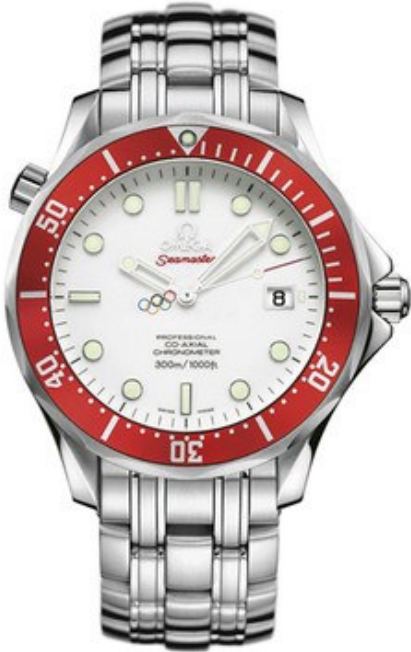


Supreme Court Backs Ruling on Costco Copyright Case

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Omega created only 2,010 of these watches for the Games.

Photo By Courtesy Photo

WASHINGTON — Discounters, beware.

The Supreme Court's narrow decision on Monday to let stand an appeals court ruling that found Costco Wholesale Corp. liable for copyright infringement when it sold Omega watches at heavily discounted prices without the Swiss company's authorization has broad implications in the fashion world.

The court's ruling could have a significant impact on discount retailers and off-price merchants that often purchase imported goods from middlemen and distributors at lower prices, rather than buying direct from a manufacturer or its authorized U.S. distributor. These retailers then sell the products in the U.S. below the brand's official price, legal experts said.

Experts said the Supreme Court's ruling now will make it harder for retailers to engage in this technique. It also will hit online auction sites such as eBay, they said, because gray market goods are often sold on the site and it could be held liable. But while the high court's decision was a blow to retailers, it was a victory of sorts for brands. The decision upholds a company's right under U.S. copyright laws to regulate the distribution, price and resale of products that are made overseas and reimported to the U.S.

It wasn't a clear-cut win for either side, however. The 4-4 split decision could leave the door open for similar cases to be brought down the road over imported copyrighted products. Supreme Court Justice Elena Kagan recused herself from review of the case because, while solicitor general,

she offered the government's opinion in the case.

Neither of the companies nor their attorneys responded to calls and e-mails by press time.

"Costco and other warehouse clubs will have to think twice before they buy products manufactured and sold outside the U.S. at a discount that are then reimported into the U.S. for resale," said Joel Karni Schmidt, a partner in Cowan Liebowitz & Latman, which specializes in trademarks and copyrights and represents apparel brands and retailers. "Brand owners can use copyright law to stop the importation of gray market goods. They want to control the price at which their goods are sold in the U.S. market, and this decision gives brand owners a method to somehow maintain or prevent the importation of goods that would be sold at deep discounts."

Omega filed suit against Costco in 2004 after the warehouse club sold 43 of its Seamaster Omega watches at steep discounts. The watch brand alleged Costco's acquisition and sale of the watches constituted copyright infringement. Omega owns a U.S. copyright on the Omega Globe Design symbol that is engraved on the back of the watches.

Costco charged that Omega created a laser-engraved emblem for the back of its watches and applied for a copyright in the U.S. for the sole purpose of invoking the Copyrights Act to "restrict the resale of its products."

In its Supreme Court appeal, Costco challenged the right of Omega to use copyright law to control the distribution and resale of the Swiss watchmaker's imported products. The case centered on the provision under U.S. copyright law known as the "first sale doctrine," under which a copyright owner and manufacturer's rights to distribution of a product ends upon the first authorized sale it makes.

In 2008, the Ninth Circuit Court of Appeals ruled in favor of Omega and held that the "first sale" defense only applied to those

items made and distributed in the U.S. and not items, such as Omega's watches, that were originally made and distributed outside of the U.S.

Several industry groups and companies filed petitions with the Supreme Court in support of Omega, including Fujifilm Corp., the Association of American Publishers, the American Bar Association, the Motion Picture Association of America Inc. and the Recording Industry Association of America. The U.S. Solicitor General's office supported Omega in the case and argued for upholding the Ninth Circuit Court of Appeals' decision.

Costco drew wide support in its appeal from a broad swath of industry groups and companies. Supporters ranged from Intel Corp. and the Retail Industry Leaders Association to eBay, Google and the American Library Association.

"I think it is a victory for brand owners and consumers as well," said David H. Bernstein, a partner in the law firm Debevoise & Plimpton. "Some groups might say this is a shame for consumers who will not be able to buy watches at a cheaper price at a place like Costco, but I have always believed the consumer is not being well served by buying products from the gray market because, for example, they don't get a manufacturer's warranty."

Bernstein said allowing gray market goods — authentic goods that are not purchased directly from authorized distributors or the manufacturer — into U.S. commerce also opens the door to counterfeit goods that are often mixed in.

"It becomes difficult to constantly monitor which goods are stolen and counterfeit and which are gray market and made with the authorization of the brand owner in another country but [were] never intended to be sold in the U.S.," he said.

Seth Greenstein, an attorney with Constantine Cannon LLP, which represents RILA and the National Association of Chain Drug Stores, which filed a joint amicus brief in support of Costco, disagreed, saying the decision could be a potential blow to discounters.

"There are a number of businesses across the U.S. that rely very heavily on finding the best prices for quality authentic goods abroad," Greenstein said. "Those are the businesses that this decision puts in limbo."

He noted that the decision will "chill commerce and increase prices of goods by eliminating a source of legitimate, discounted quality goods to consumers."