Fashion Apparel Law Blog

Posted at 12:37 PM on June 30, 2010 by Sheppard Mullin

Gucci's Attempt to Extend Trademark Infringement Liability to Credit Card Merchant Service Providers Survives Motion to Dismiss

Judge Harold Baer in Gucci America, Inc. v. Frontline Processing Corp., No. 09 Civ. 6925 (HB), 2010 WL 2541367 (S.D.N.Y. June 23, 2010), ruled that Gucci had sufficiently alleged facts to defeat a motion to dismiss in a suit brought against three defendant credit card merchant service providers for trademark infringement. The litigation stems out of an earlier action, Gucci America, Inc. v. Laurette Co., Inc., No. 08 Civ. 5065 (LAK) (S.D.N.Y. June 3, 2008), in which Gucci successfully sued defendant Laurette for operating a website, "TheBagAddiction.com," which sold counterfeit Gucci designs. Gucci later brought suit against three credit card merchant companies, Durango Merchant Services (a Wyoming corporation), Frontline Processing Corporation (a Nevada corporation principally operating in Montana), and Woodforest National Bank (a Texas corporation), alleging that those companies aided and assisted Laurette and other similar website operators in infringing Gucci's marks. According to the allegations set forth in Gucci's complaint, Durango established credit card processing services for web companies like Woodforest and Frontline that sold counterfeit products. Gucci brought trademark infringement and counterfeit claims against Laurette based upon website sales of counterfeit Gucci products. Gucci alleged that the credit card processing services established by the three defendants were essential to Laurette's sale of counterfeit Gucci products, and, for that reason, Durango, Frontline, and Woodforest were equally responsible for direct, contributory, and vicarious trademark infringement under the Lanham Act and New York state law. The defendants moved to dismiss the action on the grounds that the court lacked personal jurisdiction and that Gucci had failed to state a claim.

The district court ruled that the court had personal jurisdiction over the credit card merchant service provider defendants because they operated interactive websites available in New York, billed themselves as available for nationwide business, and have a small number of clients in New York, availing themselves to the benefits of the jurisdiction.

With regard to the trademark infringement claims, the district court ruled that, although Gucci had not sufficiently pleaded facts to support either its direct or vicarious liability theories, Gucci's claims against all three defendants could proceed on a contributory infringement theory based upon allegations that defendants knowingly supplied services to websites and had sufficient control over infringing activity to merit liability. In analyzing Gucci's direct infringement claim, the district court held that: (i) the defendants had not used Gucci's mark "in

commerce"; (ii) knowledge alone of another party's sale of counterfeit or infringing items is insufficient to support direct liability, and (iii) the defendants did not themselves advertise or sell infringing products. Frontline, slip op. at 15, 2010 WL 2541367, at *11. The district court also found that the facts alleged by Gucci did not support the inference that the defendants had "the type of control over a company like Laurette as a whole, i.e., akin to joint ownership, necessary for vicarious liability." Id., slip op. at 16, 2010 WL 2541367, at *11. However, in analyzing the contributory infringement claim, the district court ruled that Gucci pleaded sufficient facts to infer that Durango had intentionally induced trademark infringements by promoting its payment system as a means to infringe, and that Woodforest and Frontline "exerted sufficient control over the infringing transactions and knowingly provided its services to a counterfeiter." Id., slip op. at 17-23, 24, 2010 WL 2541367, at *12-16, 17. It is significant to note that Judge Baer's decision cited both the Second Circuit 's recent decision in Tiffany v eBay, 600 F.3d 93 (2d Cir. 2010) and the Ninth Circuit's decision in Perfect 10, Inc. v. Visa Int'l Serv. Ass'n, 494 F.3d 788 (9th Cir. 2007). In citing Perfect 10, the district court noted that: "While in *Perfect 10* the credit card services may not have been needed for a website to display infringing photographs, the infringement here occurred through the sale of the counterfeit products. 'It's not possible to distribute by sale without receiving compensation, so payment is in fact part of the infringement process.'" Frontline, slip op. at 23, 2010 WL 2541367, at *16 (quoting Perfect 10, 494 F.3d at 814 (Kozinski, J., dissenting)). This distinction was a key point in the district court's conclusion that "[i]f, as Gucci alleges, the Laurette website was functionally dependent upon Woodforest and Frontline's credit card processing services to sell counterfeit Gucci products, it would be sufficient to demonstrate the control needed for liability." Frontline, slip op. at 23, 2010 WL 2541367, at *16.

While the district court's decision is a ruling on a motion to dismiss, and certainly not a final decision on the merits of the case, the district court's holding states that liability can potentially extend to credit card merchant service providers, who are "a step down the 'food chain'" and play a more indirect role in trademark infringement. This presages further litigation against the credit card merchant service providers and others who fund online counterfeiting.