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I. INTRODUCTION

Does counterfeiting involve illegal conduct? Yes. Should there be effective remedies to prevent the sales of counterfeit goods? Yes. But the present case is not about penalizing counterfeiters.

Defendant Woodforest National Bank ("Woodforest") is a bank that processes credit card payments for approximately 35,000 clients, the overwhelming majority of which are engaged in unquestionably lawful commerce. Beginning in November 2006, Woodforest processed credit card payments for TheBagAddiction ("TBA"), an Internet merchant selling replicas operated by Laurette Co., Inc. ("Laurette"). Woodforest had policies and procedures in place to deny its services to merchants involved in illegal activities. These policies were consistent with the policies of Visa and MasterCard. Woodforest did not believe, and had no reason to believe, that Laurette was engaged in selling counterfeit Gucci products, as opposed to replica (look-alike) bags that did not bear the Gucci name. Not until June 2008, when Gucci subpoenaed documents from Woodforest in the lawsuit that Gucci *finally* filed against Laurette, did Woodforest first learn that Laurette was accused of selling counterfeit goods. Woodforest cooperated fully, and by that time its credit card processing services for the TBA Web site had ceased and it was no longer accepting such accounts for entirely economic reasons.

Over the entire time that Woodforest processed payments for the TBA Web site, it and associated companies received just over \$16,000 in gross revenues. And over this entire time, Woodforest never received notification from anyone that the products shown on the TBA Web site were counterfeit. Laurette did not inform Woodforest; Nathan Counley, who submitted Laurette's application to Woodforest for credit card processing services, did not inform Woodforest; and *Gucci itself*, which saw the TBA Web site well before October 2007, also did

not inform Woodforest that the goods on the TBA site were counterfeit, or even complain to Laurette, for another eight months.

Gucci's assertion that Woodforest should have known the TBA site sold counterfeits merely by viewing screen shots is contradicted by testimony of Gucci's person in charge of trademark enforcement and Gucci's own failure to proceed against Laurette based on such evidence. Sandro Risi of Gucci testified that one cannot tell if Gucci replica products on the Internet are genuine or fake without purchasing them. Consistent with this admission, when Gucci had finally printed out the TBA site in October 2007, it did not even complain to Laurette based on its mere viewing of the site. Its investigator first purchased handbags to see if they were counterfeit. And then, Gucci waited an additional *eight months* before filing suit and obtaining a temporary restraining order against Laurette — all the while allowing Woodforest to continue innocently to process credit card payments for TBA from October 2007 to June 2008. In May 2008 (one month before Gucci *finally* sued the Laurette Company), Woodforest on its own decided to stop accepting replica merchants because the higher volume of charge backs made them uneconomical as clients.

Although Gucci has already sued and obtained relief against Laurette, Gucci has filed and pursued this action against Woodforest and others who are not even alleged to have ever made, sold, or even touched a counterfeit product. Through this suit, Gucci seeks to impose on Woodforest and others a duty to police suspected counterfeiters under circumstances where Gucci itself failed to expeditiously pursue the real counterfeiters.

It is one thing for Gucci to seek to impose what would amount to strict liability on anyone who engages in commerce with a company that turns out to be a counterfeiter. It would be another thing entirely — not to mention unjust — for the Court to buy into this philosophy and grant summary judgment to Gucci. Given the degree to which this record is riddled with

contested issues of fact, granting this motion would fly in the face of the summary judgment standard, and would effectively relieve Gucci of its burden of proof on this motion and in this case as a whole. For these and other reasons discussed below, Gucci's motion should be denied.

II. COUNTERSTATEMENT OF THE FACTS

Gucci's statement of facts asserts numerous disputed facts and improper inferences Gucci draws in its own favor. Woodforest submits the following statements of facts (S/F) that either create a genuine dispute or favor Woodforest's position.

A. Woodforest Did Not Know That Laurette Was Selling Counterfeit Goods

1. The Laurette account was accepted on November 13, 2006. TBA was the first replica merchant for Woodforest or Delta Card¹. Woodforest was not aware that Laurette was selling counterfeit products. Laurette's application identified the products as "designer handbags." (WF Exh. A²; Exh. Counley-38.) Woodforest was not told that Laurette previously had to close its site because it was selling replicas, as Laurette told Durango. (*See* Coyle Decl. Exh. 14.) Laurette never told anyone at Woodforest that it was selling counterfeits or products that were illegal in any way. (WF Exh. B, J. Kirk Dep. 52-53.) And Mr. Counley, who submitted Laurette's application to Woodforest, never suggested that the Laurette products were counterfeit. (WF Exh. C; Counley Dep. 236.)

2. At the time it was approached by Laurette, Woodforest had policies and procedures that prevented approval of merchants engaged in illegal Internet sales of products, such as child pornography, firearms, drugs, alcohol, and tobacco. Woodforest's policies did not prohibit merchants selling replicas. (Vernon Decl. ¶ 4; Lemos Decl. ¶¶ 6, 8.)

¹ The credit card processing services were provided by Delta Card, a separate entity from Woodforest, which Gucci has chosen not to sue. Woodforest maintains as a defense that it is not responsible for contributory infringement because the accused services were provided by Delta Card, not Woodforest.

² WF Exh. ____ refers to exhibits to the Kennedy declaration.

3. Woodforest followed the same policies that Visa and MasterCard did at this time. Visa and MasterCard would allow their credit cards to be listed for replica merchants, but not for counterfeiters. (Vernon Decl. ¶ 5, Exhs. A, B; Lemos Decl. ¶ 7.)

