EXCLUSIVE ARBITRATION CLAUSES AND NON-PARTIES TO AGREEMENTS: THE ELEVENTH CIRCUIT HOLDS THAT THE KARDASHIANS CANNOT COMPEL ARBITRATION

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Last week, the Kardashian sisters lost their bid in the United States Court of Appeals for the Eleventh Circuit to compel Kroma Makeup EU, LLC ("Kroma EU") to arbitrate a dispute. As background, Lee Tillett, Inc. ("Tillett") developed and registered a trademark more than a decade ago for a line of cosmetics known as "Kroma" cosmetics. Tillett gave Kroma EU the exclusive right to sell the Kroma cosmetics line in the United Kingdom and European Union, as well as the right to use the Kroma trademark. The licensing agreement between Tillett and Kroma EU contained an arbitration provision requiring these two parties to arbitrate all "disputes arising between them" under the licensing agreement.

Subsequently, the Kardashian sisters and Boldface Licensing + Branding, Inc. ("Boldface") entered into a licensing agreement to create a Kardashian makeup line called "Khroma" (spelled with an "h"). After the Khroma product line was introduced, Kroma EU filed a lawsuit against Boldface and the Kardashians in the United States District Court for the Middle District of Florida asserting various trademark infringement claims. Even though the Kardashians were not a party to the licensing agreement between Tillett and Kroma EU, the Kardashians nevertheless sought to compel Kroma EU to arbitrate the dispute under that licensing agreement's arbitration provision, arguing that they had a right to do so under Florida's doctrine of "equitable estoppel" (explained below). The parties agreed that Florida law governed resolution of the dispute. The District Court denied the motion and the Kardashians appealed the decision to the Eleventh Circuit.

Writing for a unanimous three-judge panel of the Eleventh Circuit, Chief Judge Ed Carnes explained that, "at first blush," the issue in the case required application of Florida's doctrine of "equitable estoppel" under which a party (here, Kroma EU) to an agreement (here, the licensing agreement between Kroma EU and Tillett) that relies on that agreement to assert its rights in a dispute with a non-party (here, the Kardashians) can be required by that non-party to comply with other terms of the agreement, including the arbitration clause.

However, Chief Judge Carnes noted that the "wrinkle in this case" was that the arbitration clause which the Kardashians sought to enforce against Kroma EU was explicitly limited in scope to disputes that arose only between Tillett and Kroma EU. To establish their entitlement to arbitration under Florida's doctrine of equitable estoppel, the Kardashians had to show that both (i) Kroma EU was relying upon the licensing agreement it entered into with Tillett to assert claims against the Kardashians; and (ii) the scope of the arbitration clause in that licensing agreement covered the trademark infringement disputebetween Kroma EU and the Kardashians. Because the arbitration clause in the Tillett-Kroma EU agreement was explicitly limited to disputes arising only between Tillett and Kroma EU, the Kardashians could not show that the arbitration clause also covered disputes between them (i.e., non-parties to the Tillett-Kroma EU agreement) and Kroma EU. Moreover, Kroma EU did not consent to arbitrate its disputes with the Kardashians. "Like makeup," Chief Judge Carnes concluded, "Florida's doctrine of equitable estoppel can only cover so much," and the doctrine

did not provide the Kardashians “with a scalpel to resculpt” the arbitration provision to cover their dispute with Kroma EU.

The teaching point is clear: If parties to an agreement governed by Florida law containing an arbitration provision want to protect their right to seek redress in the court system over disputes with third parties that may involve the agreement (rather than having to arbitrate the dispute), the arbitration provision should be expressly limited to disputes arising *between/among* the parties to the agreement.

The decision is Kroma Makeup EU, LLC v. Boldface Licensing + Branding, Inc. (Defendants) and Kimberly Kardashian, Kourtney Kardashian and Khloe Kardashian (Defendants-Appellants), No. 15-15060, 2017 WL 192690 (11th Cir. Jan. 18, 2017).

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