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## Red Shoes with Red Soles

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In 1992 Christian Louboutin ("Louboutin") began making shoes that were characterized by what became a distinctive (and, in 2008, trademarked) red outer sole (the bottom of the shoe). Louboutin's shoes made their (trade)mark on television shows like *Sex in the City* and from celebrities showing the flash of a red outer sole as they walked down the red carpet.

In January 2011, rival designer Yves Saint Laurent ("YSL") introduced a line of monochromatic shoes (the upper, inner and outer soles and heel were one color), including a version in red (with a red outer sole). After brief, unsuccessful negotiations Louboutin sued YSL for the alleged infringement of Louboutin's trademark covering red soled shoes.

In the first phase of the lawsuit, a Manhattan federal court judge denied Louboutin a preliminary injunction against YSL, allowing YSL to continue to sell red soled shoes while the litigation progressed. In his order denying the preliminary injunction, the judge stated that placing trademark restrictions on a single shade could limit art and commerce. Therefore, *"Louboutin is unlikely to be able to prove that its red outsole brand is entitled to trademark protection, even if it has gained enough public recognition in the market to have acquired secondary meaning."*

Both the lawsuit and the denial of the preliminary injunction raised some interesting issues regarding potential economic damages:

- Trademark infringement cases often do not make it to the damages phase. Most trademark owners file for a preliminary injunction (as Louboutin did). If an injunction is granted, damages may not occur because no (or very few) infringing sales are made by the defendant. However, in this case, because the injunction was not granted (at least not initially), damages could be an issue.
- Damages in trademark cases may be based on: (1) defendant's profits; (2) plaintiff's lost profits; (3) a reasonable royalty for the use of the trademark or (4) the cost of the action (which may not be insignificant).
- Under the Lanham Act, Louboutin must prove only YSL's gross sales if seeking damages based on the defendant's profits. It is then the infringer's (YSL's) burden to prove the expenses that should be deducted and the apportionment of the profits between the trademarked (the red sole) and non-trademarked elements (e.g., the YSL brand, the style of the shoe, etc.) of the shoes sold.

- Louboutin's damages could have also been measured by its profits lost to YSL because of the alleged infringement. In this instance, YSL could have introduced evidence that any decline in Louboutin's sales was not due to YSL's infringement but caused by other factors (e.g., the economy).

As the lawsuit progressed (Louboutin appealed the denial of the preliminary injunction), 11 law professors came out in support of YSL. The professors, who research and write on trademark law and related topics, filed an amicus brief with the court arguing that Louboutin's claim to the trademark of a color used in fashion, "should be rejected in order to preserve freedom of innovation and competition." On the other side of the case, Tiffany & Co., who has a trademark for its signature blue packaging, came out, understandably, in support of Louboutin.

As the appeal was in process, YSL continued to sell its red soled shoes. As a result, Louboutin continued to accrue damages – if it were ultimately to prevail in the case. The ongoing sales by YSL would have provided some good data to Louboutin for determining the defendant's profits (and perhaps Louboutin's lost profits, as well). However, the damages issues were made moot in September when the U.S. Appeals Court in Manhattan issued its decision on Louboutin's appeal of the denial of the preliminary injunction.

The Appeals Court overturned the lower court's decision by deciding that shoes that have red soles combined with a different color top are protected by the Louboutin trademark but shoes that are entirely red (like YSL's) are not infringing on the trademark (thus no damages for Louboutin). So, what does that mean? It means (accountants like formulas):

Any color but red uppers + red soles = Trademarked

Red uppers + red soles = Not Infringing

Interestingly, both sides are declaring victory (a true "win-win" ruling?). Louboutin felt the ruling was a victory because its contrasting, red soled shoes continue to be protected by what the court ruled was a valid trademark. YSL declared victory because its monochromatic red shoes were ruled to not infringe on Louboutin's trademark – meaning that they could continue to sell them without risk of paying damages to Louboutin.

As accountants, we are disappointed that this case did not reach the damages stage. If you are a lawyer, what is your opinion – is this a "win-win" decision or is there a legal loser in the battle of the soles?

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**Author:**

Rebekah Smith, CPA, CFF, CFFA, CVA  
 Keith Hock, CPA, CFF, CFFA, CVA