

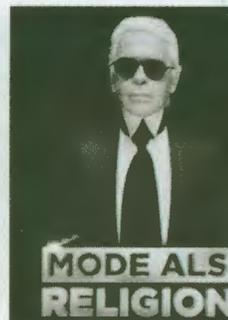
## LOOKING AT LUXE

LVMH AND KERING REMAIN CONFIDENT IN FACE OF SLOWING GROWTH. PAGE 4



## MOVING FORWARD

GROUPS IN BANGLADESH ACTIVELY ADDRESS LABOR SAFETY ISSUES. PAGE 2



## CHURCH OF KARL

GERMAN DOCUMENTARY TAKES CLOSER LOOK AT FASHION AND RELIGION, WITH THE HELP OF KARL LAGERFELD. PAGE 12

# WWD

FRIDAY, JULY 26, 2013 ■ \$3.00 ■ WOMEN'S WEAR DAILY



# Garden Path

Aerin Lauder's lifestyle brand is blooming with a scent quintet that will be launched in November. The fragrances — Gardenia Rattan, Amber Musk, Lilac Path, Ikat Jasmine and Evening Rose — feature floral notes and each will retail for \$110 for a 50-ml. bottle. They will be sold in about 100 specialty store doors in the U.S. Industry sources estimated they could do \$8 million at retail in their first year on counter. For more, see page 6.



PHOTO BY JOHN AQUINO, STYLED BY SHARON BER

### SECURITY BREACH

## Prosecutors Indict Five In Data Hacking Scheme

By VICKI M. YOUNG

FEDERAL PROSECUTORS on Thursday charged five men with what is believed to be the largest hacking and data breach scheme ever prosecuted in the U.S.

According to the criminal indictment, the individuals targeted more than a dozen firms — including Carrefour SA, J.C. Penney Co. Inc., The Wet Seal Inc., the Nasdaq Stock Market, 7-Eleven, Visa Inc., Dexia Bank Belgium and Heartland Payment Systems — that resulted in the theft of more than 160 million credit card numbers and more than \$300 million in losses. According to the indictment, the alleged scheme began in 2005 and continued until July 2012.

The indictment alleged that the defendants hacked into the computer networks through an "SQL injection attack," in which the Structured Query Language that programmers used to manage data was tested for vulnerabilities and then infiltrated through malicious codes, or malware, on the system. The indictment also said the defendants, who regained access to networks through persistent attacks after losing access due to security efforts, had malware implanted in multiple companies' servers for more than a year. Once in the system, the defendants used "sniffers" to collect and steal data that was then sold to third parties.

Retailers such as Wet Seal and J.C. Penney were victims of the SQL attack that resulted in malware placement on their networks.

According to the U.S. Department of Justice, each stolen American credit card number and associated data was sold to a buyer for \$10, the Canadian equivalent information for \$15 and a European counterpart for \$50. The numbers and related data were then sold to resellers around the world. End users take the information and imprint it on the magnetic strips of new credit cards for use at a store.

In addition to the five men — four are from Russia and one from the Ukraine — the indictment listed four co-conspirators who were not indicted in Thursday's

SEE PAGE 5

## Players Make Moves In Saks Sale Saga

By DAVID MOIN and EVAN CLARK

SAKS INC. stock was active Thursday, amid continued speculation that a deal may happen soon and that private equity firm Sycamore Partners could enter the bidding for the luxury chain in tandem with another party.

There were also reports that Saks and Hudson's Bay Co., which is bidding on Saks, had hired additional banks for advice.

Shares of Saks closed down 0.2 percent, or 3 cents, to \$15.18 Thursday in heavy trading. More than 4.5 million shares traded hands, well above the 2.7 million average for the past three months. The company ended the day with a market capitalization of \$2.2 billion and the stock has proven to be volatile as investors bet on whether the company will ultimately be bought out.

It could not be determined who Sycamore could be partnering with, but sources said it could be Starwood Capital, which is mostly interested in Saks' real estate and is said to be bidding for Saks against Hudson's Bay, operator of Lord & Taylor in the U.S. and Hudson's Bay in Canada. Hudson's Bay could purchase Saks on its own or choose a partner to minimize risk.

Sycamore is considered a smaller private equity but the firm's manager director and cofounder, Stefan Kaluzny, is well-connected. "He's not big enough to go after Saks alone but he can pick up the phone and call anyone," said one financial source. Sycamore's

SEE PAGE 5

# Five Indicted in Largest Known Data Breach Conspiracy

(Continued from page one)

unsealed document. One of those individuals named as a co-conspirator is Albert Gonzalez, a Miami resident who was sentenced to 20 years imprisonment in 2010 for his role in leading a group of cyber thieves stealing more than 40 million credit and debit numbers in a Boston federal indictment in what was then considered the largest U.S. identity theft case. The 2008 Boston indictment charged him with hacking into retailers' wireless networks along U.S. Route 1 in Miami. The largest target in that scheme was The TJX Cos. Inc. Others were Sports Authority, DSW and BJ's Wholesale Club. He also faced indictments in New York and New Jersey. The New Jersey indictment was the one unsealed today, but had remained sealed since 2009.

