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Business Law Newsletter

Non-Signatories Bound by Contract's Arbitration Clause

By: Arianna Gleckel

Has your company signed a contract that contains an arbitration clause? Does your standard contract contain an arbitration provision? If so, now may be the time to review and revise the language contained in arbitration clauses.

In Decisive Analytics Corp. v. Chikar, et al. (VLW 008-8-174), Fairfax Circuit Judge Randy I. Bellows found that a non-signatory to a contract could compel a signatory to arbitrate a dispute involving both signatories and non-signatories to the agreement.

Decisive Analytics Corporation ("DAC"), a government contractor, signed a government subcontract with B2C, Inc. ("B2C") which contained an arbitration clause. DAC sued B2C alleging breach of contract, fraud, wrongful taking of funds, and several other torts, naming as defendants the corporation, its officers in their official and personal capacities, and one of the officer's husband, whom DAC alleged had assumed the responsibilities and liabilities of B2C. B2C and the individual defendants moved to compel arbitration and DAC objected, arguing that several of the individual defendants had not signed the arbitration agreement or otherwise agreed to be bound by it.

The arbitration provision contained in the contract between DAC and B2C stated "in the event of dispute arising between the parties which cannot be resolved by good faith negotiations, upon 45 days prior written notice by either party, the dispute shall be submitted to arbitration."

The Court found that the language of the arbitration provision itself was extremely broad, as it did not contain any limiting language such as "arising from" or "relating to." The provision simply referenced "any dispute" between the parties to the contract.

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In determining whether non-signatories to a contract can compel arbitration pursuant to that contract, the Court applied the tests outlined by the Fourth Circuit case American Bankers Insurance Group v. Long, 453 F.3d 623 (4th Cir. 2006) in finding that DAC should be equitably estopped from preventing any of the 17 counts in its complaint from being arbitrated. If DAC had not entered into the contract with B2C, it would have no basis for recovery against any of the defendants in this case.

Each allegation in DAC's complaint was dependent on DAC's claim that B2C breached a duty created by the contract. The Court found that DAC's claim against the officer's husband, a non-signatory, should also be arbitrated because DAC alleged that he assumed B2C's liabilities.

The Court also looked at the issue of whether the scope of a contract's arbitration clause can encompass not only allegations of breach of that contract, but also intentional torts related to that contract, even when resolution of the intentional torts does not depend upon the application of a specific provision within the contract.

The Court found that this broad arbitration clause encompassed all counts, including intentional torts because there is a "significant relationship" between each of the 17 counts and that, but for the existence of the contract, DAC would have no basis upon which to bring its claims against any of the defendants.

Arianna Gleckel of Bean, Kinney & Korman represented B2C, one of its principals and her spouse.

SQUARE DEAL IN NORFOLK

by James V. Irving

Earlier this year, a Norfolk Circuit Court judge highlighted the necessary elements for a gift of stock in circumstances involving family turmoil. The opinion in, *Square Deal Demolition, Inc. v. Doxie* was written by Judge John C. Morrison, Jr.

In 1981, Aron Doxie formed Square Deal Demolition, Inc. Doxie was at all pertinent times the president of Square Deal and the holder of more than 90% of the issued and outstanding stock. On December 31, 2003, the State Corporation Commission terminated Square Deal's charter for failure to maintain a registered agent and registered office, as is required by law.

About thirteen months later, Aron Doxie and his son Josephus visited the law office of Ira Steingold, Square Deal's former registered agent. Aron asked Steingold to assist with the paper work necessary to transfer Aron's 100 shares of stock to Josephus. Following Steingold's directions, Aron endorsed the back of his stock certificate transferring ownership to his son and handed it to Josephus. Steingold prepared a document reciting the consideration for the transfer. Later, Steingold testified that it was his impression that Aron Doxie was preparing his finances in anticipation of his possible entry into a nursing home.

