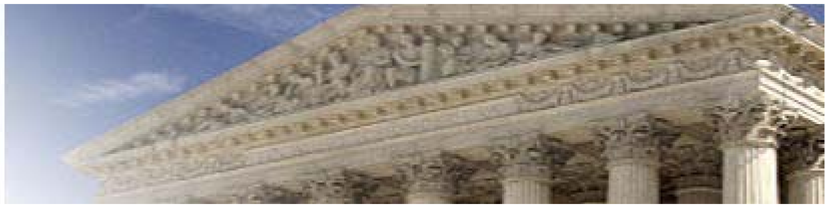

Law Office of Edward E. Sharkey LLC

April 2013

BUSINESS LAW DEVELOPMENTS

Legal updates for entrepreneurs and business owners from the Law Office of Edward E. Sharkey LLC.

Dear Friends of the Firm,

This is the April issue of our firm's newsletter, featuring coverage of legal developments important to business owners and entrepreneurs. You are receiving it because you are a client or have previously solicited legal resources from the firm.

Please let us know what you think.

Very truly yours,

Ed

In This Issue

Employees or Contractors: Are My Workers Properly Classified?

Typically, businesses would prefer to have independent contractors rather than employees. It is seen as a way to avoid employment taxes, retirement plan contributions, and other costs. But there are limits to who can be designated as a contractor, and there are penalties for getting it wrong. An opinion [1] recently issued by the Supreme Court of the State of Kansas reminds us of the importance of properly classifying workers.

The Kansas case was eye-catching because it concerned exotic dancers, but the worker classification question at issue is very ordinary and very relevant to most businesses with employees. In the case, the business classified its dancers as independent contractors. Notwithstanding this, the business also imposed rules governing the dancers' interactions with each other and with customers. For example, the dancers were required to accept drinks offered by customers. A dancer that violated the rules was subject to punishment by a fine or termination from work.

The dispute began in 2005 when one of the dancers filed a claim for unemployment benefits. After an investigation, the Kansas Department of Labor (the "Department") determined that the dancers were not contractors but employees. The business challenged the decision. After a hearing, the Department affirmed the determination and ordered the business to make unemployment insurance contributions for all of the dancers.

The business petitioned for judicial review of the Department's ruling. After the trial and intermediate appellate courts affirmed the Department's decision, the case made its way to the Kansas Supreme Court, which also affirmed that the dancers were employees, not independent contractors.

The Court assessed the parties' relationship under the common law of Kansas. In Kansas, like in Maryland, the critical factor in determining whether a worker is an employee or an independent contractor is the employer's right to control the worker and his or her work. The Court held that the following facts were sufficient evidence of control: (1) the various rules set by the business for the dancers; and (2) rule violations were punishable by fines and termination.

While the Kansas case was limited to unemployment insurance benefits, erroneous classification of employees has consequences beyond that. Categorization of workers affects many other aspects of a business, including requirements for worker's compensation insurance, retirement benefits, health care, and tax.

The case is a good reminder that businesses do not have broad discretion to decide whether a worker is an employee or an independent contractor. Instead, a variety of state and federal laws and regulations establish tests for determining which workers are employees and which can be classified as independent contractors for particular purposes.

If you have questions concerning the application of these tests to your circumstance, please contact us.

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[1] Available online at http://tinyurl.com/bjb9dbh

ADA Update: An Employer Does Not Have to Grant Indefinite Leave.

The Americans with Disabilities Act ("ADA") prohibits businesses from discriminating against individuals with disabilities. It requires a private employer to accommodate an employee if the employee is qualified and capable of performing the essential functions of his job with a reasonable accommodation. It is often difficult for an employer to determine whether a requested accommodation is "reasonable." For example, is an employee's request for leave to undergo medical treatment reasonable?

The United States District Court for the District of Maryland recently opined [1] that leave is a reasonable accommodation only in limited circumstances. In particular, leave may be a reasonable accommodation only if the requested leave is (1) for a definite period of time, and (2) reasonably likely to enable the employee to return to work.