4. The supervisor who approved Laurette's application, Mona Boykin, testified that Woodforest and Delta Card would never have approved this application if they thought the merchant was selling counterfeit products. (WF Exh. D, Boykin Dep. 32, 113, 126.) Woodforest's corporate representative testified that an application from a merchant selling illegal products would not have been approved. (WF Exh. E, Lemos Dep. 41; Lemos Decl. ¶¶ 6-8, 13.) If the merchant accurately described its products as replicas and did not mislead its customers as to the authenticity of its products, Woodforest did not believe there was anything illegal or improper, and would approve the application. (WF Exh. D, Boykin Dep. 81, 89, 104, 127.)

5. To impute Durango's knowledge to Woodforest, Gucci contends that Durango was an agent for Woodforest. (Gucci Mem. 7.) To the contrary, Mr. Counley's agreement with Delta Card, provides that he is "not an employee or agent of [Delta Card]." (WF Exh. F, Counley-6, at 2.) Moreover, Mr. Counley testified that he was not an agent of Woodforest, and that he "couldn't act on behalf of Woodforest National Bank," didn't "have the ability on behalf of Woodforest National Bank to approve the application" by Laurette, and had never even had a direct conversation with a Woodforest employee. (WF Exh. C, Counley Dep. 232-35.)

6. Before accepting a new merchant, a reviewer from Woodforest would review the Web site to check certain items. These reviewers are not trained about trademark infringement issues and are not capable of making judgments as to whether products shown on a Web site are counterfeit products, as opposed to replicas. The reviewer reviews the Web site to determine that the merchant is offering to sell the same products as are described in the application. This

way, an application will not be accepted for a merchant applying to sell handbags who in actuality is selling tobacco products. (Lemos Decl. ¶ 15.)

7. Gucci claims that the addition of a check box on the TBA Web site to require a customer to agree that the purchase is for a replica, not an original product, suggests that the originator of the checkbox was concealing sales of counterfeit products. (Gucci Mem. 23-24.) The checkbox was added to the TBA Web site at the suggestion of an employee of Frontline. (WF Exh. C, Counley Dep. 177-180; WF Exh. G.) Woodforest was not involved in the communications about adding a checkbox. (Exh. C, Counley Dep. at 235-36.)

B. Woodforest Had No Reason To Know That Laurette Was Engaged In Counterfeiting

1. Replicas (Look-Alikes) Are Not Invariably Counterfeits

8. TBA advertises its products to be "replicas," not counterfeits. To be a contributory infringer, Woodforest must know or should have known that Laurette was engaged in selling counterfeit goods. Although a trademark attorney might be able to infer whether the goods on the TBA Web site are counterfeit or not, bank employees reviewing Internet sites and paid from \$15-18 per hour do not have that level of sophistication or training about trademark rights and infringements. (Lemos Decl. ¶ 11.) Replicas or look-alike products are not necessarily counterfeits to a person in the position of Woodforest's inspector of a Web site. Replica handbags could be made to look like Gucci's handbags, but not to use Gucci's registered trademarks. Such replicas would not be counterfeit goods under 15 U.S.C. § 1116(b)(1), because they do not use a registered trademark. The advertising for replica goods may refer to the Gucci name to inform customers that the product is made to look similar to a Gucci bag, although it does not come from Gucci. Such use of the Gucci name would not be an act of counterfeiting.

9. Another example of a replica is the CharismaticStyle.com Web site that shows six replica products. (WF Exh. H.) No product appears to have the name of Gucci or Chanel on it.

Each product is advertised as being of the same style as the product for which it is a replica, such as "Gucci Style tote" and "Chanel Style small handbag." (*Id.* at 3.) The Web site also has a disclaimer which reads:

All products sold within this website are replicas, imitations or reproductions. Any reference to brand names is to compare them to our replica designer bags in terms of price, quality, or style. We do not represent our products to be original nor do we represent that they are exact copies.

(*Id.* at 3-4 (emphasis added).) This Web site, just like TBA, represents the products to be replicas, not counterfeits.

2. One Cannot Tell From The TBA Web Site That The Products Are Counterfeits

10. The TBA Web site does not show products that appear to be counterfeit goods. Gucci has printed out three pages of screen shots from the TBA Web site from which it contends that Woodforest "could plainly see the Gucci Marks on the fake products." (Gucci Mem. 26-28.) Gucci is changing the facts and drawing inferences in its own favor to support summary judgment.

11. The pages of the TBA Web site printed out by Woodforest are submitted as WF Exhibit J.

12. The Gucci name is not apparent on any of the products in the photos. Indeed, Gucci's own witness, Ms. Novak, admitted that she could not see the Gucci name on any of the replica products shown in these photos. (WF Exh. I, Novak Dep. 51-52.) The Gucci name is used on the Web site only to indicate that the handbags are replicas of Gucci bags, but this would not — and did not — convey to Woodforest that the products were counterfeits. Gucci also has pointed out that certain of the items appear to show an "interlocking facing GG design," which Gucci has registered. (Gucci Mem. 27.) But there is no evidence of record that Woodforest

knew that such design (even if noticed on the TBA Web site) was a registered trademark of Gucci.

