September
2011
Volume 11
Issue 5

BK &K BEAN KINNEY & KORMAN PC
ATTORNEYS

Business Law Newsletter

Inside This Issue:

Our Practice Areas:

BUSINESS & CORPORATE

- Appellate Practice
- Business Services
- Construction Law
- Copyright/Trademark
- Creditors' Rights
- Criminal Defense
- e-Commerce
- Employment Law
- Government Contracts
- Immigration
- Land Use, Zoning, & Local Government
- Landlord/Tenant
- Lending Services
- Litigation
- Mergers and Acquisitions
- Nonprofit Organizations
- Real Estate Services
- Tax Services
- Title Insurance

INDIVIDUAL SERVICES

- Alternative Dispute Resolution
- Domestic Relations
- Negligence/Personal Injury
- Wealth Management & Asset Protection
- Wills, Trusts & Estates

NON-COMPETITION AGREEMENTS AND INDEPENDENT CONTRACTORS

By James V. Irving

In Virginia, the extent to which a contracting party may bind an independent contractor to a post-contract non-competition arrangement remains uncertain. The presumption against the enforceability of non-competition agreements generally is a matter of public policy in Virginia. Since independent contractors ("ICs") offer their services broadly throughout a given industry, one might plausibly argue that a non-competition agreement can never be employed to restrict an IC's post-contract endeavors; however Virginia courts have recognized a party's legitimate interest in protecting the direct business relationships to which a party introduces its independent contractors.

In 1992, the Circuit Court of the City of Fredericksburg issued an opinion enforcing a principal-independent contractor non-competition agreement, but did so by finessing the policy argument. In the case of Crawley v. Cox, Cox, the independent contractor argued [according to Judge William Ledbetter] that "the covenant is not enforceable because it is not ancillary to an employment agreement." Judge Ledbetter reviewed this argument as if it addressed not a fatal insufficiency in the relationship between the parties, but a defect in the type of document in which the non-compete was delivered, ruling that "Non-competition covenants do not have to be incident to employment contracts. Such covenants are found in other lawful contracts such as partnership agreements, shareholders' agreements, buy-sell contracts and service contracts." In enforcing the clause, Judge Ledbetter neatly avoided the question of whether a non-competition restriction was appropriate to the principal-independent contractor relationship.

Judge Ledbetter was likely persuaded by the equities involved. Cox, a young dentist who got his professional start in Crawley's Fredericksburg practice, admitted signing an independent contractor agreement with Crawley that contained a two year, post-contract non-competition clause. Not long after completing his contractual term, Cox bought a competing practice in Fredericksburg and entered into direct competition for Crawley's patients.

Similarly, in June of 2011, a Fairfax Circuit Court judge agreed to enforce a non-compete against an independent contractor without addressing the merits of the fundamental defense.

In Preferred Systems Solutions, Inc. ("PSS") v. GP Consulting, LLC, Judge Terrence Ney enforced a non-competition agreement between a government contractor and its independent subcontractor ("GP") after GP terminated the agreement and almost immediately began providing the same services to Accenture, one of the two

2300 Wilson Boulevard, 7th Floor, Arlington, Virginia 22201
703·525·4000 fax 703·525·2207
www.beankinney.com

competitors of PSS that the non-compete specifically identified and barred from competition.

Judge Ney went to great pains to establish the equities of Plaintiffs' claim: (1) that the non-compete was narrowly drawn; (2) that it only prohibited competition with two named entities; (3) that the period of restriction was only one year; (4) that it was specific as to the type of work prohibited; and

(5) that there was no undue burden or restraint placed of GP. But perhaps what really mattered was that, as in the Crawley case, GP's actions didn't pass the smell test.

This is not to say that jurists like Judge Ledbetter and Judge Ney ignore the law when their sense of fair play is offended; only that the unsettled state of the law on this issue allows room for a circuit judge to rule based on equity. Certainly it seems just and reasonable that contracting parties such as Crawley and PSS should be able to protect their direct, vertical professional relationships from poaching by former contractors. What's not clear is how broad such a restriction can be, or what the Supreme Court of Virginia might do if forced to decide the issue. However, no matter how flagrant the former IC's competition, it seems unlikely that a Virginia court would allow a restriction on competition with the principal's indirect connections. To do so would unreasonably burden the IC by depriving him of legitimate business opportunities.

James V. Irving is a Shareholder with Bean, Kinney & Korman, P.C. in Arlington, Virginia. He can be reached at (703) 525-4000 and by email at jirving@beankinney.com.

RED SHOE DIARIES – TRADEMARK EDITION

By Alain J. Lapter

While this episode does not star David Duchovny, and probably contains less nudity, it is no less full of intrigue. The chapter involves high fashion, haute couture designers, models, footwear…and one million dollars (read with pinky pointed up to mouth). For trademark owners, this case is actually nothing to laugh about. Not only does it have the potential for far-reaching economic consequences, but it brings forth various (as of now) unanswered questions related to the extent of unorthodox trademark rights.

Any woman knows that red soles on a pair of high heels could mean only one thing - the footwear is made by Christian Louboutin ("CL"). Or at least that's what CL claimed when the company decided to recently sue Yves Saint Laurent ("YSL") in New York Federal District Court. In the suit, CL requested that the court grant a permanent injunction against YSL after the haute couture designer also began using the red color on the soles of its footwear. CL's argument centered on its ownership of a federal registration with the U.S. Patent and Trademark Office for the color red for use in connection with footwear. Indeed, the PTO issued CL a registration, Reg. No. 3,361,597, in 2007 for the color red as a lacquered sole on footwear. This red color was further identified as Pantone-18 Chinese Red.

