



Gucci America, Inc. v. Frontline Processing Corp.: 721 F. Supp. 2D 228 (S.D.N.Y. 2010)

Rebecca R. Younger

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**GUCCI AMERICA, INC. V. FRONTLINE
PROCESSING CORP.**

721 F. SUPP. 2D 228 (S.D.N.Y. 2010)

I. INTRODUCTION

In *Gucci America, Inc., v. Frontline Processing Corp.*, Gucci America, Inc. (“Gucci”) filed a trademark infringement suit in the United States District Court for the Southern District of New York against three businesses, Durango Merchant Services (“Durango”), Frontline Processing Corporation (“Frontline”), and Woodforest National Bank (“Woodforest”) (collectively “Defendants”).¹ The court held that Defendants could be contributorily liable for assisting TheBagAddiction.com in its online counterfeiting operation and unauthorized use of the Gucci trademarks.² This decision increases the cost of doing business for acquiring banks and “replica” merchants, and therefore, will indirectly reduce the supply of online counterfeit goods.

1. *Gucci America, Inc. v. Frontline Processing Corp.*, 721 F. Supp. 2d 228, 237 (S.D.N.Y. 2010). Gucci also brought suit against other “ABC companies” and “John Does” who participated with the named defendants in the infringement of Gucci products. *Id.* at 238 n.9.

2. *Id.* at 236.

II. BACKGROUND

A. Factual History

This case is part of Gucci's battle to curb online sales of counterfeit products and the unauthorized use of Gucci's trademarks.³ This case marks the second phase of Gucci's attack on a website called TheBagAddiction.com.⁴ In the first phase, Gucci brought suit against Laurette Company, Inc. ("Laurette") and other defendants for operation of the website which sold handbags featuring counterfeit Gucci marks.⁵ Laurette eventually consented to judgment and admitted "that, without authorization of license . . . they willfully and intentionally used, reproduced and/or copied the Gucci [m]arks in connection with their manufacturing, distributing, exporting, importing, advertising, marketing, selling, and/or offering to sell their [c]ounterfeit [p]roducts."⁶

Subsequently, Gucci initiated this case against Durango, Frontline, and Woodforest for assisting Laurette's counterfeiting operation.⁷ In the fall of 2006, Laurette approached Durango⁸ for help finding a company that would process online credit card

3. *Id.* at 236-37. Gucci is a well-known designer and manufacturer of luxury shoes, handbags, and other leather goods. *Id.* at 236. The company has registered several marks with the United States Patent and Trademark Office, including the Gucci name, the Gucci crest, the "non-interlocking GG monogram," and the "repeating GG design." *Id.*

4. *Id.* at 237.

5. *Id.*

6. *Id.*

7. *Gucci*, 721 F. Supp. 2d at 237.

8. Durango, a Wyoming corporation, helped business owners set up merchant accounts with institutions that provide credit card processing services. *Id.* On its website, Durango advertised its specialty in procuring credit card services for "high risk merchant accounts," including those that sell "replica products." *Id.* at 238. Durango also "collected a referral fee for bringing together these online merchants with banks and companies like Frontline and Woodforest." *Id.* Gucci alleged that Durango acted as an agent for Frontline and Woodforest, whose objective was to recruit online counterfeiters. *Id.* at 238-39.

payments for TheBagAddiction.com.⁹ Durango arranged for Frontline¹⁰ and Woodforest¹¹ to provide Laurette with credit card processing services.¹² Frontline and Woodforest both provided Laurette with the ability to process credit card payments for online sales from November 2006 until June 2008, when TheBagAddiction.com was shut down.¹³

B. Procedural History

Gucci alleged that Durango, Frontline, and Woodforest were liable for: (1) direct trademark infringement and counterfeiting; (2) contributory trademark infringement and counterfeiting; (3) vicarious trademark infringement; and (4) trademark infringement and unfair competition.¹⁴ Defendants jointly moved to dismiss all claims based on lack of personal jurisdiction and failure to state a claim.¹⁵

III. LEGAL ANALYSIS

A. Personal Jurisdiction

The United States District Court for the Southern District of New York held that Gucci presented a *prima facie* case of personal jurisdiction over Defendants and denied Defendants' motion to

9. See Complaint at 50, Gucci America, Inc. v. Frontline Processing Corp., 721 F. Supp. 2d 228 (S.D.N.Y. 2010) (No. 09 Civ. 6925).