13. The checkout form on the TBA Web site also represented that the items were replicas, not originals. The checkout form stated: "Please note as stated in our site that all items are replicas. By purchasing you are acknowledging the fact that they are replicas and not to be presented as originals." Each purchaser had to check a box that read "I understand these items being purchased are replicas, not originals." (WF Exh. K; Exh. I, Novak Dep. 55-56.) The notification that the products were replicas was also found in the "FAQ" section of the Web site. (Coyle Decl. Exh. 19.)

14. Gucci has also argued that Woodforest should have concluded that the merchandise advertised on the TBA Web site was counterfeit by comparing the prices of the items to Gucci's products and because the application listed the vendor as a company located in China. These may be signs from which a trademark lawyer or investigator for Gucci might suspect that the advertised products may be counterfeits, but there is no evidence that an \$18 per hour employee of Woodforest "knew" or "should know" from such descriptions that the products shown on the Web site are counterfeit, as opposed to replicas. (Lemos Decl. ¶ 11.)

3. Gucci Itself Needs To See The Product To Determine Whether It Is Counterfeit

15. The mere use of the Gucci name on a Web site is not sufficient for one to determine that the merchandise is counterfeit. Gucci itself needs to see the merchandise shown on a Web site to determine whether it is genuine or fake. Sandro Risi, Gucci's witness for enforcement of trademarks, testified that, when Gucci becomes aware of Internet companies advertising Gucci replicas or Gucci products, Gucci must purchase the merchandise to determine whether it is real or fake. (WF Exh. L, Risi Dep. 16-17, 18-19.) Mr. Risi noted that a purchase was needed to make this determination:

- A. Only thing I want to say, you can't say if it's real or fake until you buy it. So, therefore, when I look at the website, it's still possible that the merchandise is good.

(*Id.* at 19:17-20). Thus, Gucci is attempting to hold Woodforest to a standard of determining counterfeits of Gucci products that its own employees do not meet.

C. During The Time TheBagAddiction Operated, Woodforest Did Not Learn That It Sold Counterfeits

1. Woodforest Was Not Told That Any Replica Merchants Were Selling Counterfeits

16. TBA, approved on November 13, 2006, was the first replica merchant for Woodforest. (Lemos Decl. ¶ 8.) Mr. Counley submitted additional replica accounts to Woodforest in 2006 and 2007, the latest one being "Freshnewkickz" on December 4, 2007. (WF Exh. C, Counley Dep. 238-41; WF Exh. M.) Woodforest did not approve any replica merchant after May 2008, even before Woodforest had received a subpoena from Gucci in its lawsuit against Laurette. (Lemos Decl. ¶ 3, Exh. A; WF Exh. C, Counley Dep. 244-46.)

17. From November 2006 until May 2008, while Woodforest had approved and was providing processing services for all of these replica Web sites, Woodforest was not informed by any trademark owner that any replica Web site was offering counterfeit goods in violation of any trademark owner's rights. (Vernon Decl. ¶ 7-10; Lemos Decl. ¶¶ 12-14.)

2. Gucci Did Not Raise An Issue About TBA From October 2007 To June 2008

18. Woodforest's belief that the TBA replica Web site was not illegal is confirmed by Gucci's failure to raise an issue for one and one-half years. The TBA site began on September 15, 2006. From that date, Gucci was able to perform a simple Google search to locate this Web site advertising Gucci replicas. Gucci uses such searches to find sites advertising Gucci products. At Gucci, "[e]verybody within the company can do it." (WF Exh. L, Risi Dep. 36:13-37:3.) By March of 2007, Gucci was performing such Google searches, and

Mr. Risi conceded that the TBA Web site could have been found by a simple Google search. (*Id.* at 49, 52.)

19. By October 9, 2007, Mr. Falsone, an investigator for Gucci, had printed out the TBA Web site. (WF Exh. L, (Risi Dep. 55-66; *see* Coyle Decl. Exh. 2.) It is a reasonable inference that Gucci learned of and had viewed the TBA Web site a short time after September 2006, and well before October 2007. Directly contradicting Gucci's position that Woodforest should have known that the TBA Web site sold counterfeits, when Gucci saw the TBA site, it did not proceed with a lawsuit. It did not even send a cease and desist letter, ever. (WF Exh. N, July 19, 2010 e-mail from Gucci's counsel.) Instead, Gucci's private investigator printed out the Web site on October 9, 2007, and ordered a Gucci replica on November 2, 2007. (WF Exh. L, Risi Dep. 72, 75-76.) Even then, instead of filing suit against what Gucci claims Woodforest should have known were obviously counterfeits, Gucci waited — *another eight months* — before filing suit against Laurette. (*Id.* at 73-74.) Based on Gucci's own failure to act promptly after viewing the TBA Web site, Woodforest is entitled to the reasonable inference on this motion that it "should not have known" from viewing the TBA Web site that the Gucci replicas were counterfeits.

20. Gucci's inexcusable delay was prejudicial to Woodforest, which continued to process credit card payments for Laurette over this entire time. While it delayed, from October 2007 to June 2008, Gucci knew that TBA was "selling Gucci replicas," "taking credit card payments" for those sales, and a bank was "processing those credit card payments." (WF Exh. L, Risi Dep. 76:18-77:9, 63-64.) Gucci also knew that the credit card company, for instance Visa, would have information as to which bank was doing the processing. (*Id.* at 78-79.) When Gucci finally sent a letter to Visa demanding this information, Visa informed Gucci that Woodforest was a processor. (*Id.* at 77, 79.)

