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**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

GUCCI AMERICA, INC.	:	Civil Action No. 09-6925-HB
	:	
Plaintiff,	:	District Judge Harold Baer, Jr.
v.	:	
FRONTLINE PROCESSING CORPORATION;	:	
WOODFOREST NATIONAL BANK;	:	
DURANGO MERCHANT SERVICES LLC d/b/a	:	
NATIONAL BANKCARD SYSTEMS OF	:	
DURANGO; ABC COMPANIES; and JOHN	:	
DOES,	:	
	:	
Defendants.	:	
	x	

WOODFOREST'S STATEMENT IN RESPONSE TO GUCCI'S RULE 56.1 STATEMENT

Pursuant to Rule 56.1 of the Local Rules for the Southern District of New York, defendant Woodforest National Bank ("Woodforest") sets forth the following response to Gucci's Local Rule 56.1 Statement. Woodforest further sets forth its statement of material facts as to which a genuine issue exists.

I. Response To Gucci's Rule 56.1 Statement Contentions

1. Not contested.
2. Not contested.
3. Not contested.
4. Not contested.
5. Not contested.
6. Disputed. Woodforest disputes that thebagaddiction.com Web site offered any more even different types of products that were advertised as replicas of Gucci products. The million statutory damages amount in the Final Order and Judgment on Consent entered into

between Gucci and Laurette ("Consent Judgment") was calculated based on only seven categories of products. (Coyle Decl. Exh. 4 ¶ 2.) Woodforest further disputes that Gucci has put forth any admissible evidence to establish that any of the bags sold, or offered for sale, on thebagaddiction.com Web site were actually counterfeit.

7. Disputed. Laurette did not categorize its product offerings into the 20 categories identified by Gucci. In fact, the testimony of Laurette's principal, Jennifer Kirk, directly contradicts this proposition. (WF Exhs. B,¹ J. Kirk Dep. 100-06.) Ms. Kirk testified that "I don't recall what the categories were named," "I don't believe so," and "I don't recall" in response to questions about whether certain items were "categories" or "sections" of handbags offered on thebagaddiction.com Web site. (*Id.*) Woodforest further disputes that Gucci has put forth any admissible evidence to establish that any of the bags sold, or offered for sale, on thebagaddiction.com Web site were actually counterfeit.

8. Not disputed.

9. Not disputed.

10. Disputed. A plain reading of the Consent Judgment reveals no such admission of liability or counterfeiting. (Coyle Decl. Exh. 4.)

11. Not disputed.

12. Disputed. The merchant's acquiring bank, in this case Woodforest, plays absolutely no role in the actual processing of credit card transactions. Delta Card plays no role in the actual processing of credit card transactions as well. Woodforest and Delta Card do not render or transmit approvals; and are not involved in the transfer of any information concerning transactions. Woodforest's only role is as the sponsoring bank, fulfilling the credit card

¹ WF Exh. ___ refers to exhibits to the Kennedy declaration.

associations' requirement that the acquiring bank must be an actual financial institution. In the event of charge backs that are defaulted on by a merchant, Delta Card is responsible for the payment. (Paur Decl. ¶ 5.)

13. Disputed. Numerous alternate forms of payment are 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 or well known as credit cards, Woodforest's expert, Charles Fillinger, with over 20 years of experience in the electronic payments industry, has opined that an Internet merchant in the 2006-2008 time period with approximately \$50,000 or \$75,000 per month in business and unable to obtain credit card processing, could still maintain their business by using one or more of the alternative electronic payment options that he has identified. (Fillinger Decl. ¶¶ 3-10.) Further, 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, and 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 pay a public \$5.2 million judgment by payments over four years totaling a very small amount and "cooperation" with Gucci in its efforts to pin the liability on other parties, including "credit card processing agencies." (WL 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.

14. Disputed. No documentary evidence has been submitted to support this allegation. Further, as discussed in paragraph 13 above, the only testimony that Gucci cites for the proposition is from Jennifer Kirk, whose testimony is suspect.