10. Frontline, a Nevada Corporation, is "a nationwide provider of credit card processing and electronic services for merchants, banks, and sales agents." *Gucci*, 721 F. Supp. 2d at 237-38. Frontline is also an "Independent Service Organization" for Visa and "Merchant Service Provider" for Mastercard. *Id.* at 238.

11. Woodforest is a United States bank which "provides certain credit card processing services." *Id.* at 238.

12. *Id.*

13. *Id.* at 239-40.

14. *Id.* at 240.

15. *Id.*

dismiss.¹⁶

The court found that Defendants were amenable to service of process under New York state law section 302(a)(3)(ii) for a tortious act committed outside the state that causes injury within the state.¹⁷ The court also found that asserting personal jurisdiction over the Defendants did not violate constitutional due process.¹⁸

B. Failure to State a Claim

1. Direct and Vicarious Infringement Claims

The court quickly dismissed the claims for direct and vicarious trademark infringement as to all defendants.¹⁹ With regard to direct infringement, the court found Gucci pled no facts which could establish that Defendants actually “used the mark in commerce,” as is legally required under the theory for direct liability.²⁰ The court reiterated that knowledge alone does not support a finding of direct trademark infringement.²¹

The court also found that vicarious trademark infringement did

16. *Gucci*, 721 F. Supp. 2d at 253.

17. *Id.* at 241. In order to have jurisdiction under section 302(a)(3)(ii) a plaintiff must demonstrate that “(1) the defendant committed a tortious act outside the state; (2) the cause of action arose from that act; (3) the act caused injury to a person or property within the state; (4) the defendant expected or should reasonably have expected the act to have consequences in the state; and (5) the defendant derives substantial revenue from interstate or international commerce.” *Id.* at 241 (citing *Sole Resort, S.A. de C.V. v. Allure Resorts Mgmt., LLC*, 450 F.3d 100, 106 (2d Cir. 2006)). *See also*, N.Y. C.P.L.R. LAW § 302(a)(3)(ii) (Consol. 2010).

18. *See generally, Gucci*, 721 F. Supp. 2d at 244-46.

19. *Id.* at 246.

20. *Id.* at 246-47. In order to establish direct trademark infringement, a plaintiff must prove (1) rights to a valid mark that is protected under the Lanham Act; (2) that defendant used the mark in commerce in connection with the sale and or advertising of goods or services, without plaintiff’s consent; and (3) that Defendant’s use of the mark is likely to cause confusion. *Id.* at 246-47 (citing *1-800 Contacts, Inc. v. WhenU.Com, Inc.*, 414 F.3d 400, 406-07 (2d Cir. 2005)).

21. *Id.* at 247.

not apply because Defendants did not have the type of control over Laurette necessary to support the claim.²² The court explained that while the alleged facts supported a notion that Defendants' services were necessary to Laurette's counterfeiting operations, they did not establish that Defendants and Laurette were involved in an actual or apparent partnership.²³

2. Contributory Infringement Claims

The court found Gucci's claims for contributory infringement the most credible.²⁴ Adopting a modified version of the *Inwood* test,²⁵ the court held that Gucci could establish contributory liability by showing that Defendants "(1) intentionally induced the website to infringe through the sale of counterfeit goods; or (2) knowingly supplied services to the website and had sufficient control over infringing activity to merit liability."²⁶

a. First Prong: Intentional Inducement

The court found that the facts alleged by Gucci were sufficient to establish that Durango, but not Frontline or Woodforest, had intentionally encouraged Laurette's counterfeiting activities and

22. *Id.* Vicarious trademark infringement "requires a finding that the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties, or exercise joint ownership or control over the infringing product." *Id.* (citing *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992); *Perfect 10, Inc. v. Visa Intern. Serv. Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007)). The court acknowledged that the Second Circuit has not considered this form of liability. *Id.*

23. *Id.*

24. *Gucci*, 721 F. Supp. 2d at 247.

25. In *Inwood Labs, Inc. v. Ives Lab., Inc.*, the Supreme Court held that "if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible." 456 U.S. 844, 854 (1982). The second prong of this test was modified, to allow for its application to service providers. *Gucci*, 721 F. Supp. 2d at 248.