Mitchell Epner, counsel to the law firm of Wilk Auslander and a former federal prosecutor in New Jersey, said, "It's not unusual to have an indictment under seal for several years. Often times it is because the defendants are out of the country and you want to have the indictment in place to stop the statute of limitations from running out."

The former prosecutor also explained that both the U.S. Attorney's Office in New Jersey and the Department of Justice have been at the forefront of tackling these types of information technology and data privacy cases.

"This is very serious stuff," Epner said. "The two offices recognize that if people really fear identity theft and

credit card theft, they may stop using credit cards and then we go back to what retail was in the Seventies. It's a lot less convenient when you have to rely on cash and not credit. Data breaches are not just crimes against the victims, but it also threatens the entire [payments] system," the attorney said.

Epner explained why the premium at \$50 was so high for a European credit

with a European credit card than a stolen U.S. credit card. Someone handing over a U.S. credit card to a shop, but who doesn't look like an American, will set off red flags," he said.

"This type of crime is cutting-edge," said New Jersey U.S. Attorney Paul J. Fishman. "Those who have the expertise and the inclination to break into our computer networks threaten our economic well-being, our privacy and our national security."

Fishman's office disclosed that the defendants covered their tracks through encrypted communications or by meeting in person. They also allegedly altered the settings of infiltrated networks to disable security mechanisms from logging their actions, as well as evade security software protections.

Of the retailers and credit firms, 7-Eleven declined comment, while only Wet Seal responded to questions as of press time. Alyson Barker, Wet Seal's general counsel, said, "In May 2008, we became aware that a criminal group obtained unauthorized access to our information systems in an attempt to steal credit and debit card data of our customers. Through an investigation led by an independent, third-party computer forensics firm, and corroborated by members of the U.S. Secret Service and U.S. Department of Justice, we found no evidence to indicate that any customer credit or debit card data or other personally identifiable information was taken. In working with the major credit card

processing agencies, we also identified no instances of fraud to suggest that any such data was taken.

"Since 2008, Wet Seal has implemented numerous system enhancements to eliminate our vulnerability to this type of attack. The security of our customers' personal information is of utmost importance to us, and we acted quickly and decisively when this matter arose five years ago. We are pleased that time has proven, as we believed from the outset, that none of our customer information was taken."

Charges in Thursday's 11-count indictment ranged from conspiracy to unauthorized access to computers to wire fraud. The maximum term of imprisonment for some charges is five years and for other charges, as much as 30 years. No trial date has been set.

Two of the defendants were arrested while traveling in the Netherlands. Three others remain fugitives. In addition, one of the men who remains at large is also the subject of two federal indictments from the U.S. Attorney's Office in Manhattan. One indictment is for the alleged hacking of computer servers used by Nasdaq and the other for alleged stealing of bank account information by hacking U.S.-based financial institutions.

Assisting in the investigation that led to the indictment disclosed on Thursday included special agents from the U.S. Secret Service, public prosecutors with the Dutch Ministry of Security and Justice, as well as the U.S. Attorney's Offices in Kansas and Georgia.

Data breaches are not just crimes against the victims, but it also threatens the entire [payments] system.

— MITCHELL EPNER

card number and related data when compared with the American cost, noting that the fraud is discovered less quickly in Europe than with a card from North America and that the card's value is heightened by how long one can use it before it being flagged.

"The whole value in stealing credit card information is the ability to use it to get real goods and services. These defendants can get more goods and services

## Saks Suitors Making Moves

(Continued from page one)

holdings include The Talbots Inc., Hot Topic and a 51 percent stake in Mast Global, a sourcing firm. At Talbots, Sycamore has also brought back certain former members of the retailer's executive team to engineer its turnaround.

Sources on Thursday also said KKR & Co. had renewed its interest in Saks after considering buying Saks and merging it with rival Neiman Marcus in May. Neiman's, however, shot down that idea at the time. A KKR spokeswoman declined to comment. "If there is a [sale] process going on, you can be sure KKR is going to take a look," said the source.

**\$15.18**

CLOSING PRICE OF SAKS SHARES ON THURSDAY.

The DealReporter on Thursday wrote that Hudson's Bay retained Bank of America Merrill Lynch to advise on a bid for Saks and that Saks is working with Morgan Stanley in addition to Goldman Sachs on strategic alternatives.

The sovereign wealth fund from Qatar, which this year bought Printemps in Paris and in 2010 purchased Harrods in London, has been interested in Saks, but this week financial sources suggested the Qatar group would only make a run for Saks if the share price in a deal was in the \$15 to \$16 range, and would bow out if the price jumped to \$17 a share or higher. These individuals said the Qataris aren't necessarily interested in a play for just a trophy asset, and are not about to overpay. The same is said to be true about Hudson's Bay.