15. Disputed. Woodforest disputes this allegation in that the Laurette defendants never informed Woodforest that their Card Service account had been shut down, or the reason why it had allegedly been shut down. (Lemos Decl. ¶ 9.)

16. Disputed. The actual testimony from Ms. Kirk was speculative. After stating she did not know for how long the Web site stopped accepting orders (WF Exh. B, J. Kirk Dep. 45:20-22), she then speculated "maybe a couple weeks" (*Id.* at 45:23-25).

17. Not disputed that the quoted language is accurately copied from the referenced declaration. However, Woodforest objects that this declaration does not constitute admissible evidence as to Woodforest.

18. Disputed. Woodforest and Delta Card are entirely separate entities. (WF Exh. E, Lemos Dep. 7-8.) The credit card processing services were provided by Delta Card, pursuant to a contract with Woodforest. Gucci has chosen not to sue Delta Card. Woodforest maintains as a defense that it is not responsible for contributory infringement because the services were provided by Delta Card.

19. Not Disputed.

20. Disputed. Delta Card's offices are located in the same building as only certain sections of Woodforest. (WF Exh. E, Lemos Dep. 113.) Woodforest's main offices are located in another location. (Vernon Decl. ¶ 2.)

21. Not disputed.

22. Disputed. Woodforest is responsible for approving changes to Delta Card's underwriting policies. (WF Exh. E, Lemos Dep. 119-21.) However, Delta Card is responsible

for adhering to the policies in the servicing of merchants, and Woodforest has no role in the approval process for new merchants. (*Id.* at 114-15.)

23. Disputed. Gucci has referenced a 14-year old agreement that was superseded by a new agreement over four years ago. (WF Exh. U.)

24. Disputed. Woodforest and Delta Card do not share the revenues. Woodforest makes very little money off of its involvement in credit card processing. Woodforest's entire compensation in all cases is two cents per transaction. This amount is not affected by the size of the transaction, the type of goods or services sold by the merchant, or the merchant's classification as high risk or not. In the case of Laurette, the total gross revenue received by Woodforest for the entire time Delta Card provided processing services, was \$69.46. (Lemos Decl. ¶ 8.) Further, Gucci has referenced a 14-year old agreement that was superseded by a new agreement over four years ago. (WF Exh. U.)

25. This paragraph is not relevant to the claims asserted against Woodforest, and only pertains to Durango. Therefore, no response is necessary.

26. Woodforest does not dispute that these statements appeared on the Durango Web site. Woodforest, however, disputes the truth of the matters asserted therein. (Fillinger Decl. ¶¶ 3-10.)

27. Disputed. Durango was not an agent for Woodforest. Woodforest and Delta Card did not have any agreement with Durango, only its employee, Nathan Counley. Mr. Counley's agreement with Delta Card, provides that he is not Delta Card's agent:

The Sales Associate's relationship with Delta Card is that of an independent contractor, not an employee or agent of Delta Card . . . The Sales Associate shall conduct and control his/her business activities, work hours, selection of customers, office location and sales methods. The Sales Associate has no authority, except as expressly provided herein to bind 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.)

28. Disputed. Woodforest disputes this allegation in that the Laurette defendants never informed Woodforest that their Card Service account had been shut down, or the reason why it had allegedly been shut down. (Lemos Decl. ¶ 9.)

29. Not disputed.

30. Disputed. The evidence cited by Gucci does not support the proposition that Durango knew that TheBagAddiction's products bore "copies of Gucci's registered trademarks." The evidence is only that Durango knew that TheBagAddiction advertised on its Web site that it sold replica products. (WF Exh. C, Counley Dep. 77; WF Exh. B, J, Kirk Dep. 41-42.)

31. Not disputed that Mr. Counley's cited e-mail contained the statement quoted in this paragraph.

32. Not disputed that Ms. Kirk's cited e-mail contained the statement quoted in this paragraph.

33. Not disputed that Mr. Counley's cited e-mail contained the statement quoted in this paragraph.

34. Not disputed.

35. Disputed. Laurette was not required to get a second processor as it could have, and later successfully did, ask Frontline to increase its processing limit. (WF Exh. C, Counley Dep. 222.)