26. *Id.* at 248.

trademark infringement.²⁷ The court found several facts significant in its analysis. First, the court found representations on Durango’s website to be evidence of its “attempt to induce less savory businesses.”²⁸ This included representations by Durango that it specialized in acquiring credit card processing services for “high risk merchant[s],” including those who sell “replica” products.²⁹ Second, Laurette specifically informed a Durango sales representative, Nathan Counley, that it had difficulty obtaining credit card processing services because it was a “replica” merchant.³⁰ Finally, and most importantly, Durango helped Laurette design a system to avoid chargebacks.³¹ The system, set up by Laurette with the assistance of Durango, required customers to check a box which stated “I understand these are replicas.”³² The court found this to suggest that Durango affirmatively took steps to foster infringement.³³

With regard to Frontline and Woodforest, the court found that neither intentionally induced Laurette’s counterfeiting activities.³⁴ The court explained that while both Frontline and Woodforest advertised and provided services to high risk merchants, they did not acquire the Laurette account as a result of those advertisements.³⁵ Instead, Durango induced Laurette and arranged for Frontline and Woodforest to provide Laurette with credit card processing services.³⁶

27. *Id.* at 248-49.

28. *Id.* at 248.

29. *Id.*

30. *Id.* Both parties disputed the meaning of “replica.” *Id.* at 248 n.7. Gucci alleged that that the term “replica merchant” was interchangeable with “counterfeiter.” *Id.* Defendants argued that the term was not as loaded as Gucci made it out to be. *Id.* The court noted that “replica” is “often used in conjunction, or interchangeably with the term counterfeit” and that because it was ruling on a motion to dismiss it would rely on the pleadings. *Id.*

31. *Gucci*, 721 F. Supp. 2d at 249. A chargeback occurs when a customer disputes a credit card charge. *Id.* at 239.

32. *Id.* at 249.

33. *Id.*

34. *Id.*

35. *Id.*

36. *Id.*

b. Second Prong: Knowledge and Control

The court found that the facts supported a cause of action against Frontline and Woodforest for contributory infringement based on the second prong of the *Inwood* test: knowledge and control of the instrumentality used to infringe.³⁷

i. Knowledge of Infringing Activities

To satisfy the knowledge requirement, a party must show that the contributory infringer had actual knowledge or, in the alternative, demonstrated a willful blindness to a third-party's counterfeiting activities.³⁸ However, this knowledge must be specific.³⁹ A party's generalized knowledge that its service is being used to infringe is insufficient.⁴⁰ The court found a strong inference that each defendant knew Laurette manufactured and sold counterfeit products, or were willfully blind to the fact.⁴¹

The court found that Durango could be imputed with knowledge based on communications between Laurette and a Durango sales representative, Nathan Counley, that Laurette was unable to obtain credit card processing services because it sold "replica" products.⁴² The court held that, "[s]urely, a connection between an inability to get the services needed to transact goods online and the sale of replicas should have attracted Durango's attention."⁴³

The court listed several reasons for finding that Frontline knew, or should have known, of Laurette's activities.⁴⁴ First, the court noted that Counley, Durango's employee, was listed as Frontline's

37. *Gucci*, 721 F. Supp. 2d at 253.

38. *Id.* at 249 (citing *Tiffany, Inc. v. eBay, Inc.*, 600 F.3d 93, 107 (2d Cir. 2010); *Perfect 10, Inc. v. Visa Intern. Serv. Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007)).

39. *Id.*

40. *Id.* (citing *Tiffany*, 600 F.3d at 107) ("[C]ontemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.")

41. *Id.*

42. *Id.*

43. *Gucci*, 721 F. Supp. 2d at 249.

44. *Id.* at 249-50.

sales agent on Laurette's Frontline application.⁴⁵ Thus, Durango's knowledge of Laurette's inability to obtain processing services could be attributed to Frontline.⁴⁶ Additionally, Frontline reviewed the "replica acknowledgement" that Durango created for Laurette and made suggestions about its placement on the website.⁴⁷ Ultimately, the court found Frontline's involvement in the chargeback process to be the most significant evidence of Frontline's knowledge.⁴⁸ As part of the chargeback process, Laurette would submit information to Frontline about disputed items, including a description of the specific products.⁴⁹ Frontline reviewed this information, along with the customers' complaints.⁵⁰ The court accepted Gucci's argument that Frontline should have been aware that Laurette was selling counterfeit goods based on the relatively low price of the items in conjunction with the specifics of the customer complaints.⁵¹

Along similar lines, the court found that Gucci pled sufficient facts to infer that Woodforest knew or consciously avoided knowing of Laurette's counterfeiting activities.⁵² The court explained that the circumstances surrounding Laurette's application process with Woodforest highlighted this knowledge.⁵³ Like Frontline, Counley listed himself as Woodforest's sales agent on Laurette's Woodforest application.⁵⁴ Accordingly, the court presumed that Woodforest knew that Laurette had difficulty obtaining processing services because it sold "replicas."⁵⁵ Also, on the Woodforest application, Laurette designated itself as "a

45. *Id.*

46. *Id.* at 250.