21. If Gucci had notified Woodforest earlier about counterfeiting by Laurette, Woodforest could have canceled its services. As Charles Vernon of Woodforest states:

Had Woodforest received a notice from Gucci establishing that TheBagAddiction was selling counterfeit goods, we would have investigated the issue. If we had determined that the client was selling illegal merchandise, Woodforest would have immediately cancelled our services. Gucci had ample time and opportunity to so notify us and they failed to do so.

(Vernon Decl. ¶ 8.) Almost immediately after Gucci *finally* sued Laurette, it notified Woodforest of the freeze order from the court and sent a subpoena for documents. Woodforest promptly closed down the Laurette account. Woodforest also fully cooperated and provided all of its documents regarding the Laurette Web site to Gucci's counsel. (Vernon Decl. ¶ 9, Exh. C.)

**D. Woodforest Was Not Willfully Blind
To The Activities Of TheBagAddiction**

22. Far from burying its head in the sand as Gucci asserts, Woodforest, through Delta Card, took affirmative steps, both during the application process and afterward, to ensure that its merchants were not selling illegal products or services. During the application process, Delta Card made sure to learn what the merchants were selling, that it matched what was identified in the application, and that the merchant conducted an appropriate non face-to-face business. (WF Exh. D, Boykin Dep. 26-27, 34.) For Internet merchants, the review process was expanded. Delta Card would specifically check to ensure that the merchant's web site did not advertise any restricted content. (WF Exh. E, Lemos Dep. 40-41; WF Exh. D, Boykin Dep. 30.) Delta Card developed an Internet Merchant Checklist in order to ensure that this added scrutiny was consistently enforced. (WF Exh. D, Boykin Dep. 17, 43.)

**E. Woodforest Did Not Have Direct Control And Monitoring Of
The Instrumentality Used By Laurette To Infringe Gucci's Marks**

**1. Woodforest Is Not Involved In Approving
The Sales Transactions For TheBagAddiction**

23. Woodforest plays absolutely no role in the actual processing of credit card transactions. Woodforest and Delta Card are not even involved in the credit card transaction that completes the sale of the merchandise. The credit card is swiped or keyed into the merchant's terminal. The merchant's terminal transmits an authorization request to the authorization center designated by the merchant, which in turn sends the request electronically to the VisaNet 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 back to the authorization center, which forwards it to the merchant. The merchant then completes the transaction. (Paur Decl. ¶ 4.) Woodforest's only role is as the sponsoring bank, fulfilling the credit card associations' requirement that the acquiring bank must be an actual financial institution. (WF Exh. E, Lemos Dep. 118-19.)

24. The transactions are kept at the terminal until the merchant sends all transactions, usually at the end of the day, to the processor for the acquiring bank. The acquiring bank credits the merchant's accounts and submits the transactions to the network for settlement. The network pays the processor and debits the appropriate issuer accounts. The issuers then post the transaction to their cardholder's accounts. (*Id.*)

**2. Woodforest Was Not Able To
Monitor The Laurette Web Site Counterfeits**

25. When Laurette applied to Woodforest, the TBA Web site had been fully completed and was in operation. (Lemos Decl. ¶ 9.) Woodforest had no obligation to monitor the Web site of Laurette because Woodforest had no involvement in the Web site being set up or

its operation. This is not similar to the control that a landlord must exercise over the activities of a retail tenant on his property.

26. Woodforest had no reason to monitor the TBA Web site because it believed TBA was involved in legal sales activities. Gucci has argued that because TBA was considered a "high risk" merchant, Woodforest must have known that the Web site was dealing in likely illegal products. But the term "high risk" is used by Woodforest to identify "any merchant that processes over 51 percent non face-to-face." (WF Exh. E, Lemos Dep. 17; WF Exh. D, Boykin Dep. 14:11-19.) Whether a merchant is "high-risk" or not has nothing to do with the type of goods it sells. (WF Exh. E, Lemos Dep. 19, 68.) Because Internet merchants obviously do not process face-to-face, all Internet merchants are automatically considered to be high risk, no matter what goods or services they are selling. (*Id.* at 17, 68.) For example, Amazon.com is such an Internet merchant.

27. The review done by Woodforest for a new merchant does not allow it to determine whether replicas advertised on a Web site are in actuality counterfeits. An employee of Delta Card reviews a Web site to determine whether the goods on the Web site match the description of the goods in the application. For example, a Web site applying to sell handbags, but advertising tobacco products would be rejected. But Woodforest employees who performed this review lack the training and sophistication to make judgments about issues of trademark infringement. (Lemos Decl. ¶ 11.)

28. Woodforest and Delta Card have a procedure for monitoring Internet merchants' Web sites for illegal or prohibited merchandise or services. They have hired G-2 to scan the Web Sites of all Internet merchants to identify those selling prohibited products or otherwise violating Visa or MasterCard rules. The word "replica" is not on the list of monitored terms because replicas are not prohibited. Monitoring for the word "counterfeit" on sites would not

have located Laurette as selling prohibited products, because Laurette did not describe its replicas as "counterfeit" or "fake." (Lemos Decl. ¶ 15.)

F. Woodforest's Credit Card Services Were Not Necessary For Laurette's Sales

**1. TheBagAddiction Web Site Was Created
And Operated Without Woodforest's Services**

29. Woodforest's credit card processing services were not necessary for Laurette to set up and operate the TBA Web site to sell Gucci replicas. Woodforest became involved two months after TBA had been set up, was using credit card processing services of Frontline, and was actively selling replicas. On September 15, 2006, Frontline, a defendant who has settled, approved Laurette's TBA Web site and started to process payments. (WF Exh. C, Counley Dep. 215-16; WF Exh. O.) Frontline's records show that, during the first two months using Frontline's credit card processing alone, TBA had monthly sales of about \$45,000. (See WF Exh. P at Gucci-007232.) During this time, Laurette was operating with the full content of the TBA Web site, which Gucci has accused of offering counterfeits.