36. Not disputed.

37. Not disputed.

38. Disputed. The check box statement did not refer to "authentic designer goods," only that the products "being purchased are replicas, not originals." (Coyle Decl. Exh. 13, at 178.)

39. Not disputed that Jennifer Kirk provided the quoted testimony at her deposition. However, as discussed in paragraph 13 above, the only testimony that Gucci cites for the proposition is from Jennifer Kirk, whose testimony is suspect.

40. Disputed. The evidence cited by Gucci does not support the proposition stated in this paragraph. The e-mail from Stephanie Walker to Counley only stated: "The reason for this is I received a [sic] e-mail from Louis Vuitton for the pursescene.com." None of the content of the e-mail received from Louis Vuitton was disclosed to Counley in this e-mail. (Coyle Decl. Exh. 16.)

41. Disputed. Woodforest disputes this paragraph to the extent Gucci seeks to imply that no other domestic providers of credit card processing services existed at that time, as the cited evidence does not support that proposition. (WF Exh. C, Counley Dep. 16.)

42. Disputed. Woodforest disputes this paragraph as it commenced providing credit card services to the Laurette Defendants approximately two months after Frontline. (Coyle Decl. Exh. 14.) Woodforest further disputes the relevance of the amount of total sales as no evidence has been submitted to establish what portions of those total sales were processed by Woodforest versus Frontline, and what portions related to sales of replica Gucci products versus other products.

43. Woodforest does not dispute that Durango earned a portion of the revenues from credit card processing services rendered to the Laurette Defendants.

44. Not disputed.

45. Not disputed that the stated language is accurately quoted from the referenced document.

46. Disputed. 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. 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; WF Exh. J, Exh. Novak-2.) 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.

47. Disputed. In its proper context, the listing in the referenced printout was for a replica of a Gucci handbag, and not the product itself.

48. Not disputed.

49. Not disputed. Woodforest notes that service of the temporary restraining order was the first notice of any kind it received that TheBagAddiction was accused of the sale of counterfeit products. (Vernon Decl. ¶ 9.) Woodforest further notes that the full quoted response in its Answer read "replica but not counterfeit or illegal products." (Woodforest Answer ¶ 46.)

50. Disputed. Woodforest disputes that it bears the risk of financial loss from charge backs. In the event of charge backs that are defaulted on by a merchant, it is Delta Card that is responsible for the payment; not Woodforest. (Paur Decl. ¶ 5.)

51. Disputed. 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. 17:2-7; 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. 19:9-14; 68:16-24.) 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 17:8-9; 68:16-24.) This would include Web sites like Amazon.com.

52. Disputed. The cited policy was that of Delta Card, not Woodforest. Woodforest has no role in the approval process for new merchants. (*Id.* at 114-15.)

53. Disputed. The cited policy was that of Delta Card, not Woodforest. Woodforest has no role in the approval process for new merchants. (*Id.*)

54. Disputed. Only certain types of high-risk merchants were subjected to three levels of review. Further, the cited policy was that of Delta Card, not Woodforest. Woodforest has no role in the approval process for new merchants. (*Id.*)

55. Not disputed. However, Woodforest notes that even the bank employees reviewing Internet sites were only paid from \$15-18 per hour, and do not have a high level of sophistication or training about trademark rights and infringements. (Lemos Decl. ¶ 11.)

56. Disputed. The cited policy was that of Delta Card, not Woodforest. Woodforest has no role in the approval process for new merchants. (WF Exh. E, Lemos Dep. 114-15.) Delta Card's policy was simply that the products identified by the merchant in the application needed to match what the merchant was actually selling. (*Id.* at 63; WF Exh. D, Boykin Dep. 81-82.)

