

JUNE 7, 2007

**Attacking Counterfeits:
Wal-Mart Unit Settles With Fendi Over Fakes**
By Miles Socha and Sharon Edelson

The sidewalk sellers of fake designer goods now aren't the only ones on high alert.

In a case bound to send a chill through the retail industry, Fendi and Sam's Club, a division of Wal-Mart, have settled a dispute that claimed the U.S. warehouse club sold counterfeit handbags and leather goods in five states.

Under the sealed agreement, Sam's Club agreed to pay the Italian luxury firm a confidential amount to settle the dispute and dismiss the action, which had charged the retailer with selling "significant quantities" of counterfeit items valued "in the millions of dollars." Sam's Club is also offering its customers a full refund for any counterfeit Fendi bags, wallets and scarves they purchased.

"We're pleased with this outcome," Michael Burke, chairman and chief executive officer of Fendi, told WWD. "It's good for our customers, our trademarks and their customers, too. Counterfeiting is a global problem."

Burke declined to discuss specifics about the Sam's case, but pledged to continue Fendi's efforts against counterfeiting, disclosing that the luxury brand has filed suits against five other U.S. retailers: Burlington Coat Factory, Ashley Reed, Filene's Basement, Annie Sez and Colton International. Those cases continue. He noted that counterfeit goods were also widely distributed in Europe.

Sam's Club had earlier removed all Fendi-label products from its shelves. When Sam's Club was presented with the complaint, it initially balked at the idea of removing the products, maintaining they were not counterfeits but actual Fendi goods.

Susan Koehler, a spokeswoman for Sam's Club, said Wednesday that its statement about Fendi products not being counterfeits "was made early on. As the case evolved, we were provided additional information. We want to try to communicate to our members our apologies. We want to make this right."

Sam's Club will be sending letters to customers with information on how to return Fendi merchandise.

But the litigation seems to have done little to dampen Sam's thirst for designer merchandise. Patty Warwick, who oversees apparel, jewelry and handbags as the retailer's senior vice president, said recently the division was "trying to cement and

develop direct relationships with companies such as Prada, Coach and Kate Spade, and with other high-end manufacturers."

"We recognize the importance of protecting intellectual property," Koehler said. "We have programs in place and are constantly looking at how we evaluate them. It's also true that we want to make these types of products available. We want to continue to develop the business and offer designer goods to our members."

However, the warehouse club is likely to meet resistance from some of the brands themselves. A spokeswoman for Coach said, "We want to be available at image-enhancing locations wherever our consumers choose to shop, including our own stores and Web site — coach.com — and select department and specialty stores. Over the past few years, we have streamlined distribution in order to ensure that it is brand right and to better control where our product is ultimately sold. As such, we have no plans to distribute through the warehouse retailers."

Regarding its dispute with Fendi, Scott Ressler, president of Ashley Reed Trading, said, "Our opinion is that the merchandise we bought is 100 percent authentic and we're fighting [the lawsuit]." Gerard F. Dunne, an attorney for Ashley Reed, an importer and distributor, elaborated: "Ashley Reed buys goods predominantly from the factories that make authorized Fendi products or in some cases buys overstock from retailers who purchased directly from Fendi. Ashley Reed [representatives] inspected the goods at the factory in Italy and met with a Fendi quality controller."

Howard Colton, president of Colton International, said, "We were brought into the case by a third party. All the merchandise our company sells is always authentic. We're going to show the courts that."

"It's a fundamental problem and we have to do more to stop it," Burke said in an interview. "Wherever we see counterfeiting activity, we will go after it....Over the last three years, we've tripled our budgets for anticounterfeiting efforts."

He noted such efforts were carried out by employees of Fendi and its parent, LVMH Moët Hennessy Louis Vuitton, along with such outside experts as mystery shoppers, customs agents and law enforcement officials.

"It's pure and simple theft," Burke said of counterfeiters. "Going forward, intellectual property is more and more the reason you're buying something. It's the intellectual properties of the merchandise, whether it's music, books or fashion."

Fendi's original complaint, filed in June 2006 with the U.S. District Court, Southern District of New York, cited a dozen handbags, shoulder bags, wallets and key chains sold at Sam's Club outlets in five states, discounted anywhere from 22 percent to 68 percent off regular prices. For example, it listed a black handbag priced at \$508.25, roughly 45 percent less than what Fendi would charge for a similar style.

Burke said Fendi now sews holographic labels into all its products, but the company has encountered counterfeit ones in the last 12 months, speaking to the difficulties of keeping ahead of the copiers, who manufacture fakes mostly in Italy and China. Burke noted makers of counterfeits were often involved in other illicit activities, from drugs and prostitution to child labor.

Asked what else could be done to reduce counterfeiting, the Fendi ceo said he would applaud more "laws with teeth" that would deter consumers from buying fakes. France has one of the strongest; there, buying fakes is a criminal offense that can bring fines of up to 300,000 euros, or \$405,150 at current exchange, and prison sentences of up to three years. "That has had a good impact in deterring tourists," Burke said. "We would applaud such a law in Italy."