



**K&L GATES**

# Fashion Law

**“To create something exceptional, your mindset must be relentlessly focussed on the smallest detail.” – Giorgio Armani**

**Autumn/Winter 2016**

# WELCOME

The business of fashion is exciting, fast paced and driven by passionate and creative people. But it is important to remember that it is just that – a business. While creativity and passion are integral to success in the fashion industry, they won't get you there alone. Being surrounded by people who can assist in the more mundane aspects of business – corporate structure, employment law, as well as insuring your creative endeavour through intellectual property protection, – is essential to your success as a business.

In this edition of Fashion Law, you'll read articles which will: help focus your attention on how to set up your business and minimise your risk, highlight issues of workplace bullying which can occur in the retail environment, provide examples of trade mark and copyright disputes by major fashion brands, as well as key learnings from these cases and also address the very tricky industry issue of how thin is too thin for fashion models and what the law says about this.

K&L Gates is a proud supporter of the fashion industry and our long standing sponsorship of the Virgin Australia Melbourne Fashion Festival is a testament to this. Our annual Fashion Law Breakfast brings together industry and legal experts to discuss some of the issues of most concern to you with a focus this year on social media.

We would love to hear from you about other topics you would like to see appear in these pages or as a presentation, please send through any feedback you have.



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# CONTENTS

START-UP, FUNDRAISING OR DIVESTING: KNOW THE BASICS	6
USING TRADE MARKS TO PROTECT YOUR BRAND'S SIGNATURE PRODUCTS AND ASPECTS OF DESIGN	8
WORKPLACE BULLYING – PREVENTION IS THE BEST DEFENCE	10
FROM STREET ART TO HIGH FASHION - GRAFFITI INTO THE MAINSTREAM	12
FASHION CAPITAL TO BAN UNHEALTHILY THIN MODELS FROM CAMPAIGNS AND RUNWAYS	14



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# START-UP, FUNDRAISING OR DIVESTING: KNOW THE BASICS

Caroline Carnegie and Lauren Blecher

**Looking to start a fashion label, attract investors or a buyer? Know your risks and consider appropriate structuring up front to ensure your business is protected down the line.**

Whether your organisation is a new fashion label, preparing for a sale or seeking to attract investment, there are some important factors which can help protect your business and minimise risk.

## PROFIT OR PITFALL?

In 2011, Myer announced it had entered into an arrangement to acquire a 65% interest in fashion label Sass & Bide for \$42.25 million. In March 2014 fashion retailer Unit Technologies Pty Ltd was placed into receivership. On 4 September 2014, Ultimate Creative Agencies Pty Ltd, a company with previously estimated annual turnover of \$11.8 million, went into administration. These examples beg the question - what distinguishes the long term success of one business from the collapse of another? This article will outline some of the key corporate law factors to be considered in facilitating the prosperity of your fashion company in Australia.

### 1. Corporate structure

Determining the appropriate corporate structure at the outset is crucial to effective business and

cost minimisation when looking to increase capital or divest. A key consideration is the ownership model. This includes determining the shareholder or partnership arrangements and ensuring that all parties involved in the ownership and/or strategic management of the business understand and document their rights and obligations from the outset. Engaging a lawyer to prepare legal documents at the early stages is an extremely important tool in negotiating the ownership split, the level of involvement and responsibilities of the parties. This helps to protect minority and majority interests in the business venture (no matter how sophisticated the parties are) and is effectively a business pre-nup. Whether your business is a start-up or well established, having corporate documentation in place which reflects the ownership and the process for, and rights around management, shareholder and board decisions (among other matters), is invaluable to governing the relationship between stakeholders, ensuring business continuity and seeking to attract investment or divestment opportunities.

# START-UP, FUNDRAISING OR DIVESTING: KNOW THE BASICS

## 2. Brand protection

Intellectual property protections such as patents, trade marks and/or licensing arrangements can be crucial to protecting brand value and preventing misuse by third parties. Knowing when to apply for registration and taking steps to enforce your intellectual property rights are key to a successful fashion enterprise and legal advice should be obtained to determine the appropriate course of action for your circumstances.

## 3. Employee arrangements/OH&S

Ensuring that employment agreements and appropriate occupational health and safety policies are in place is vital in carrying on a successful business. This may include consideration around structuring performance incentives such as bonuses and employee share schemes.