47. *Id.* The "replica acknowledgement" required customers to check a box stating "I understand these are replicas." *Id.* at 249.

48. *Id.* at 250.

49. *Gucci*, 721 F. Supp. 2d at 250.

50. *Id.*

51. *Id.* Gucci alleged that some of these chargebacks were the result of the customer not receiving the type of item that TheBagAddiction.com purported to sell, for example "a product made of genuine leather." *Id.*

52. *Id.*

53. *Id.*

54. *Id.* (citing Complaint at 72, *Gucci America, Inc. v. Frontline Processing Corp.*, 721 F. Supp. 2d 228 (S.D.N.Y. 2010) (No. 09 Civ. 6925).

55. *Gucci*, 721 F. Supp. 2d at 250.

wholesale/retail designer of handbags”⁵⁶ and listed its supplier “as a Chinese bag manufacturer.”⁵⁷ With this information, Woodforest reviewed TheBagAddiction.com to verify that the site contained a complete description of the products offered.⁵⁸ The court found that “even a cursory view” of the website would have shown that Laurette sold “replica” Gucci bags.⁵⁹ Thus, Woodforest’s knowledge of Laurette’s infringing conduct was established before it even decided to do business with Laurette.⁶⁰ The court also found several other facts supporting an inference of Woodforest’s knowledge.⁶¹ For example, Woodforest performed regular reviews of the website, where it would purchase a product and request a refund.⁶² Moreover, like Frontline, Woodforest handled chargebacks for Laurette.⁶³ The court found that based on the information received as a part of the chargeback process Woodforest knew or should have known that Laurette was engaged in counterfeiting activities.⁶⁴

ii. Sufficient Control Over the Instrumentality Used to Infringe

The court explained that in order to satisfy the control element of the second prong of the modified *Inwood* test, Gucci must show Defendants’ direct control and monitoring of the instrumentality used to infringe.⁶⁵ Ultimately, the court found that Gucci alleged

56. *Id.* (citing Complaint Exhibit 6, Gucci America, Inc. v. Frontline Processing Corp., 721 F. Supp. 2d 228 (S.D.N.Y. 2010) (No. 09 Civ. 6925)).

57. *Id.*

58. *Id.* Woodforest typically reviewed websites of online merchants and the products on the site as part of its application process. *Id.* Woodforest even had an “Internet Merchant Review Checklist” to assist employees in this task. *Id.*

59. *Id.*

60. *See id.*

61. *See Gucci*, 721 F. Supp. 2d at 250.

62. *Id.*

63. *Id.*

64. *Id.* This information included prices of the items purchased, product descriptions, and specific customer complaints. *Id.*

65. *Id.* at 248 (citing Perfect 10, Inc. v. Visa Intern. Serv. Ass’n, 494 F.3d 788, 807 (9th Cir. 2007); Lockheed Martin Corp. v. Network Solutions, Inc., 194 F.3d 980, 984 (9th Cir. 1999)).

sufficient facts to find that Frontline and Woodforest, but not Durango, had sufficient control over Laurette's counterfeiting activities.⁶⁶

The court found there was little evidence that Durango had any control over Laurette's infringing activity.⁶⁷ Once Durango arranged for services to be provided by Frontline and Woodforest, it had no ability to stop them from processing credit card payments.⁶⁸ In the court's words, Durango was essentially a "middle man."⁶⁹

However, the court found that Frontline and Woodforest had sufficient control to warrant liability because they provided services necessary for infringement and without those services Laurette could not have carried out its infringing activities.⁷⁰ The court emphasized the importance of credit card processing services to online merchants, explaining that credit cards serve as the primary form of online payment.⁷¹ The court also noted Frontline's and Woodforest's economic interest in TheBagAddiction.com.⁷²

Importantly, the court rejected Defendants' argument that they lacked sufficient control because they did not have the power to actually shut down TheBagAddiction.com.⁷³ The court explained that the ability to shut the website down was not required; rather, Gucci had to show sufficient control over the instrumentality used to infringe.⁷⁴ The court held that the instrumentality used to infringe was not just the website, but "the combination of the

66. *Id.* at 251.