Four months after the transfer of the stock, Aron Doxie executed his Will leaving all of his property, business and personal, to his children. On October 13, 2005 another son, Keneth Doxie, filed the paperwork to reinstate Square Deal with himself named as interim president and CEO. On January 3 2006, Aron Doxie was declared incompetent. He died on April 28 2006. Not long thereafter, Josephus began chaining the gate of the Square Deal Property and the siblings began battling over who owned the company.

Kenneth Doxie and his sister argued that, among other things, both the evidence and the language in the Will demonstrated that their father intended Square Deal to be part of his estate, and that in any event, any "gift" to Josephus was in effective because it was made while the company was defunct.

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Judge Morrison noted that all of the conditions required for an intervivos gift of personal property were met: Aron had donative intent, the gift was delivered to and accepted by Josephus, and title to the stock - in the form of an endorsed stock certificate - vested in Josephus at the time of the gift.

Because Square Deal remained eligible for reinstatement, Aron was the owner of an expectancy that he had the right to transfer. Because in Virginia, reinstatement is deemed to be retroactive to the date of termination, the law regards Square Deal as at all times in good standing upon reinstatement.

As a result, brother Kenneth found himself in the awkward position of having taken the trouble to reinstate his late father's company, only to find himself frozen out of ownership and control by his brother. It may not have seemed a square deal to Kenneth, but it was permissible under the law.

BEAN, KINNEY & KORMAN CLIENTS WIN SUMMARY JUDGEMENT IN TRADEMARK INFRINGEMENT CASE

by James V. Irving

Bean, Kinney & Korman attorneys recently obtained summary judgment in favor of our clients who had been accused of infringing on the trademarks of a competitor. Our clients, Imagination Entertainment Limited ("Imagination") and their affiliates, manufacture and distribute recreational board and DVD games. In 2007, they introduced a generic dice game they called “Left Center Right." Plaintiff, George & Company, LLC manufactured and distributed the same generic dice game which it sold under the registered trademark “LCR."

George & Company claimed that Imagination's use of “Left Center Right” infringed on their registered trademark of “LCR” and its asserted common law trademark rights to the term “Left Center Right.”

The parties engaged in extensive discovery in the United States District Court for the Eastern District of Virginia and, at the close of discovery, George & Company moved for summary judgment on the issue of liability. Imagination, represented by Bean, Kinney & Korman, opposed plaintiffs' motion and filed their own motion for summary judgment as to all issues.

We argued, among other things, that LCR was a protected trademark only because it was suggestive of the dice game in which chips are passed to the left, center or right depending upon the result of the throw of the die. However, the name “Left Center Right” is not a protectable trademark because it was merely descriptive of the play of the underlying game.

Moreover, we disputed the George & Company's argument that, since “LCR” is an abbreviation for Left Center Right, the LCR mark extended to and included the longer phrase. Instead, we contended that “Left Center Right” can not be confused with LCR because it did not look or sound like “LCR.” In addition, we contended that in order for “LCR,” to be protected under trademark law, it could only be suggestive of “Left Center Right,” but not its functional equivalent. Indeed, if “LCR” were interchangeable with “Left Center Right,” then LCR would be merely descriptive of the game play - - the same logic that we utilized to contend “Left Center Right” was not legally protectable.

We also challenged George & Company's argument that it had common law trademark rights to the name “Left Center Right” noting that, at best, George & Company had abandoned the use of that term more than 15 years previously.

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Moreover, we asserted that, in addition to the descriptive nature of the mark, George & Company's failure to use that phrase in a trademark capacity on its packaging undercut their common law trademark claims for that name.

On July 25, 2008, U. S. District Court Judge Leonie M. Brinkema issued a lengthy written opinion in which she agreed with our positions, denied George & Company's motion for partial summary judgment and granted summary judgment to Imagination. Accordingly, the Court entered final judgment in favor of Imagination as to all issues and dismissed the case.

The case is *George & Company, LLC, v. Imagination Entertainment Limited, et al.*, E.D. VA. Case No. 1:07cv498 (July 25, 2008). The defendants were represented by Bean, Kinney & Korman attorneys William F. Krebs, Christopher A. Glaser and Heidi E. Meinzer.

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