30. On November 13, 2006, Laurette applied to Woodforest for additional processing in case the monthly purchasing volume for TBA went over the \$50,000 limit applied by Frontline. (WF Exh. D, J. Kirk Dep. 47-48; WF Exh. C, Counley Dep. 219-20; WF Exh. A.) Laurette could have simply asked Frontline to increase its limit. In October 2007, when Frontline found out that TBA was also using Woodforest, it offered to and did increase its limit to \$75,000, requesting that Laurette move all processing to Frontline. (WF Exh. Q.) Thus, far from being necessary to the sales by TBA, Woodforest came in for backup processing two months after TBA was operating and processing credit card payments. (WF Exh. C, Counley Dep. 225.)

2. Credit Card Services Are Not Necessary For Internet Sales

31. On the motion to dismiss, this Court concluded that "credit card processing services are a necessary element for the transaction of counterfeit goods online, and they were essential to sales from TheBagAddiction.com." (Op. 21 (Dkt.42).) Although credit card processing services, if available, may have been more convenient for Laurette, they are certainly not necessary for transacting sales online.

32. Woodforest has submitted the declaration of Charles Fillinger, a person with 20 years of experience in the electronic payments industry. Mr. Fillinger has outlined payment options available to Internet merchants other than credit cards, including noncard based ACH (automated clearinghouse settlement) payments, private label credit cards and accounts, private label prepaid cards and accounts, and money transfer and electronic checks. Recognizing that these alternative methods would not be as convenient credit cards, Mr. Fillinger has opined that from 2006-2008, an Internet merchant with \$50,000 to \$75,000 per month in business and unable to obtain credit card processing, could still maintain its business by using one or more of the alternative electronic payment options that he has identified. (Fillinger Decl. ¶¶ 3-10.)

33. The only testimony that Gucci cites for the proposition that credit card payments are necessary comes from a recent deposition of Jennifer Kirk, Laurette's principal; but her testimony is suspect. (*See* Gucci Mem. 6.) In resolving the *Laurette* suit, Gucci reached a confidential settlement agreement with Laurette, which allowed the Kirks to satisfy a public \$5.2 million judgment by payment of a confidential very small amount and "cooperation" with Gucci in its efforts to pin the liability on other parties including "credit card processing agencies." (WF Exh. R ¶ 6.) At the time the Kirks were deposed, Gucci claimed they were in arrears in their payments under the "confidential" settlement agreement and could be subject to the \$5.2 million judgment. Gucci was holding that sword over the head of the Kirks while they testified

at deposition. At a minimum, there is an evidentiary conflict between the testimony of Ms. Kirk and the declaration of Mr. Fillinger.

G. Woodforest Made Little Revenue By Processing Payments For TheBagAddiction

34. Contrary to Gucci's arguments, Woodforest's entire revenues for credit card processing for Laurette were quite small. Woodforest's compensation was 2¢ per transaction, regardless of the size of the transaction, the type of goods or services, and whether the merchant was high risk or not. (WF Exh. E, Lemos Dep. 96.) For Laurette, Woodforest's total gross revenue was \$69.46. (Lemos Decl. ¶ 4.) Even if one includes revenues by Delta Card and Woodforest, the total comes to \$16,505.86. (Lemos Decl. ¶ 5, Exh. B.) Given the small amount of money involved, Woodforest had no incentive to service any merchant if it knew the merchant was engaged in illegal activities.

H. For Entirely Economic Reasons, Woodforest Stopped Accepting Replica Merchants Before Gucci Sued Laurette

35. Woodforest voluntarily stopped accepting replica accounts even before Gucci sued Laurette. Few of Woodforest's nearly 35,000 clients were replica merchants. Woodforest has identified about 20 merchants that *may* have sold replica products. This represents less than one-tenth of one percent of its merchants. (Paur Decl. ¶ 3; Lemos Decl. ¶ 2.) As of May 5, 2008, Woodforest decided to cease accepting new merchants selling replica products. (Lemos Decl. Exh. A.) This decision was made solely because of the high number "charge backs for non-receipt of merchandise" associated with replica merchants. (WF Exh. E, Lemos Dep. 58:14-17.) This decision was made before any notice from Gucci about allegations against Laurette, which was first received in June 2008. (Vernon Decl. ¶ 9.)

36. The policies of Visa and MasterCard allow their credit cards to be used for the sale of replica merchants, but not for counterfeiters. Card associations, such as Visa and

MasterCard, regularly notify processing banks about the types of sales that are prohibited. During the November 2006 to May 2008 time frame, Woodforest did not receive a notice from any association prohibiting processing from merchants selling replicas. (Vernon Decl. ¶ 5; Exhs. A, B.)

III. STANDARD OF REVIEW

Gucci's motion violates the very hallmark of the summary judgment standard that, "in [reviewing all of the evidence,] the court must draw all reasonable inferences in favor of the nonmoving party," *Reeves v. Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 150 (2000), "even though contrary inferences might reasonably be drawn," *Cont'l Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 696 (1962). In reviewing the evidence and the inferences, the court "may not make credibility determinations or weigh the evidence." *Reeves*, 530 U.S. at 150. Summary judgment is appropriate only when, with all permissible inferences and credibility questions resolved in favor of the nonmoving party, "there can be but one reasonable conclusion as to the verdict." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 250 (1986). In violation of these rules, Gucci's motion is built upon inferences, which Gucci draws in its own favor, that Woodforest knew or should have known that products represented as replicas were counterfeits, and that Woodforest was involved in the direct control and monitoring of the TBA Web site, when Woodforest's witnesses all have testified that Woodforest was not.

