

Unicolors, Inc. v. Urban Outfitters, Inc., 853 F.3d 980 (9th Cir. 2017)

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BACKGROUND

On February 10, 2014,¹ Unicolors, Inc. sued Urban Outfitters and Century 21 Department Stores, LLC for copyright infringement. According to Unicolors, Urban and Century sold a women’s dress with a design very similar to a copyrighted design owned by Unicolors. Foundational to their claim, Unicolors argued that Urban and Century did not own the design printed on the dresses.

Unicolors purchased the intellectual property rights to the design in question in September 2008. At the time of purchase, the artwork was called “QQ-692”. Afterwards, Unicolor made adjustments to the initial design so that it could be printed onto bolts of fabric and retitled the work as “PE-1130”. On November 26, 2008, Unicolors registered “PE-1130” with the copyright office, under a new name: “Flower 2008.” Unicolors, Inc. is in the business of designing and selling fabric to customers in the apparel market throughout the United States. Accordingly, Unicolors sold 14,000 yards of fabric containing the design by 2011.

Near the end of 2010 and continuing for two years afterward, Urban Outfitters and Century also sold dresses with a design very similar to “PE-1130.” Noticing this, Unicolors sent a cease-and-desist letter to Urban and Century’s counsel. In the letter, Unicolors explained that by selling the dresses with the “PE-1130” design without permission, Urban and Century violated Unicolors’ intellectual property rights over the design. Specifically, Unicolors pointed to copyright infringement as the basis for its legal claim.

In the following trial, the dress with the “PE-1130” design was termed “accused dress” as shorthand.

PROCEDURAL HISTORY

Unicolors filed the lawsuit in the Federal District Court in California on February 10, 2014. After a two-day jury trial, Unicolors’ motion for summary judgment was granted.

Urban appealed the trial court’s favorable ruling on Unicolors’ summary judgment motion. In particular, Urban appealed the decision that it willfully infringed upon Unicolors’ copyright.

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1. Unicolors, Inc. v. Urban Outfitters, Inc., 2015 U.S. Dist. LEXIS 187585, *7.

ISSUE

Whether Urban willfully infringed upon Unicolors' copyrighted design, "PE-1130."

DECISION

The appellate court denied Urban's appeal and affirmed the trial court's ruling, holding that there was substantial evidence to prove Urban willfully infringed upon Unicolors' copyrighted design. None of Urban's arguments appealing the district court's decision were successful.

REASONING

Urban appeals the trial court's decision arguing that Unicolors did not adequately prove willful copyright infringement. In its appeal, Urban independently countered each of Unicolors' claims of copyright infringement and willfulness. To evaluate Urban's appeal, the court returned to the summary judgment motion presented by Unicolor in the trial court and reviewed it a second time. As in the trial court, the same question was at the center of the court's considerations: whether the jury's verdict was supported by substantial evidence.²

First, Urban disputed the copyright infringement claim, arguing that Unicolor did not present sufficient evidence to show "copying." At trial and in the present appellate reexamination, Unicolors' claim of copyright infringement required proof of two elements: (1) Unicolors owned the subject design, and (2) that Urban copied the protected sections of the design. Unicolors could prove "copying" through direct or circumstantial evidence. Choosing the latter, Unicolors' claim can be supported by a "substantial similarity" analysis. Under a two-part analysis, Unicolor needed to show Urban had access to the protected design.³ If not access, Unicolor can support its argument by showing a "striking similarity" between the designs in question.⁴

As part of the "copying" analysis, Unicolors must show Urban had access to the copyrighted work prior to making the accused dresses. Though access evidence was limited, Unicolors presented its own sales record, showing that over a three-year period, 14,000 yards of fabric containing the copyrighted design was disseminated into the market. The sales record served as context for Urban's subsequent introduction of the accused dress into the market. Unicolors urged the court to consider the occurrence of both successive events as proof that Urban had access to the protected design prior to creating the dress. The district court did not agree with Unicolors: there was not enough evidence of wide dissemination to support the view that Urban had access.

2. Unicolors, Inc. v. Urban Outfitters, Inc., 853 F.3d 980, 984.

3. Id. 984.

4. Id. 985.

Alternatively, the “copying” analysis permits Unicolors show a “substantial similarity” existed between the “general ideas and expression” of Urban’s dress design, and Unicolors’ copyrighted design.