57. Not disputed.

58. Not disputed.

59. Disputed. The cited testimony accurately notes that the G-2 searches scan the Web sites for violations of Visa and MasterCard prohibited items. (WF Exh. E, Lemos Dep. 43-44.)

60. Disputed. The cited testimony only establishes that a single employee of Delta Card, not Woodforest, was possibly aware of the stated information. (*Id.* at 49-52.)

61. Disputed. The cited testimony only establishes that a single employee of Delta Card, not Woodforest, was possibly aware of the stated information. (*Id.* at 49-52.)

62. Disputed. The cited report nowhere identifies any information whatsoever concerning products bearing Plaintiff's Marks. (Coyle Decl. Exh. 24.) Further, the referenced G-2 report indicated review dates in September-November 2009.

63. Disputed. Woodforest voluntarily stopped accepting replica accounts before receiving any notice from Gucci, and before Gucci sued Laurette. 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 the Laurette Company, which were first received in June 2008. (Vernon Decl. ¶ 8.)

64. While Woodforest does not dispute that the term "counterfeit products" was not listed on Delta Card's Internet Merchant Review Checklist, Woodforest disputes that counterfeit products were not strictly prohibited by Delta Card and Woodforest at all times. (WF Exh. D, Boykin Dep. 113, 126.)

65. Disputed. While Woodforest could request that a merchant take certain actions, it did not have the ability to cause the actions to occur.

66. Not disputed.

67. Disputed. Woodforest only had control over whether a merchant could process transactions through Delta Card. Woodforest had no control over a merchant's processing of credit cards through other providers. Additionally, numerous alternate forms of payment are 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 or well known as credit cards, Woodforest's expert, Charles Fillinger, with over 20 years of experience in the electronic payments industry, has opined that an Internet merchant in the 2006-2008 time period with approximately \$50,000 or \$75,000 per month in business, and unable to obtain credit card processing, could still maintain their business by using one or more of the alternative electronic payment options that he has identified. (Fillinger Decl. ¶¶ 3-10.)

68. Not disputed that Mr. Counley's cited e-mail contained the statement quoted in this paragraph, but Woodforest disputes Gucci's characterization of this text.

69. Disputed. While Woodforest does not dispute that Durango submitted applications to Woodforest for additional merchants selling replica products, Woodforest disputes that the Gucci name is apparent on any of the products as shown on the Web sites in the exhibits cited in this paragraph.

70. Not disputed.

71. Disputed. Woodforest makes very little money off of its involvement in credit card processing. Woodforest's entire compensation in all cases is two cents per transaction. This

amount is not affected by the size of the transaction, the type of goods or services sold by the merchant, or the merchant's classification as high risk or not. In the case of Laurette, the total gross revenue received by Woodforest for the entire time Delta Card provided processing services, was \$69.46. (Lemos Decl. ¶ 8.)

72. This paragraph is not relevant to the claims asserted against Woodforest, and only pertains to Durango. Therefore, no response is necessary.

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78. This paragraph is not relevant to the claims asserted against Woodforest, and only pertains to Durango. Therefore, no response is necessary.

79. This paragraph is not relevant to the claims asserted against Woodforest, and only pertains to Durango. Therefore, no response is necessary.

II. Woodforest's Statement Of Material Facts As To Which A Genuine Issue Exists

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 Card. Woodforest was not aware that Laurette was selling

counterfeit products. Laurette's application identified the products as "designer handbags." (WF Exh. A; 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.)

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. (WF Exh. C, Counley Dep. 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. 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.

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 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.

12. 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.)

13. 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

14. 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

15. 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.)

16. 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

17. 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.)

18. 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.

19. 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." (WL 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.)

20. 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

21. 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

22. 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. 118-119.)

23. 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

24. When Laurette applied to Woodforest, the TBA Web site had been fully completed and was in operation. (Lemos Decl. ¶ 9.)

25. 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.

26. 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.)

27. 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**

28. 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.

29. 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

30. 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.

31. 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.)

32. 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

33. 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 were \$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

34. 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.)

35. 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.)

Respectfully submitted,

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