IV. GUCCI IS NOT ENTITLED TO SUMMARY JUDGMENT

A. The Extent Of The Underlying Liability Is Disputed

Gucci claims it is an undisputed fact that the Laurette defendants admitted liability for counterfeiting activities and agreed to a monetary judgment of \$5.2 million. (Gucci Mem. 5, 15-16.) These facts are disputed. The Laurette defendants entered into a consent judgment, but they did not admit in that judgment that the sales on the TBA Web site were of counterfeit products. (See Coyle Decl. Exh. 4.) In the July 8, 2010 depositions of Jennifer and Patrick Kirk

of Laurette, Gucci did not so much as ask either of them whether the products that were sold on the TBA Web site were counterfeit.

The consent judgment between Gucci America and Laurette was a sham. Gucci submitted a consent judgment to the court in the *Laurette* case, which represented that the Laurette defendants were consenting to a monetary judgment of \$5.2 million, when in fact Gucci and Laurette had worked out a secret settlement limiting the Kirks' liability to a very small fraction of that amount. (*See* WF Exh. S ¶ 3.) Gucci was aware of this sham. (WF Exh. L, Risi Dep. 93-98.)

Gucci also has submitted no evidence that purchasers from the TBA Web site thought that they were obtaining genuine Gucci goods, as opposed to mere replica products. Gucci has produced no correspondence from customers complaining that the TBA Web site, or any other replica merchant using Woodforest's services, had sold counterfeit Gucci products. (*Id.* at 124-126; WF Exh. T.) Terilyn Novak, Gucci's Rule 30(b)(6) deponent, could not recall a single customer who had said they had purchased a product on one of the replica Web sites "thinking it was a genuine Gucci product, and then it turned out that it was not." (WF Exh. I, Novak Dep. 46-47.) Gucci experienced no return of a replica product from an Internet merchant to Gucci by a customer believing it was a Gucci product. (*Id.* at 108-09.)

Gucci asserts that this case includes sales of allegedly counterfeit products by other replica sites that Woodforest innocently accepted during the same November 2006 through May 2008 time period. Gucci submits no evidence that these Web sites actually sold counterfeit Gucci products, such as products purchased from these sites. While Gucci again incorrectly claims that these replica merchants "explicitly labeled their replica products as 'Gucci'" (Gucci Mem. 17), the few sites that actually show replicas do not appear to have the Gucci name on the products (*see* Coyle Decl. Exhs. 49, 51, 54, 59). Thus, Gucci's proofs regarding the products

sold by the other Internet merchants are as deficient as its proofs for the products sold by Laurette.

**B. Woodforest Did Not Know Nor Should It Have
Known That Laurette Was Selling Counterfeits**

Gucci's sole surviving claim against Woodforest is for contributory infringement. In terms of the requirement of knowledge, this Court noted that the test for service providers was that the defendant "continue[] to supply its [services] to one whom it knows or has reason to know is engaging in trademark infringement." (Op. 16 (Dkt.42) (citing *Inwood Lab., Inc. v. Ives Lab., Inc.*, 456 U.S. 844, 853 (1982)).) But the Second Circuit has now made clear in *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93 (2d Cir. 2010), that the knowledge must be specific:

For contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.

Id. at 107. Gucci's evidence, however, does not begin to establish that Woodforest either knew or had reason to know that the TBA Web site sold counterfeit Gucci products.

**1. Woodforest Did Not Know
Laurette Was Selling Counterfeit Products**

Laurette was the first replica merchant that Woodforest approved; and its application described the products as "designer handbags." Woodforest was not aware that Laurette previously had to close its site because it was selling replicas. And neither Laurette nor Mr. Counley suggested to Woodforest that Laurette was selling counterfeits. (S/F 1.)

Woodforest's procedures prevented approval of a merchant selling illegal products, but not replicas that Woodforest believed were not illegal. (S/F 2.) Woodforest's procedures were the same as those of Visa and MasterCard at the time. (S/F 3.) Woodforest gained very little revenue by providing processing services for Laurette. (S/F 34.) Accordingly, Woodforest

would gain little by approving Laurette, and risked far more were it to approve a merchant who it believed was engaged in illegal sales.

Woodforest employees have testified that Woodforest would not have approved of the TBA Web site if they thought the merchant was selling counterfeit or illegal products. (S/F 4.) Approval of counterfeit goods would have violated Woodforest's policies that are consistent with Visa and MasterCard policies. (S/F 2-3.) Gucci cannot dispute the testimony of Woodforest's witnesses. Although Gucci is not entitled to have inferences drawn in its favor or to challenge the credibility of Woodforest's witnesses on summary judgment, Gucci's response is simply: "Woodforest's contentions do not ring true." (Gucci Mem. 26.)

**2. Woodforest Thought The TBA
Products Were Replicas, Not Counterfeits**

Gucci has built its case on an assertion that Woodforest must have known that Laurette was offering counterfeit goods, simply because such goods are shown on the TBA Web site. Gucci asserts — contrary to the evidence — that Woodforest "could plainly see the Gucci Marks on the fake products." (*Id.* at 28.)

