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# ❖ SPC&B Update ❖

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A Newsletter for Clients of Sharretts, Paley, Carter & Blauvelt, P.C.

December 17, 2010

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## *I. Supreme Court Split Decision in Costco Gray Market Copyright Case*

## *II. SEC Proposes New Rules on Required Disclosure of “Conflict Minerals”*



**I.** An evenly divided Supreme Court upheld a federal appeals court’s decision that the Swatch Group’s Omega division could prevent Costco Wholesale from reselling imported copyrighted luxury watches at discounted prices.

The watches originally were sold by Omega to authorized distributors in Egypt and Paraguay. Eventually, Costco purchased the watches from a third-party importer and then sold the watches well below the suggested retail price for sale in the United States. Omega sued Costco for copyright infringement, alleging that the discounted sales violated the copyrighted Omega globe design on the back of the watch. The Ninth Circuit Court of Appeals agreed, holding that the authorized foreign sale did not exhaust the U.S. copyright.

Under the Copyright Act’s “first-sale” doctrine, the owner of a copy that was “lawfully made” may resell that good without approval by the copyright owner, but the appellate court held that the Omega watches were not subject to the first sale doctrine because they were not lawfully made because they were not made in the United States. Previously, the Supreme Court has held that U.S.-made copyrighted goods sold overseas are subject to the first sale doctrine and copyright holders cannot block those goods from being brought back into the United States through unauthorized channels, but had not ruled on goods made overseas.

U.S. Customs also has taken the position that it does not have the authority to prevent the importation of “gray market” goods, which were lawfully made but imported for distribution in the U.S. by a party other than a licensed distributor. This position will not change as a result of the Costco decision, but may be affected by future litigation.

Because it was a split 4-4 decision, the case does not set a national precedent, but may be an indication of how the court will rule in the future if presented with similar facts. Justice Elena Kagan recused herself from this case because she had filed a brief as Solicitor General, urging the lower court not to hear Costco’s appeal. If you have any questions on how this case or future litigation may affect your products, please contact us.

75 Broad Street  
New York, New York 10004  
Phone: 212-425-0055  
Fax: 212-425-1797  
212-742-2180

SHARRETTS, PALEY, CARTER & BLAUVELT, P.C.

[www.spcblaw.com](http://www.spcblaw.com)  
Email: [customs@sharretts-paley.com](mailto:customs@sharretts-paley.com)

1660 L Street, N.W.  
Washington, D.C. 20036  
Phone: 202-223-4433  
Fax: 202-659-3904

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**II.** The Securities and Exchange Commission has issued proposed regulations, as mandated by the Dodd-Frank Act, to require new reporting disclosures for public companies regarding the use of conflict minerals originating in the Democratic Republic of the Congo or an adjoining country (“DRC countries”). Under the new rules, public companies that file reports with the SEC under the Exchange Act would be required to disclose annually whether they use conflict minerals that are “necessary to the functionality or production” of products that they manufacture or contract to be manufactured. Conflict minerals are generally tantalum, tin, gold, and tungsten, and are used in a wide variety of products, including jewelry, electronics and jet engines. Although public companies are the subject of the new reporting requirement, it may have a significant impact on all companies in their supply chains.

A reporting public company would be considered to be “contracting to manufacture” a product if:

- ◆ It has any influence over the product’s manufacturing
- ◆ It offers a generic product under its own brand name or a separate brand name, provided the reporting public company has contracted to have the product manufactured specifically for itself, regardless of whether the company has no influence over the manufacturing specifications of the product

The proposed rules have specific requirements for issuing a Conflict Minerals Report, indicating whether or not the minerals are sourced in the DRC countries, and describing the measures taken to exercise due diligence on the source and chain of custody of the conflict minerals, including a certified independent private sector audit of the Report. The report must also include a description of any products manufactured or contracted to be manufactured that are not “DRC conflict free,” the facilities used to process the conflict minerals, the conflict minerals’ country of origin, and the efforts to determine the mine or location of origin with the greatest possible specificity.

The Commission is seeking public comments on the proposed rules by January 31, 2011. The Dodd-Frank Act requires implementation of regulations by April 2011.

If you have any concerns regarding the use of conflict minerals or about the importation of products subject to intellectual property rights, please contact Donna Shira at [dshira@spcblaw.com](mailto:dshira@spcblaw.com) or Gail Cumins at [gcumins@spcblaw.com](mailto:gcumins@spcblaw.com) or call us at 212-425-0055.

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