## 4. Property

Premises may be an important aspect of a fashion business - whether it is head office space, a retail outlet or warehousing. A lease or freehold agreement which adequately protects and caters to the needs of your business operations (both at the time of entry into the arrangement and which allows for future growth or divestment) should help facilitate a productive business environment.

## 5. Suppliers/customers

Formalising arrangements with customers and suppliers through written contracts with clear and comprehensive terms is important when fostering business relationships; ones that may prove valuable assets to your business should you choose to divest or seek funding from a third party financier. Golden handshakes can prove shaky promises. Having clear arrangements in place at the early stages of negotiations and prior to commencing formal supply or manufacture can also help avoid costly litigation down the line.

## 6. Financing and investment

There are various ways to seek investment opportunities including debt financing with a reputable financial institution as well as private equity. Banking institutions and private equity firms are generally sophisticated investors and will ascertain swiftly whether your business is in good financial health. In addition to profitability, the more robust your business is from a corporate governance and risk management perspective, the more attractive it will appear to investors.

## 7. Tax and accounting

Taxation issues can present costly and unpleasant surprises if not adequately addressed. You should always seek tax advice before undertaking any financial or investment decision. Importantly, such advice should be sought simultaneously when establishing the legal framework for your start-up or restructure. Working with a team of advisors should also enable ease of registration with regulatory bodies such as the ATO and ASIC as well as ensuring applications for ABN, GST, PAYG and FBT (as appropriate to your business) are established and maintained.

1 'Store Wars: Myer buys fashion label Sass & Bide for \$42.25 million', The Sydney Morning Herald (7 February 2011) <<http://www.smh.com.au/business/store-wars-myer-buys-fashion-label-sass--bide-for-4225m-20110207-1ajdd.html>>

2 'Once worth \$25 million, fashion label started by former Young Rich Listers collapses', SmartCompany (27 March 2014) <<http://www.smartcompany.com.au/finance/cashflow/41283-once-worth-25-million-fashion-label-started-by-former-young-rich-listers-collapses.html>>

3 'Fashion designer with \$8 million in turnover collapses', SmartCompany (11 September 2014) <<http://www.smartcompany.com.au/finance/43669-fashion-designer-with-11-8-million-in-turnover-collapses.html>>

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# USING TRADEMARKS TO PROTECT YOUR BRAND'S SIGNATURE PRODUCTS AND ASPECTS OF DESIGN

Savannah Hardingham and Zara Lim

**A substantial amount of time, money and creativity is directed towards building a recognisable fashion brand. This investment is made not just in brand names and logos, but through elements of branding, such as distinctive elements of design or features of products that can become synonymous with a strong brand.**

This article looks to some recent examples of how fashion houses have protected their brands and designs by registering marks that are incorporated into their signature products, and also highlights how important it is for brand owners to seek registration of their marks at the earliest opportunity. These examples demonstrate steps that brand owners can take to give their brands a competitive edge by ensuring that they are well placed to stop imitators and to maintain their brand's exclusivity.

## TORY BURCH'S "TT" MARK

Fashion house Tory Burch successfully sued Youngran Kim and three companies controlled by Kim for infringement of one of Tory Burch's trade marks in the U.S.. The Tory Burch trade mark in question (shown below) was used as the basis for a Tory Burch bracelet. The defendants sold bracelets featuring a mark similar to Tory Burch's trade mark. The defendants were found to have infringed

Tory Burch's trade mark and were ordered to pay US\$41 million in damages and costs and to permanently stop selling the infringing jewellery.

The trade marked logo in dispute was Tory Burch's "TT" device, which is composed of two stylised letter Ts, with one T stacked upside down on top of the other T to form a cross-like figure, sometimes enclosed inside a circle. The original TT logo was created in 2003 and Tory Burch filed a trade mark application for the logo in the same year. The TT logo has been used continuously on Tory Burch products since 2004.

While the original TT logo used and trade marked by Tory Burch did not feature a split down the centre of the cross – the defendants' logo (referred to as the "Isis Cross Design") had a split down the centre – Tory Burch had also used a split TT logo on their products since 2008. The evidence was that the infringers had started using their Isis Cross Design in 2011.