Woodforest has submitted evidence that a reviewer from Woodforest, not trained in matters of trademark infringement and counterfeiting, based on a review of the TBA screen shots would not know that the replica products were counterfeit goods actually using the Gucci name. The job of the reviewer is to see whether the products listed in the application, *i.e.*, "designer handbags," are what the Internet merchant is actually selling. The reviewer is not trained to draw inferences and reach conclusions about issues of trademark infringement. (S/F 6, 8, 14.)

Considered in that context, a reviewer for Woodforest would conclude that the products were replicas of Gucci's handbags, but not necessarily counterfeit. The screen shots show handbags without the Gucci name on the product. (S/F 11-12.) And while certain of the items show an interlocking GG design, which Gucci has registered, Gucci has provided no evidence

that Woodforest even knew that such a design was a registered Gucci trademark. Gucci plays fast and loose with its contention that the Gucci name is shown on the goods. It is not, and an examination of the screen shots establishes that it is not. (*See Gucci Mem. 27.*) What Gucci is confusing is the Gucci name on the Web site (as well as the names of numerous other trademark owners) to indicate the goods of which Laurette offers replicas.

Convincing evidence that Woodforest would not have known from the TBA Web site that the products offered were counterfeit comes from Gucci's witness who stated that, when Gucci becomes aware of Internet merchants advertising Gucci replicas or Gucci products, "you can't say if it's real or fake until you buy it." (S/F 15.) In short, if Gucci's head of trademark enforcement cannot determine whether a product is a counterfeit by viewing the screen shot on a Web site, how can Woodforest employees be expected to make that determination?

Helping itself to a major inference drawn in its favor, Gucci contends that the plain meaning of the word "replica" is counterfeit and cites *Chanel, Inc. v. Schwartz*, No. 06-civ-3371, 2007 WL 4180615 (E.D.N.Y. Nov. 19, 2007). But the *Chanel* case stands merely for the proposition that a disclaimer that counterfeits are replicas will not absolve a counterfeiter from his violation. Thus, if Laurette was indeed selling counterfeits, but advertising them as replicas, their disclaimer would not absolve Laurette of liability. But Woodforest must proceed on the basis of the pictures and descriptions on the TBA Web site, and the Web site (without more) would not establish that a party in the position of Woodforest should have known that what Laurette was advertising as replicas were, in actuality, counterfeits.

3. Gucci Itself Did Not Proceed Based On Viewing The TBA Web Site

Woodforest had no reason to believe that replica merchants were selling counterfeit goods because, during the entire 20-month period when Woodforest provided credit card processing services for replica merchants, no merchant or trademark owner raised an issue that

the goods sold on these Web sites were counterfeit. (Vernon Decl. ¶ 9.) Most remarkably, Gucci itself did not step up and alert Woodforest that the goods sold on the TBA Web site were counterfeit. Gucci easily could have found the TBA site by a simple Google search any time after September 2006. Indeed, by October 2007 (although probably much earlier), Gucci had printed out the TBA site.

Still, rather than conclude that the site showed counterfeits and proceed immediately against Laurette, Gucci didn't even send a cease and desist letter. And Gucci waited — another *eight months* — before finally filing suit against Laurette. During this entire time, Gucci knew that a bank, such as Woodforest was, processing credit card payments. (S/F 18-20.) Had Gucci notified Woodforest that Laurette's activities involved counterfeiting, Woodforest would have closed the account. (S/F 21.) Thus, Gucci's motion for summary judgment is based on an assertion that a Woodforest employee merely viewing screen shots of a Web site should have concluded that they showed counterfeit products, although Gucci itself did not make that determination without purchasing products, and did not proceed against the Web site for at least eight months after it saw those same screen shots.

C. Woodforest Was Not Willfully Blind To Counterfeiting

Gucci also argues that Woodforest was at least "willfully blind," pointing out that the case law on trademark infringement uses "replica" and "counterfeit" in conjunction or interchangeably, and taking note of a sophisticated monitoring system developed by e-Bay, which would locate sites that offered "replica" merchandise. (Gucci Mem. 28-29.) First, Woodforest employees involved in investigating Web sites are not sophisticated in trademark matters or court cases. Second, Woodforest does not provide an e-Bay like marketplace for the sale of products over the Internet, which would warrant the expensive and sophisticated monitoring that e-Bay does. It is certainly disputed that Woodforest was willfully blind, since

Woodforest took steps during the application process and afterward to ensure that its merchants were not selling illegal products or services. (S/F 23.)

**D. Woodforest Did Not Have Direct Control
And Monitoring Of The Instrumentality Used To Infringe**

As this Court has noted, for contributory infringement, "a plaintiff must also show 'direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark.'" (Op. 16 (Dkt.42) (citing *Perfect 10 v. Visa Int'l Serv. Ass'n.*, 494 F.3d 788, 807 (9th Cir. 2007))).) This Court also concluded that "credit card processing services are a necessary element for the transaction of counterfeit goods online, and were essential to sales from TheBagAddiction.com." (*Id.* at 21.) While Woodforest respectfully disagrees with that conclusion as a matter of law, the *facts* regarding proof of these elements are also disputed on the present motion.

1. Credit Card Services Are Not Necessary For Online Sales

It is undisputed that Laurette set up the TBA Web site and operated it for the first two months without any involvement from Woodforest. (S/F 30-31.)

