

Copyright Misuse is Not in Style

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Attorneys who represent clients in the fashion industry should note a potentially important new defense to Copyright infringement: "copyright misuse." A case that started in the California federal district court, wound its way up through appeal and certiorari to the United States Supreme Court, only to be remanded to the District Court, *Omega S.A. v. Costco Wholesale Corporation* (E.D.Ca., Nov. 9, 2011), may usher a powerful new defense in cases involving gray market importation.

It has long been the case under the Copyright Act that most apparel and fashion accessories are "useful articles" and are ineligible for copyright protection. Swiss watchmaker Omega wished to control the marketing of its watches in the United States, but found itself without the proper legal tools to do so. Omega could not control the unauthorized importation of authentic watches (i.e. "gray market" imports) that ended up in low-market outlets like discount store Costco.

Omega, therefore, came up with what it thought was a solution. Beginning in 2003, Omega decided to affix a new copyrighted design to the underside of a line of its watches, to exploit the copyright law's prohibition against the importation of a copyrighted work without the copyright holder's permission. Omega proceeded to sue Costco for unauthorized importation of copyrighted material -- not the watches themselves, but rather the "Globe Design" on their reverse side. During litigation, Omega conceded during the litigation that, creative expression notwithstanding, at least one purpose of the copyrighted Globe Design was to control the importation and sale of its watches containing the design, since the watches could not be copyrighted.

Costco's motion for summary judgment was premised in part on "copyright misuse." The argument was (to quote the district court): "Omega misused its copyright of the Omega

Globe Design by leveraging its limited monopoly in being able to control the importation of that design to control the importation of its Seamaster watches." The District Court extended earlier decisions by the Ninth Circuit Court of Appeals, which had previously applied the copyright misuse defense to cases involving antitrust tying agreements and restrictive licensing agreements to Costco's case.

The District Court's decision finding that Omega had engaged in copyright misuse uncharacteristically brief, at four pages long. But it is difficult to imagine that the case will end here. The parties have already invested a great deal on this litigation, and the District Court's decision is so potentially detrimental to Omega's efforts to control the marketing of its product in the United States, that many predict that Omega will appeal the recent decision to the Ninth Circuit.

Owners of fashion brands and their counsel should continue to monitor this decision.

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