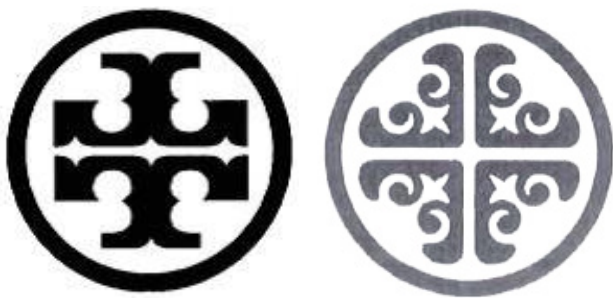


## USING TRADE MARKS TO PROTECT YOUR BRAND'S SIGNATURE PRODUCTS AND ASPECTS OF DESIGN

Tory Burch succeeded in its trade mark infringement claim and was able to establish that the label had suffered substantial lost profits as a result of the defendants' selling the Isis Cross products. Tory Burch presented as evidence a survey which showed that a similar proportion of respondents identified Tory Burch as the source of both genuine Tory Burch products and the defendants' copy products. This demonstrated that actual consumer confusion had resulted from the defendants' conduct.

Tory Burch was able to take action, and recover substantial damages and costs, as she had registered her trade mark early on. This is a reminder that brand owners should register their trade marks as early as possible, once a logo has been created or a brand name conceived. It is also a good idea to keep records of how a trade mark has been used.

This case also underscores the importance of businesses turning their minds to protecting not just their business' name as a trade mark, but also other aspects of branding that might benefit from trade mark protection. While trade mark protection is typically associated with words or logos, other aspects of branding including distinctive elements of products themselves are also capable of trade mark protection.



L-R: Tory Burch product, Defendants' product

### LOUBOUTIN'S SIGNATURE RED SOLES

Another example of an unusual trade mark that forms part of a product is the distinctive Christian Louboutin red sole. Louboutin has sought to register as a trade mark its particular shade of red (Pantone No. 18.1663TP) as applied to the soles of high heel shoes around the world. While this visual feature might not traditionally be seen as a trade mark, Louboutin successfully registered its signature red soles as a trade mark in Australia in 2013. Louboutin has faced greater difficulty registering the trade mark in other countries, however it recently won a long standing trade mark opposition in the European Union. In the U.S., trade mark protection over the Louboutin red sole only applies where the red coloured sole contrasts with the colour of the adjoining upper part of the shoe.

### PREVENTION IS BETTER THAN CURE

Designers should consider whether any distinctive designs or features associated with their branding, such as a signature colour or shape of a product, may be capable of trade mark protection. Like Tory Burch, it is also a case of 'the early bird gets the worm' – get in quick with applying to register your label's marks, as (once registered) trade marks are enforceable from the date they were filed and they can be registered in perpetuity subject to the payment of renewal fees and continued use of the trade mark. Taking these steps will better equip your brand to prevent unwanted copying and to be able to take action if your brand is copied.

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# WORKPLACE BULLYING – PREVENTION IS THE BEST DEFENCE

Michaela Moloney and John Monroe

**Since the introduction of the anti bullying jurisdiction in the Fair Work Commission (FWC) in 2014, the retail sector has consistently seen one of the highest rates of applications for orders to stop bullying.**

There also continues to be large numbers of workers' compensation claims being made from workplace bullying. It is vital that employers understand how to proactively deal with the risk of bullying in the workplace.

Bullying is defined in the Fair Work Act as repeated, unreasonable behaviour that is directed at a worker, or group of workers, and creates a risk to health and safety. It includes behaviour that would undermine, humiliate, victimise or threaten a person.

For most employers, workplace bullying is now well and truly on the radar. Most organisations have policies making it clear that bullying is prohibited in the workplace. While an anti bullying policy is essential in the workplace, a policy alone will not remove the risk of bullying.

Bullying is a work health and safety issue and needs

to be treated as such. There is a duty under occupational health and safety law for employers to provide a safe system of work. Employees (including managers, supervisors and staff) must take steps to protect their own health and safety and that of others.

Key risk factors that may increase the likelihood of bullying include:

- small or isolated workplaces separate from head office e.g. branch operations
- workplaces employing young and/or inexperienced workers
- managers lacking leadership and people management skills
- confusion regarding role descriptions and who should be performing what duties.

## WORKPLACE BULLYING – PREVENTION IS THE BEST DEFENCE

These risk factors are particularly relevant to retail fashion businesses which often employ a junior workforce, promote employees internally and operate under branch organisation structures.