The case arose out of an employer's refusal to grant its employee an indefinite period of leave. The employee, a corrections officer, took medical leave to undergo treatment for breast cancer. The officer used all of her paid sick leave, all of her personal leave, and all leave available to her under the Family and Medical Leave Act. She also used leave that was donated by other employees.

After the officer had been out of work for approximately nine months, her employer placed her on medical leave without pay. As a result, the officer was separated from payroll and would have to go through a reinstatement process in order to return to work. The officer did eventually go through the reinstatement process and returned to work at a different correctional facility run by the employer. The officer sued, claiming that she had been terminated in violation of federal law. [2]

The court summarily rejected the officer's claim. Although it recognized that, in some circumstances, a temporary leave of absence is a reasonable accommodation, the court affirmed that an indefinite leave of absence is not reasonable. Additional medical leave is a reasonable accommodation only where the leave is (1) for a finite period of time, and (2) reasonably likely to enable the employee to return to work.

Because the officer failed to (1) provide her employer with a date on which she would be able to resume her duties, or (2) show that the requested leave was reasonably likely to enable her to return to work, the court held that it would be unreasonable to require the employer to accommodate the officer by permitting her additional leave. For this reason, the employer did not violate the law by separating the officer from payroll.

Although determining the reasonableness of a requested accommodation is typically a fact-intensive inquiry, this case provides persuasive authority for employers facing a request for leave.

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[1] Available online at http://tinyurl.com/c5emts9
[2] Because her employer was a department of the State of Maryland that received federal financial assistance, the correctional officer's claim arose under the Rehabilitation Act of 1973 rather than the ADA. Each of the Acts imposes a similar duty to provide reasonable accommodation on the employers that it covers. Courts apply the same legal analysis to claims brought under either Act.

Liability Primer: What to do First When a Business is Sued.

As electronically-stored information ("ESI") becomes more prevalent in the day-to-day operations of businesses, courts continue to refine the rules governing the preservation of ESI that is relevant to existing or pending litigation. When a party becomes aware of the possibility of litigation, it is required to implement a "litigation hold" to ensure that evidence is preserved. "Spoliation," which occurs when relevant evidence is destroyed or deleted due to an insufficient litigation hold, gives the court discretion to impose various sanctions. These sanctions may include dismissing the claim, granting fees and costs to the injured party, or giving the injured party a "spoliation inference," which actually allows the opposing party to interpret what the destroyed evidence might have proved and entitles that party to an inference by the court that its interpretation is correct.

The importance of implementing a proper litigation hold when faced with the possibility of defending against a lawsuit (and certainly when litigation is already pending) was highlighted in a recent decision [1] issued by a Federal District Court in New Jersey. In the case, the magistrate judge granted an insurance company's motion against a New Jersey county to recover its costs connected to the county's failure to properly preserve evidence. The county did not implement a litigation hold even after the litigation was pending; its errors included failing to disable the automatic delete function on its email server and not preserving copies of its backup tapes.

On appeal in the Federal District Court, the county argued that, because there was no evidence that relevant data was destroyed, the imposition of sanctions was improper. The District Court disagreed. It affirmed the magistrate judge's decision, holding that a party injured by an insufficient litigation hold may recover attorneys' fees and costs even in a case where it does not actually cause destruction of relevant evidence.

This case is a reminder: businesses must implement a sufficient litigation hold once it becomes aware of the possibility of a lawsuit. Failure to do so may lead to sanctions, even if the failure does not cause or contribute to the loss of evidence. Our firm continues to monitor the state of the law governing litigation holds and spoliation sanctions. Please feel free to contact us with questions on this or any other business law topic.

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[1] Available online at http://tinyurl.com/cyqmxqw

Can I Stop My Competitor From Using a Logo Similar to Mine?

For the past 30 years, Ralph Lauren and the U.S. Polo Association ("USPA") have been fighting over the logo of a polo player. In 1984, USPA won a judgment giving it the right to sell merchandise with a "double horsemen" logo. The logo is similar, but not identical, to Ralph Lauren's trademarked polo player logo. In that case, the judge ruled that the word "polo" was generic enough for use by competitors, as long as USPA did not emphasize it in its marketing or design. He also ruled that USPA's logo was distinct enough from Ralph Lauren's that it would not cause confusion as to the source of the product or service offered.