67. *Gucci*, 721 F. Supp. 2d at 251.

68. *Id.*

69. *Id.*

70. *Id.*

71. *Id.* The court noted that Durango's website claimed that "9 out of 10 customers use a credit card payment for their online orders." *Id.* Further, one website owner stated that "approximately 99% of payments from my customers were made using credit cards." *Id.*

72. *Id.* Gucci alleged that during the time that Laurette used Frontline's and Woodforest's services, Laurette sold over \$500,000 in counterfeit products. *Id.* The court explained that both companies earned transaction fees on every sale. *Id.* at 251-52.

73. *Gucci*, 721 F. Supp. 2d at 252.

74. *Id.*

website and the credit card network.”⁷⁵

According to the court, Defendants mistakenly relied on *Perfect 10, Inc. v. Visa Intern. Serv. Ass’n*.⁷⁶ The court distinguished *Perfect 10*, explaining that in *Perfect 10*, the infringing activity, publishing and distributing the plaintiff’s trademarked images over the internet, could have occurred without the defendants’ credit card processing services;⁷⁷ the defendants’ services simply made infringement profitable.⁷⁸ Thus, in *Perfect 10*, the instrumentality used to infringe was the website itself.⁷⁹ The court explained that payment was a prerequisite to Laurette’s shipment of tangible infringing items, and therefore, part of the instrumentality used to infringe.⁸⁰

The court went on to explain that the instant case was more similar to *Getty Petroleum Corp. v. Aris Getty, Inc.*, where the defendant was found contributorially liable for delivering unbranded gasoline to stations it knew would resell the gasoline under the plaintiff’s brand name.⁸¹ Like the defendant in *Getty*, Frontline and Woodforest were “essential factor[s]”⁸² to the infringement because they “furnished the means of consummating” the sale of the counterfeit goods.⁸³ The court

75. *Id.*

76. *Id.* In *Perfect 10*, the plaintiff, a publisher of a pornographic magazine and host of an adult entertainment website, sued the defendants, a group of credit card companies, for contributory trademark infringement. *Perfect 10, Inc. v. Visa Intern. Serv. Ass’n*, 494 F.3d 788, 792-93 (9th Cir. 2007). Ultimately, the Ninth Circuit held that the defendants could not be liable for providing credit card processing services to another adult entertainment website that had taken and published *Perfect 10*’s trademarked images. *Id.* at 807.

77. *Gucci*, 721 F. Supp. 2d at 252.

78. *See Perfect 10*, 494 F.3d at 797-98.

79. *Gucci*, 721 F. Supp. 2d at 252.

80. *Id.* at 252-53. One website operator testified, “if I did not receive an approval for a credit card charge, I would not ship the customer’s order.” *Id.* at 252.

81. *Id.* at 253 (citing *Getty Petroleum Corp. v. Aris Getty, Inc.*, 55 F.3d 718, 719 (1st Cir. 1995)).

82. *Id.* at 253.

83. *Id.* (citing *Tiffany, Inc. v. eBay, Inc.*, 600 F.3d 93, 107 (2d Cir. 2010) (quoting *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530 (1924))).

found that the facts taken as a whole, demonstrated that Defendants did not just create an “economic incentive to infringe,” but rather were “an essential step in the . . . process.”⁸⁴

IV. FUTURE IMPLICATIONS

Judge Baer’s holding, extending contributory trademark infringement to acquiring banks that knowingly provide credit card processing services to “replica” merchants while maintaining sufficient control over those operations, will have a significant effect on the counterfeiting industry. Certainly, acquiring banks will be more cautious about with whom they choose to do business.⁸⁵ However, most acquiring banks already refuse to service businesses that offer products or services that are illegal, or borderline illegal.⁸⁶ Thus, only those acquiring banks that choose to do business with “less than savory” clientele, like Frontline and Woodforest, will be affected. These acquiring banks will be forced to decide whether to deny services to “replica” merchants or provide the services and risk litigation.