To say that CL footwear featuring the red sole is well-known in the marketplace would be quite an understatement. Over the years, a venerable Who's Who of celebrities have paraded the red carpet with CL's footwear, including Madonna, Halle Berry, Salma Hayek and Cameron Diaz. The red-soled footwear has gained further notoriety through wide-spread media exposure. Many would agree that when most consumers see high fashion shoes, featuring red soles, they have two simultaneous thoughts: 1) those are Louboutin's; and, 2) those are out of my price range.

It is with this notoriety in mind that CL brought what it probably thought was a clear cut case of trademark infringement against VSL. CL complained that consumers, and the public at large, would be confused as to the source of the footwear when encountering YSL's line. In essence, when such consumers saw the YSL shoes, they would mistakenly believe that the product originated from CL, and vice-versa. Confusion to consumers is the bedrock of trademark law in the United States. The lawsuit claimed that "Mr. Louboutin is the first designer to develop the idea of having red soles on women's shoes. The defendants' use of red footwear outsoles that are virtually identical to the plaintiffs' Red Sole Mark is likely to cause and is causing confusion, mistake and deception among the relevant purchasing public."

Protection of color marks is nothing new in the United States or the world for that matter – with most countries protecting sound marks (think the NBC peacock jingle) and even olfactory marks (think perfumes), as being identifiers of source. The USPTO has given federal protection to any number of color marks, including a certain shade of blue owned by Tiffany & Co. for their jewelry boxes, brown owned by United Parcel Service for delivery services, and pink that is owned by Owens-Corning for their Pink Panther branded insulation.

The rub with protecting color marks is that unlike word marks, they are not considered inherently distinctive.

Therefore, an applicant needs to show that the mark has acquired distinction through long-term exclusive use in commerce, as well as additional evidence of notoriety (e.g. sales, media attention, advertising budget, etc.). Indeed, CL submitted an extensive affidavit from the company's president evidencing that the red sole had, indeed, transcended the public's conscience and acquired distinctiveness.

Unlike many defendants in trademark infringement suits, YSL did not capitulate to CL's cease and desist letter or take this lawsuit, seeking $1 million in damages, lying down. Rather, it responded to the complaint and indicated that notwithstanding CL's claims to the court and the USPTO, CL was not the first to use color on footwear.

Red outsoles are a commonly used ornamental design feature in footwear, dating as far back as the red shoes worn by King Louis XIV in the 1600s and the ruby red shoes that carried Dorothy home in The Wizard of Oz… As an industry leader who has devoted his entire professional life to women's footwear, Mr. Louboutin either knew or should have known about some or all of the dozens of footwear models that rendered his sworn statement false.

These were obviously serious accusations on YSL's part since the company not only contended that confusion among consumers was not likely, but also that CL, in essence, committed fraud on the Trademark Office in claiming exclusive rights to the mark. Of course, this author believes that YSL's answer misses the point in that CL did not claim exclusive rights to use color on shoes, in general, but rather, and most importantly, the right to use red on the sole of such footwear.

New York U.S. District Court Judge Victor Marrero, in a decision that surprised many people, bought YSL's argument hook, line and sinker. Judge Marrero refused CL's request for an injunction and indicated that the entire lawsuit may be tossed. Further insinuating that CL's federal registration was all but cancelled, Judge Marrero noted that the Trademark Office issued an "overly broad" registration, which simply identifies the claimed color as red. "Awarding one participant in the designer shoe market a monopoly on the color red would impermissibly hinder competition among other participants."

In reviewing the decision, however, this author humbly believes that one must question Judge Marrero's basic understanding of trademark law. Rather than concentrating his analysis on the facts of the case and the extent of protection of CL's mark, that is to say a certain red color on the sole of shoes, Judge Marrero contended that if CL were victorious in its claims against YSL, it could stop all designers from using that color on any and all garments, including, dresses, coats, bags, hats, etc. The judge noted that upholding the mark would not only set off "imperial color wars in women's high fashion footwear," but that in the fashion industry "color serves ornamental and aesthetic functions vital to robust competition." Say that to Burberry and its iconic brown plaid pattern.

The main problem with Judge Marrero's analysis is that it misses CL's underlying claims and the extent of its trademark protection. CL never argued that competitors could not use the color red on their products. In fact, CL would have no right to do so in the first place. CL, however, argued that third parties should not be permitted to use a particular shade of red on the soles of the shoes.

Judge Marrero further misses the mark in denying CL's injunction on the basis that the red sole was merely "aesthetic and ornamental." Even if CL's mark could be so characterized, U.S. Trademark Law specifically permits registration for those types of marks, so long as the applicant can demonstrate acquired distinctiveness, which CL accomplished. Finally, while fashion designers certainly need to use all available colors, it is a stretch to argue that they "need," as opposed to "want," to use the same red as CL on the sole of footwear. Again, CL was not claiming that YSL violated its intellectual property rights because it used just any color on the soles, but that it used the same or confusingly similar color on the same location of its products as did CL. This distinction, which is seemingly ignored in the 30-page decision, is nonetheless the basis of CL's claim.

As any good, steamy television series, this case will see another episode. Harley Lewin, counsel for CL, has already filed an appeal of Judge Marrero's decision with the Second Circuit, which he believes that his client will win hands down. Owners of color marks certainly hope so.

Stay tuned.

Alain J. Lapter is an Associate with Bean, Kinney & Korman, P.C. in Arlington, Virginia. He can be reached at (703) 525-4000 and by email at alapter@beankinney.com.

Contact Us

2300 Wilson Boulevard, 7th Floor
Arlington, Virginia 22201
703·525·4000 fax 703·525·2207
www.beankinney.com

BK &K BEAN KINNEY & KORMAN PC
ATTORNEYS

2300 WILSON BOULEVARD, 7TH FLOOR
ARLINGTON, VA 22201

GETTING IT DONE®