The "likely to cause confusion" language is important: it is the rule that federal courts follow in determining whether a company has infringed upon a competitor's trademark. The rule, including an eight-factor test meant to guide courts in their decisions, has since become the standard under which all trademark infringement claims are analyzed. In any dispute, courts will assess the factors and then determine, on balance, whether consumers are likely to be confused about who is the source of the product or service bearing the mark. The eight factors, often referred to by courts as the "Polaroid factors," are:

1) The strength of the mark;
2) The degree of similarity between the two marks;
3) The proximity of the products;
4) The likelihood that the prior owner will "bridge the gap" separating the products (this factor becomes irrelevant when the two companies are already competing in the same market);
5) Actual confusion about the source of the product;

6) The defendant’s good faith in adopting its own mark (this factor refers to situations where a defendant intends to exploit its competitor’s good reputation by making it hard for consumers to distinguish between their products);

7) The quality of the defendant’s product (although courts will analyze this factor by looking to the plaintiff’s “loss of control of quality”); and

8) The sophistication of the buyers.

The fight flared up again in 2006. Ralph Lauren took USPA to court to determine whether four other USPA logos infringed upon Ralph Lauren’s trademark. The case went to a jury, which found that one logo (a “solid double horsemen” mark) did infringe upon the Ralph Lauren trademark, while three logos (including the same solid double horsemen, but which included the letters “USPA,” as well as an “outline double horsemen”) did not. The jury found that the outline logo as well as the solid logo with the letters “USPA” made it unlikely that consumers would believe the products were made or endorsed by Ralph Lauren.

Most recently, USPA sought another judgment that it could market cologne featuring its double horsemen logo without infringing on Ralph Lauren’s trademark. Given the ruling in the 1984 case, it figured to be a slam-dunk for USPA. In a surprising decision [1] issued in 2011, however, the trial court ruled in favor of Ralph Lauren. The court undertook a long factual analysis in which it analyzed both companies’ logos and other marketing insignia and distinguished between the apparel and cologne markets. The court found that the likelihood of confusion between Ralph Lauren and USPA cologne was higher than between the companies’ clothing and apparel products.

The court emphasized factors 5 (actual confusion) and 6 (good faith) from the Polaroid test. At trial, Ralph Lauren presented evidence of a study indicating that about 25% of consumers believed that USPA’s cologne was manufactured or sponsored by Ralph Lauren. The court found this evidence persuasive with respect to actual confusion.

The court also found that the sixth factor – the defendant’s good faith – weighed strongly in favor of Ralph Lauren. The court noted the similarities between the color schemes and logos used by USPA and Ralph Lauren, as well as the strength of Ralph Lauren’s reputation in the cologne market. Given Ralph Lauren’s reputation and the strong similarities between the appearances of the products, the court inferred bad faith on the part of USPA in adopting its own mark.

Most recently, in early 2013, the Second Circuit Court of Appeals issued a summary order [2] affirming the trial court’s ruling for Ralph Lauren. The Second Circuit approved of the reasoning behind the trial court’s decision that the cologne and clothing markets were different enough that the 1984 case did not dictate a ruling in favor of USPA. The Second Circuit also found no errors in the trial court’s validation of Ralph Lauren’s study indicating actual confusion on the part of potential customers.

In short, when designing product logos and trademarks, businesses should be wary of their competitors' marks and insignia. If the marks are similar, the fact that the two businesses offer similar products or services will weigh heavily in favor of the competitor who first adopted the mark, should any legal dispute over the marks arise. We are available to assist with any trademark-related issues that you may encounter in the course of running your business.

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[1] Available online at http://tinyurl.com/bvey98d

[2] Available online at http://tinyurl.com/ca9mcpt

ABOUT US

The Law Office of Edward E. Sharkey LLC is a firm of dedicated business and trial lawyers in Bethesda, Maryland, concentrating on business law and commercial litigation. Other areas of practice include pension, securities, negligence/professional liability, and construction law.

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