Regional branches (such as retail stores) are at greater risk of workplace bullying due to the lack of supervision from central management. Without appropriate supervision, the culture in these workplaces can encourage unreasonable behaviour on the part of co workers that a local manager may not be equipped to deal with. Where workplaces have a greater degree of independence, central management needs to ensure that all workers understand the standards of behaviour expected.

It is important that workplace behaviour is consistently monitored and immediately addressed where it falls below expected levels.

Where workers are more vulnerable it is important that employers take active steps to address the risk, including by:

- skilling up junior workers on what is expected in the store team environment, including acceptable and unacceptable behaviour
- team building activities
- recognising individual and team achievements
- providing an employee assistance program to support employees who may be suffering from workplace or external stresses.

A recent case found a clothing store manager to be in breach of the employer's common law duty of care by undermining her employee, making derogatory comments about the employee in front of customers and deliberately excluding the employee from matters relevant to their role.

While managers are often technically skilled, employers must ensure that those with management responsibilities have appropriate people skills. Training can be provided to managers on leadership styles and communicating effectively, all of which have been shown to decrease the risk of bullying.

The law makes it clear that reasonable management action does not constitute bullying. It is therefore essential that managers and HR understand when management action will be considered reasonable. This applies in both formal and informal performance management.

A recent FWC decision held that employers must be able to show that putting an employee on a performance improvement plan is justified and that the way in which the plan is executed and the consequences of failing to achieve the required performance standards, were all reasonable. Managers should ensure that they are familiar with the employer's performance management policy and apply it consistently.

The issue of workplace bullying is here to stay. While no organisation can eradicate bullying from the workplace, businesses which implement appropriate preventative measures can reduce the risk of allegations arising and will be strongly placed to defend any such allegations. In addition to minimising liability, recognising and addressing the risks associated with workplace bullying can improve workplace culture and increase the productivity of an employer's workforce.

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# FROM STREET ART TO HIGH FASHION - GRAFFITI INTO THE MAINSTREAM

Savannah Hardingham and Simon Casinader

In creative industries such as fashion design, intellectual property provides the foundation upon which a business can develop. Without intellectual property protection there is little to no value in the innovative products, designs and prints that are created. One of the most important intellectual property rights is copyright which protects the original expression of works such as the melody to your favorite song, the text of the next best-selling book or the latest innovative garment design or fabric print that is worn down the runway.

As a result, most designers are aware that they should not copy another label's print and they know how potentially devastating it could be if somebody else 'ripped off' their own designs. However, a couple of recent cases filed by graffiti artists against high end labels demonstrate that when it comes to taking inspiration from sources beyond the traditional avenues, such as street art painted onto buildings, maybe it's time for a refresher on what is, and what is not, allowed.

In May 2015 this year, Katy Perry wowed onlookers at the Metropolitan Museum of Art's Costume Institute

annual fundraising event in a graffiti inspired dress made by designer Jeremy Scott (who accompanied Ms Perry in a matching suit ensemble) for design house Moschino. However, in August 2015, the New York street artist RIME, whose legal name is Joseph Tierney, filed a lawsuit in a federal Californian court alleging that the dress in question, from Moschino's Fall 2015 collection, had reproduced a substantial part of his 2012 mural titled Vandal Eyes without his permission. The documents filed by RIME also allege that the use of his art in such a commercial way has damaged his credibility as a street artist, as he regularly declines corporate offers to license his work.

## FROM STREET ART TO HIGH FASHION - GRAFFITI INTO THE MAINSTREAM

This follows a similar situation in 2014 when fashion house Roberto Cavalli was sued by street artists known as Revok, Reye and Steel, who are part of the Mad Society Kings graffiti crew. The artists alleged that the Spring/Summer 2014 Just Cavalli fragrance campaign misappropriated a large-scale mural they had created on the side of a building in San Francisco's Mission District, without their permission. In addition to using the imagery in the advertising campaign, Cavalli also licensed Staff USA, Inc, Nordstrom, Amazon.com and Zappos.com to introduce a clothing and accessories collection that was similarly adorned with the work in question.

These types of allegations of copyright infringement made by street artists are not limited to the fashion industry, with other claims recently being made by street artists against the alleged misappropriation of their artwork by companies for use on everything from disposable cups to the set design in feature films.