Importantly, this holding has been construed as inconsistent precedent.⁸⁷ The court factually distinguished this case from the Ninth Circuit’s holding in *Perfect 10*, particularly with regard to the instrumentality used to infringe.⁸⁸ However, the distinction is quite vague. In *Perfect 10*, the Ninth Circuit found that the defendants’ credit card payment systems were not part of the

84. *Id.* at 252 (quoting *Perfect 10*, 494 F.3d at 811-12 (Kozinski, J. dissenting)).

85. See Thomas Carey, *Who's Holding the Bag? When a Website Sells Infringing Articles, Credit Card Companies May Face Liability*, SUSTEIN, July 2010, http://www.sunsteinlaw.com/publications-news/news-letters/2010/07/Carey_201007.html.

86. See MerchantCouncil.org, High Risk Merchant Accounts, <http://www.merchantcouncil.org/merchant-account/types-uses/high-risk-merchant-account.php> (last visited Jan. 18, 2011); see also *Perfect 10*, 494 F.3d at 802.

87. See Carey, *supra* note 85 (explaining that “[c]ourts. . . now have inconsistent precedent to consider”).

88. *Gucci*, 721 F. Supp. 2d at 252-53.

instrumentality used to infringe.⁸⁹ Here, the court found the instrumentality used to infringe was a combination of the credit card payment systems *and* the website because Gucci alleged infringement by sale and distribution of counterfeit goods.⁹⁰ As Judge Kozinski noted in the *Perfect 10* dissent, Perfect 10 alleged infringement by distribution, which also occurred by sale.⁹¹ Thus, the Southern District of New York affords a broader interpretation to the instrumentality used to infringe.

These legal uncertainties provide wiggle room for acquiring banks, who will continue to provide services to “replica” merchants until the opportunity for profits is outweighed by the risks. For many acquiring banks, especially those meeting the requirements for personal jurisdiction in the Southern District of New York, the risk of potential lawsuits may be too great, causing them to immediately exit the market. Those that remain will compensate the risks by increasing the already high credit card processing fees charged to “replica” merchants. Furthermore, these acquiring banks will have to charge extremely high compensation rates because the risk of litigation is not easily mitigated. For instance, processors are required to handle chargebacks as part of their member agreement with Visa.⁹² This means an acquiring bank is obligated by Visa to ensure that its customers receive the product or service they were charged for, and necessarily involves looking at the disputed item, its price, and the customer’s complaints. Thus, an acquiring bank will have difficulty arguing that they were unaware a particular website was selling “replicas.” Further, acquiring banks are required to perform a variety of checks before granting services to a merchant.⁹³ This process also presents acquiring banks with

89. *Perfect 10*, 494 F.3d at 807.

90. *Gucci*, 721 F. Supp. 2d at 252-53.

91. *Perfect 10*, 494 F. 3d at 814.

92. VISA INTERNATIONAL OPERATING REGULATIONS at 89 (2010), http://corporate.visa.com/_media/visa-international-operating-regulations.pdf.

A “[m]ember must, at a minimum, guarantee that: . . . [p]ayments received from Cardholders are applied for the purpose for which they were remitted. . . . These obligations must not be waived, abrogated, or superseded in any manner.” *Id.*

93. *Id.* For example, a merchant is required to conduct an “inspection” for

knowledge about applying merchants' activities that would be hard to deny in court.

These extremely high processing rates will ultimately be passed onto the "replica" merchants' consumers in the form of higher prices. At a certain point, consumers' preferences will change and they will choose not to purchase "replicas." Some consumers will opt for the real brand; others will choose comparable alternatives: for example, buying a Coach instead of a fake Gucci handbag. This decrease in demand will necessarily be followed by a decrease in supply. As "replica" merchants find their operations are no longer profitable, they will exit the market.

V. CONCLUSION

The District Court for the Southern District of New York found that credit card service providers could be contributorially liable for trademark infringement as a result of processing payments for online merchants who sell counterfeit goods. This holding will have an indirect effect of pushing some "replica" merchants out of the industry and is a progressive step towards stopping infringement. Whether this fulfills the ultimate goal of secondary liability, stopping infringement at the least cost to society, is another question.⁹⁴

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prospective merchants. *Id.* This entails "a physical inspection of the business premises." *Id.* Further, "[f]or Mail/Phone Order and Electronic Commerce Merchants, the Acquirer *must also obtain a detailed business description.*" *Id.* (emphasis added).

94. WILLIAM LANDES & RICHARD POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 118-19 (2003).