— WITH CONTRIBUTIONS FROM VICKI M. YOUNG

## Lucky Line Touts Made in USA

By ROSEMARY FEITELBERG

LUCKY BRAND is getting in on the American made movement, by launching a capsule collection of jeans this fall.

Founded in Los Angeles in 1991, the company's decision to play up its American roots and unveil locally made jeans was not such a leap, according to chief executive officer David DeMattei. Lucky Brand employs 310 people in its Los Angeles headquarters, and 2,600 part-time and full-time staffers in its 224 specialty and outlet stores. Having opened locations in Las Vegas, Orange County and Atlanta in the past week or so, there are plans to introduce two more locations next week.

Consumers' ever-increasing interest and demand for Made in America products only reinforced the idea that the timing was right, DeMattei said. As for why that is resonating with shoppers, he said, "There is a lot being written about that's going on in China in terms of the quality and the type of environment clothes are being made in," DeMattei said. "There seems to be more of a movement



An ad for Lucky Brand's new American-made jeans.

now for American-made goods. That's becoming more important to consumers."

Lucky Brand teamed with Greensboro-based Cone Mills to develop innovative domestically made denim. Lucky Brand lined up factories in Los Angeles and Tullahoma, Tenn. to cut and sew the jeans. Shoppers will know from the "Made in the U.S. of A." label that the jeans were not sourced overseas. DeMattei spoke enthusiastically about supporting a mill that has been supplying denim to apparel companies since 1891. In an effort to be competitive, the super-stretch denim and other American-made jeans will retail for \$129. Wade noted that the price point is part of the company's Denim Democracy ideology that is meant to be inclusive and affordable. "Everyone out there who is thinking about doing it at much higher prices," DeMattei added.

The Los Angeles-based company will spread the word with fall ads and a 64-page catalogue that ships to 400,000 shoppers next week. The ads spell out "American Denim — Made for you in the U.S. of A." Lucky Brand expects to sell half of the 150,000 units of domestic-made jeans that it has ordered by the end of this year. Going forward, U.S.-made products should make up 25 percent of all denim sales, DeMattei said.

## Vera Wang Headed to Rodeo Drive

DIALED-IN as she is with the Los Angeles scene, Vera Wang will make that connection even tighter with next year's opening of a Rodeo Drive store.

As a go-to designer for red-carpet-bound actresses and VIP brides, Wang has a Hollywood home and spends up to five weeks on the West Coast each year. With the lease for her Melrose Avenue boutique up in a few months, she plans to move into the two-tier, 5,500-square-foot boutique at 428 North Rodeo Drive in January. "So much of my business and my perspective is from and done in Hollywood," Wang said Thursday.

"We are ready to take on a more international neighborhood. But it's not as though L.A. is an unimportant city given our affinity for Hollywood," Wang said Thursday. "It is the second-biggest city in the country. And it is certainly a city that reflects and recognizes all of our culture — the arts, music and fashion."

The company will move into what Hermès has been using as a temporary space until its new freestanding store a

few doors down opens in early September. "Anything that has Hermès on it I'm glad to participate in," Wang quipped.

Saint Laurent also has a pop-up store nearby while its Beverly Hills location gets an overhaul. Having secured her own location this spring with the help of chief operating officer Bill Mitchell, Wang said, "We were very lucky to have gotten the space because a lot is already [taken] on Rodeo."

For the store's design, Wang turned to Brian Sawyer of the New York-based interdisciplinary architectural firm Sawyer Berson. He also got the nod to renovate the designer's New York apartment two years ago. Once the new Los Angeles address is set, Vera Wang bridal, red-carpet gowns, ready-to-wear, fragrance and accessories will be showcased. "It will be a whole compilation of things. We are working on a new shoe deal, so there should be that too," Wang said. "There is a very international crowd in L.A. There are a lot of shoppers from the Middle East and Asia — that's a hop and a skip away — as well as all the

local ethnicities. It's a huge world."

Before the financial crisis a few years back, Wang had lined up a second Melrose Avenue lease for her Lavender label. After hitting the brakes on that project, the company kept the location, but never moved in. As is the case with all of her five locations in the U.S., the new one will be owned and operated by her company. Internationally, there are a total of 20 Vera Wang and Vera Wang Bride shops, with a Beijing store scheduled to open in the next 18 months. The designer has set her sights on Miami and eventually Paris for freestanding stores, but she has yet to sign a lease in either city.

Having been making regular trips to Los Angeles for the past 24 years, Wang's celebrity quota shot up after Sharon Stone wore one of her floor-length skirts to the 1998 Oscars. But don't expect the designer to become bicoastal after her Beverly Hills store opens. She said her travels will continue to center on the lead-up to the Golden Globe Awards and the Oscars, as well as the occasional photo shoot. "I have never lived there, nor would I live there. I have a business to run in New York," Wang said. — R.F.