Although every case will depend on their specific facts, there is a growing trend of street artists taking

action to assert their rights against the unauthorised exploitation of their works. It seems that street artists, like creatives working in more traditional forms before them, are now seeing copyright as a valuable form of protection by which they can control the use of their works.

It is therefore important that designers are conscious of the role that non-traditional art forms, also protected by copyright, play in the inspiration for their new pieces. Whilst it is permissible to be inspired by an art form like street art in a general way, care should be taken not to seek to replicate or emulate a particular work, as this always presents a risk of copyright infringement. If designers ensure that when they draw inspiration that it is from a range of different sources (from whatever mediums) and that they always start their design from a blank sheet of paper, without direct reference to one copyright work, then they should be well on their way to avoiding potential claims for copyright infringement.

“It seems that street artists, like creatives working in more traditional forms before them, are now seeing copyright as a valuable form of protection by which they can control the use of their works.”

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# FASHION CAPITAL TO BAN UNHEALTHILY THIN MODELS FROM CAMPAIGNS AND RUNWAYS

Savannah Hardingham and Zara Lim

**In December 2015, laws regulating the fashion industry and its impact on citizens' body image were passed by the parliament in France, home to the world's fashion capital. The laws, which will come into force by January 2017, are part of a campaign to combat negative body image and eating disorders such as anorexia nervosa.**

The new laws require models to present a medical certificate confirming that their health “assessed in particular in terms of body mass index (BMI), is compatible with the practice of the [modelling] profession” before being cast for a modelling job. BMI is calculated by dividing an individual's weight in kilograms by their height in metres squared and is supposed to indicate whether someone is underweight, healthy or overweight. However, critics argue that a low BMI is not necessarily indicative of an eating disorder and the laws may be unfair to naturally thin models.

France is not the first country to identify negative body image and its connection with the fashion and media industries as an area requiring regulation. The new laws are similar to Israel's Act Limiting Weight

in the Modelling Industry, known as the “Photoshop Law”, implemented in January 2013, but differ in that the Photoshop Law imposes a minimum BMI requirement of 18.5 for models. Whilst Israel's Photoshop Law carries only civil penalties, under France's new laws, people or businesses in breach could face jail sentences of up to six months and fines of up to 75,000 euros.

“Photoshopping”, a common method of digitally editing images featured in fashion magazine spreads and advertising campaigns to make models appear slimmer or more aesthetically attractive, is also targeted by these laws. Under Israel's Photoshop Law, photoshopped images are required to display a clear statement covering seven per cent of the surface area of the photo disclosing that the image has

# FASHION CAPITAL TO BAN UNHEALTHILY THIN MODELS FROM CAMPAIGNS AND RUNWAYS

been edited and why this was done. France's new laws require that images edited to narrow or widen a model's silhouette display the caption "touched up". Advocates for the laws say that media images depicting unhealthily thin models can influence young women to believe the images depict reality and may in turn make them more susceptible to developing poor body image or eating disorders.

While Israel's Photoshop Law only applies to materials intended to be viewed by Israel's public, this includes digital and print campaigns produced outside of Israel which are then disseminated in Israel. The laws also apply to images on swing tags attached to clothing sold within Israel and promotional photos displayed in stores in Israel. The new French laws are likely to have similar application.

Australian brands advertising and selling products in Israel and France will therefore risk breaching these laws if their campaigns utilise images that do not accord with the relevant country's regulations.

## THE POSITION IN AUSTRALIA

Australia is yet to follow suit. In 2009, a National Advisory Group on Body Image was appointed by the Australian government to put forward recommendations for improving the body image of Australians. A voluntary code of conduct aimed at improving public body image (which is relied on in Italy and Spain) was implemented for the fashion, media and advertising industries but appears to have had little impact.

Projecting a healthy body image is an important issue for public health and for social reasons, but there is also potentially a significant impact on businesses.

If Australia were to introduce laws similar to those in France, this would impact on fashion brands in a number of ways - businesses would need to carefully consider who they choose to model their designs, and keep the photoshopping of images to a minimum (or display appropriate disclaimers). Brands would also need to be mindful of the use of images on their social media accounts, which represent an increasingly powerful platform for marketing in the fashion space.

“Projecting a healthy body image is an important issue for public health and for social reasons, but there is also potentially a significant impact on businesses.”

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