To evaluate the existence of a substantial similarity between the designs, the court employed “a two-part analysis: the extrinsic test and intrinsic test.”⁵ Under the extrinsic test, Unicolors must show that “concrete elements based on objective criteria” overlap, while the intrinsic test invites the subjective criteria of whether a “reasonable person” may think the two designs are substantially similar. Unicolors sought summary judgment on this point, arguing that the astonishing similarity between protected design and accused dress could only be explained by Urban copying the protected design.

Although the district court did not find evidence of access, Unicolors’ “substantial similarity” argument found success because the “works are so overwhelmingly similar that the possibility of independent creation is precluded.”⁶ After reviewing images of both designs, the district court granted summary judgment, ruling that the two designs were “nearly identical”⁷ and therefore “substantially similar.”

In its appeal, Urban contended the district court misapplied the “intrinsic test” because only a jury can apply the test. The appellate court did not find that Urban sufficiently supported its argument. First, Urban’s interpretation is adopted by only one district court. Next, Urban cited to cases largely reliant on the same pair of cases. Finally, the cases Urban put forward consider very different scenarios where the designs in question are not “virtually identical” nor “substantially similar.” Here, the appellate court stated that the two designs are already nearly identical. As such, the appellate court found that the district court’s application of the “intrinsic test” was correct, citing generally to the “exceptional cases” which permit judge(s) to apply the test.⁸

Concluding on the copying issue, the appellate court ruled that summary judgment is appropriate when the “works are so overwhelmingly similar that the possibility of independent creation is precluded.”⁹ Therefore, the appellate court upheld the district court’s original ruling that the two designs are substantially similar and that Urban must have copied Unicolors’ design.

Urban’s appeal features a second argument to counter the copying ruling: where there is no evidence of access, a finding that the two designs are nearly identical does not amount to “copying.” In response, the appellate court disagreed, explaining that Urban’s arguments are not supported by valid interpretation of case law. Urban focused on an aside where each of the two cited decisions generally discussed the possibility of requiring access to

5. *Id.* at 985.

6. *Id.* at 987.

7. *Id.*

8. *Id.* at 986.

9. *Id.*

prove copying. Despite the discussion however, each case ultimately concluded that access to the work was not necessary and that a finding of striking similarity was sufficient for to prove copying.

Urban appeals the district court judgment on a third basis: the subject design was not included in Unicolors' copyright registration, thereby questioning whether Unicolors owns all the rights to the subject design. To that end, Urban posited two arguments, discussed below.

First, Urban argued that Unicolors' ownership of "PE-1130" is questionable because the name "Flower 2008" is on the copyright certificate, while the component work, "PE-1130," is absent. However, the appellate court indicated Urban did not cite authority to supporting this conclusion the absence of a component work on a copyright certificate was enough to question ownership. Rejecting Urban's position, the appellate court resolved that as long as Unicolor owns the component works, it is not necessary for Unicolor to list their names on the copyright registration certificate.

Second, Urban argued that because the original source work, "QQ-692," is listed as "excluded material," then "PE-1130" is not properly registered. However, the appellate court rejected this argument as well because Unicolors' claim is based on the "PE-1130" work, which was properly registered. In addition, the appellate court held that because Unicolors' exclusion of "QQ-692" was a good faith mistake the absence does not invalidate registration.

Finally, Urban appeals the jury's conclusion of willfulness: that Urban willfully engaged in copyright infringement. The ruling was based on Unicolors' argument that Urban did not check whether its database of thousands of works infringed upon any intellectual property rights.

Urban argued that expecting the company to investigate each work in its possession would require review of more than ten thousand works, in addition to contacting every fabric manufacturer to verify ownership rights. In addition to the unreasonableness of an exhaustive investigation, Urban maintains that actual knowledge is required to prove willfulness. Accordingly, Urban argues that Unicolors' evidence did not show Urban had actual knowledge of the alleged conduct.

In its review of Urban's supporting arguments, the appellate court began by acknowledging that the copyright certificate presumes validity and ownership by Unicolor. Further, the appellate court concluded that Urban's interpretation of willfulness is too narrow. Instead, reckless behavior or willful blindness are sufficient to support a claim of willfulness. To this, the appellate court concluded that despite the difficulty of an exhaustive investigation, Urban's lack of investigation was sufficient to prove recklessness.