Although Laurette used credit card payments because they were available and convenient, it is disputed whether credit card services were necessary for Laurette to operate its Web site. Charles Fillinger, an expert on electronic payments, has provided his opinion that, during 2006-2008, an Internet merchant in the position of Laurette and unable to obtain credit card payments could maintain a Web site selling merchandise by a combination of a noncard based ACH (automated clearinghouse) settlement, private label credit card accounts, private label prepaid cards, and money transfer/electronic check mechanisms. (Fillinger Decl. ¶ 3.) Although these methods would have been less convenient, Mr. Fillinger has identified a number of merchants who have used these methods for online sales. (*Id.* ¶¶ 4-5.)

Gucci's contrary testimony comes from the recent deposition of Jennifer Kirk, Laurette's principal, and is suspect. (S/F 33). At the very least, there is a dispute on this issue.

2. Woodforest Is Not Involved In The Sales Transactions

On defendant's motion to dismiss, the Court cited the dissent in *Perfect 10*, noting that "the infringing products 'are delivered to the buyer only after defendants approve the transaction.'" (Op. 22 (Dkt.42).) But here, Woodforest is not involved in or part of the sales transaction; and Woodforest does not approve of the sale in order for it to be completed. The order is accepted when the customer's bank (not Woodforest, the merchant's bank) indicates that the credit card being used for the purchase is active and the transaction is within its limits. (S/F 23-24.)

3. Woodforest Is Not Able To Monitor The Laurette Web Site

The facts as to Woodforest's ability to monitor the Laurette Web site and control its content are also disputed. Woodforest disputes that it had any obligation to monitor the Laurette Web site at all. Woodforest did not set up the Web site and did not provide the marketplace for the site to operate. (S/F 25.) Thus, Woodforest did not have the obligation a landlord has to monitor the activities of a tenant on his property. Indeed, Woodforest's ability to monitor the Laurette Web site was no greater than the ability of any user of the Internet.

Gucci seeks to have this Court infer from the review that Woodforest does of a merchant's Web site that Woodforest had the ability to monitor Internet merchants to determine whether they were selling counterfeit goods. (Gucci Mem. 30-32.) However, Woodforest's limited monitoring of the Laurette Web site was not for the purpose or with the ability to determine whether replica products sold on the Web site were counterfeits. As an initial review checklist, a reviewer would see whether the products on the site were the same as the products on the application. The reviewer was not capable of determining issues of trademark

infringement. (S/F 27.) Woodforest uses G-2 to scan the Web sites of the Internet merchants to identify prohibited products or services that are illegal, such as drugs, firearms, or tobacco, or that violate Visa or MasterCard rules. These monitoring activities are also insufficient to determine whether a site is selling counterfeits because such sites do not usually refer to their products as counterfeit. (S/F 28.)

4. Woodforest Does Not Meet The eBay Test

Gucci claims that Woodforest's monitoring involves the same steps by which eBay was held to meet the control portion of contributory infringement in *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008), *aff'd in part and remanded*, 600 F.3d 93 (2d Cir. 2010). Woodforest agrees that the *eBay* case provides useful guidelines for the type of control needed to establish contributory infringement by providing the following indicia:

[T]he court first notes . . . eBay retains significant control over the transactions conducted through eBay. By providing the software to set up the listings and store listing information on its servers, eBay supplies the necessary marketplace for the sale of counterfeit goods. eBay takes an active role in supplying customers — namely, registered buyers — to registered sellers, and actively facilitates transactions between them.

Second, eBay has actively promoted the sale of Tiffany jewelry items. eBay advertises merchandise on its own website as well as through other websites, including until 2003, Google and Yahoo!. . . .

Third, eBay profits from the listing of items and successful completion of sales, through insertion fees and final value fees. . . .

Fourth, eBay maintains significant control over the listings on its website. Certain categories of items are entirely barred from the website, including drugs, firearms, and alcohol products. (Pl.'s Ex. 4.) The fraud engine screens listings and removes items that use specific terms in the listing description, for example "counterfeit" or "fake." . . .

Finally, to the extent eBay styles itself as a classified ad service, eBay's own witnesses admitted that eBay maintains a classified ad service separate and apart from the eBay listings that are at issue in this action. (Tr. 397:10-16.)

Id., 576 F. Supp. 2d at 506-07 (emphasis added). Woodforest's services, however, are far removed from the services by which eBay provides monitoring and control over the sales activity on its Internet marketplace. Woodforest does not set up listings, supply a marketplace, supply

customers, promote sales, advertise merchandise, or maintain a classified ad service. In sum, Woodforest has no genuine ability to monitor its Web accounts.

E. Woodforest's Good Faith

On May 5, 2008, Woodforest decided to accept no additional replica merchants because it was encountering too high a level of charge backs. This was before Gucci sued Laurette. It is also significant that, during the entire time that Woodforest was providing services for TBA, Visa and MasterCard had not notified Woodforest that replica sales were a category for which credit card service processing using Visa and MasterCard should be prohibited. (S/F 36.)

Woodforest had no financial incentive to take on an Internet merchant that it had reason to know was involved in illegal activities. Woodforest, along with all affiliates, had total revenues of just over \$16,000. (S/F 34.) The amount of money involved would not have provided any incentive for Woodforest to assume the risks attendant with taking on a merchant if it had known the merchant was engaged in illegal sales.

V. CONCLUSION

Based on the foregoing, Woodforest respectfully requests that the Court deny Gucci's motion for summary judgment in its entirety.

Respectfully submitted,
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