshots, WNB-00893-00894); Ex. 29 (Account History, WNB-27516-27529).
- t. In January 2008, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website "CostlessWatches.com," and the merchant was subsequently provided services by Woodforest National Bank. The application described the goods being sold as "Replica Watches" and listed "Nathan Counley," as the "Rep Name" for the application. Coyle Decl., Ex. 57 (Application, WNB-27411-27415); Ex. 29 (Account History, WNB-27516-27529).

- u. In February 2008, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted by Durango for the website “SummerSunGlasses.com,” and Woodforest approved and provided credit card processing services to the merchant. The application listed “Nathan Counley” as the “Rep Name.” In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website showing images of “Gucci” products being offered for sale to the public. Coyle Decl., Ex. 58 (Application, WNB-27416-27420); Ex. 29 (Account History, WNB-27516-27529); Ex. 59 (Screenshots, WNB-00904-00906).
- v. In March 2008, a Woodforest/MCCS Merchant Bankcard Application/Agreement was submitted to by Durango for the website “TheFreshestKicks.com,” and Woodforest approved and provided credit card processing services to the merchant. The application described the goods being sold as “Replica Products” and listed “Nathan Counley” as the “Rep Name” for the application. In response to Gucci’s request for production, Woodforest produced screenshots of the merchant’s website. Coyle Decl., Ex. 60 (Application, WNB-27405-27410); Ex. 61 (Screenshots, WNB-00897-898); Ex. 29 (Account History, WNB-27516-27529).

70. Jennifer Kirk referred replica merchants Melissa Gampel, Stephanie Walker, and Richard Norlie to Counley. Coyle Decl., Ex. 3 (Kirk Tr.) 106:4-107:3. Applications for credit card processing services for each merchant were submitted by Nathan Counley, approved by Delta Card, and these merchant were provided services by Woodforest National Bank. *Id.*, Exs. 25, 40, 43, 29.

71. Woodforest profited on each transaction for the sale of replica products. WNB Ans. ¶ 84; Coyle Decl., Ex. 29.

72. Durango profited from each transaction for the sale of replica products processed by Woodforest for merchants Durango placed with Woodforest. Coyle Decl., Ex. 13 (Counley Tr.) 95:24-96:5; Exs. 62, 63, 64.

DURANGO’S DESTRUCTION OF EVIDENCE

73. After holding an evidentiary hearing on the issue of Durango’s spoliation of evidence, this Court found that “Durango destroyed potentially relevant evidence in violation of

its duty to preserve” by running Lavasoft File Shredder on several computers. Order, dated July 2, 2010 at 4 (Dkt No.47) .

74. Nathan Counley used email as his primary means of communicating internally with other Durango employees, with prospective and established merchants, and with the banks to which he referred potential merchants for processing. Coyle Decl., Ex. 13 (Counley Tr.) at 22:8-11; 23:12-15; 77:17-25. .

75. Nathan Counley continued to delete his emails after Plaintiff filed this action. Coyle Decl., Ex. 13 (Counley Tr.) at 189:18-22; 190:23-191:3; *id.*, Ex. 66 (Transcript of June 30 Hearing (“Hearing Tr.”)) 6:5-7.

76. Counley ran Lavasoft file shredding software several times on both of his laptops, including the day before his deposition in this action. *Id.* at 207:3-7; Ex. 66 (Hearing Tr.) 6:20-25; 8:8-23; 9:11-13; *see also id.*, Ex. 67 (Counley Affidavit) ¶ 3.


77. Counley purchased the Lavasoft software and ran it on his computer after Plaintiff requested permission, and this Court granted leave, for Plaintiff to make a motion to compel production of Durango’s hard drives on May 19, 2010. *See* July 2 Order at 3-4 (“Given the rather coincidental timing of the purchase and use of this program after litigation began, after an informal discovery conference about the lack of Durango’s disclosures, and before other relevant documents miraculously appeared, Durango’s assurance that nothing deleted was relevant is at best suspect and cold comfort for this Court”); Coyle Decl., Ex. 66 (Hearing Tr.) 51:8-12.

78. Counley testified that he ran the file shredding program on the “free space” of his hard drives for the purpose of permanently deleting confidential information contained in merchant applications. Coyle Decl., Ex. 66 (Hearing Tr.) at 8:12-18; 19:14-18; *see also id.*, Ex. 67 (Counley Affidavit) ¶ 6.

79. William Demopolis, a principal of Durango, testified that he ran Lavasoft file shredding software on the free disk space of his computer to delete confidential information submitted by agents. *Id.*, Ex. 66 (Hearing Tr.) 35:16-36:18).

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