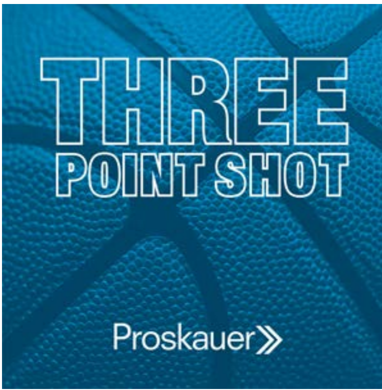

December 2017 Holiday Edition

A newsletter brought to you by the Sports Law Group at Proskauer.

Welcome to Three Point Shot, a newsletter brought to you by the Sports Law Group at Proskauer. Three Point Shot brings you the latest in sports law-related news and provides you with links to related materials. Your feedback, thoughts and comments on the content of any issue are encouraged and welcome. We hope you enjoy this and future issues.

And to all our friends and families around the globe, Happy Holidays! And best wishes in the coming year.

Edited by **Robert E. Freeman**

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Showdown over Mayweather – McGregor Streaming Glitches Knocked out of District Court

All boxing fan Victor Mallh (“Mallh” or “Plaintiff”) wanted for the holidays this year was a chance to stand toe-to-toe with pay-per-view network giant Showtime Networks Inc. (“Showtime”) in a courtroom and slug it out over how much he (and a putative class of similarly affected viewers) should be compensated for the alleged technical difficulties experienced while accessing the premium cable channel’s online stream of the Floyd Mayweather Jr. – Conor McGregor August 2017 super-fight.

One can imagine Plaintiff’s dismay, then, when he opened the wrapped box, untied the bow, and found not an invitation to land a class-action haymaker but rather, as far as he was concerned, a parting gift: a thirteen-page memorandum and opinion penned by Judge Denise Cote ordering his putative class action suit against the network to single-plaintiff arbitration. (*Mallh v. Showtime Networks Inc.*, No. 17-6549 (S.D.N.Y. Nov. 7, 2017)).

Unlike UFC-lightweight-champion-turned-novice-boxer-underdog McGregor – who looked sharp in the early stages of his matchup with the undefeated Mayweather, and managed to stay upright for the better part of ten rounds before succumbing to boxing’s pound-for-pound king in the final stretches of the bout – Plaintiff appears to have been staggered just seconds after the opening bell.

From technical difficulties to technical knockout faster than you can say Rudolph the Red-Nosed Reindeer.

On the day of the bout, Mallh (and others) paid $99.95 to watch the live stream of the Mayweather – McGregor showdown via Showtime’s website streaming service. As part of the online checkout process, Plaintiff was required to electronically click a box to agree to Showtime’s Terms of Use, Privacy Policy, and Video Services Policy, each of which was displayed via hyperlink on the purchase webpage. Most relevant, the Terms of Use contained a “Disputes” clause, which read in part: “…you and we each agree to resolve…disputes through an individual binding arbitration or an individual action in small claims

court. Class arbitrations and class actions are not permitted.…"

Once the fight began, however, Plaintiff alleged that he was unable to watch a substantial portion of the contest, as the Showtime stream "continually logged [him] out" or otherwise presented pictures that were "delayed, cutting out, or…incomplete." Showtime then allegedly made the refund process "unreasonably difficult," prompting Plaintiff to file a class-action complaint against the entertainment company for breach of contract and related state consumer protection claims.

Coming out of its corner for the second round, Showtime had a sleigh-full of counterpunches at its disposal. The network filed a motion to dismiss and compel arbitration on an individual basis ("Motion to Compel Arbitration"), arguing that when Plaintiff completed his purchase of the stream on Showtime's online checkout page, he indicated his notice and assent to Showtime's Terms of Use, which included the mandatory arbitration provision that contained the class action waiver.

Plaintiff, for his part claimed that he was not subject to the arbitration clause for lack of sufficient notice. In a memorandum of law in opposition to Showtime's Motion to Compel Arbitration, Plaintiff contended that he lacked such notice because, among other things: the arbitration clause was buried behind one of three hyperlinks at the point of purchase (i.e., those linking the Terms of Use, Privacy Policy and Video Services Policy); the hyperlinks themselves were indistinguishable from the rest of Showtime's checkout page; and the text of the arbitration clause was no more conspicuous than any other paragraph of Showtime's Terms of Use.

Plaintiff's flurry of rhetorical jabs, however, failed to land, as the court issued an early TKO in favor of Showtime.

The court found that the arbitration clause was not, in fact, "buried behind the hyperlinks" since it appeared in the hyperlinked Terms of Use, which was the first linked document presented to users during the checkout process. Moreover, the court ruled that the hyperlinks themselves were distinguishable, as the titles of the hyperlinked documents were "underlined and clearly visible against the black background of the Website." The judge also noted that Showtime's purchase page was "uncluttered" and did not contain any photos or promotional links to distract the user.

Indeed, with regard to the relationship between hyperlinks and providing notice on the whole, the court cited Second Circuit precedent in stating that "the fact that the [Terms of Use] was available only by hyperlink does not preclude a finding that the arbitration clause and class action waiver were reasonably conspicuous." Moreover, the judge noted that courts around the country routinely uphold clickwrap agreements, which require users to affirmatively click an "I agree" box after being presented with Terms of Use.

There being no dispute in the instant case that Mallh ticked a box indicating that he read and assented to the Terms of Use and then clicked on a larger red box that contained the words "CONFIRM PURCHASE," the court ruled that he had

indeed assented to the Terms of Use and granted Showtime's Motion to Compel Arbitration.

It appears that the court's adverse ruling has knocked Plaintiff's class action ambitions out-for-the-count, leaving him with a lump of coal rather than a pot of gold in his holiday stocking.

"Nuttin' for Christmas" for Fitness Wear Company after Losing Appeal

As Shirley Temple once sang, Sunday Players, Inc., a fledgling fitness wear company, will be getting "Nuttin' for Christmas" following its bitter defeat in a long-standing licensing dispute over the marketing of athletic compression wear products. On November 2, 2017, the Second Circuit affirmed the lower court's vacatur of a multimillion-dollar verdict, which all but zeroed out the $4.35 million jury verdict in favor of Sunday Players, Inc. ("SP") and instead entered a paltry $1.00 judgment in SP's favor. (*Washington et al v. Kellwood Co.*, No. 16-3413 (2d Cir. Nov. 2, 2017) (Summary Order)). The appeals court also affirmed the denial of a new trial on damages, finding that SP failed to offer evidence that would establish lost business value damages. In a small, pyrrhic victory that presumably will do little to bring any light to SP's holiday season, Kellwood Company's cross-appeal from the liability judgment was denied.

The dispute between SP and Kellwood Company ("Kellwood") arose over an alleged breach of their November 2003 license agreement (the "License Agreement"). Before the License Agreement, SP was a start-up with no capital or manufacturing capacity, no brand recognition, no national advertising, meager sales, and no long-term deals with retailers. Pursuant to the License Agreement, Kellwood, a private label manufacturer, became the exclusive manufacturer, licensee and promoter of SP's athletic compression wear products for a three-year term. Compression wear is made of close-fitting, stretchable fabric that regulates moisture and body temperature and which purportedly improves athletic performance. At the time the license was entered into, the compression wear market was rapidly expanding following the success of Under Armour. Per the game plan, Kellwood would make and market a line of compression clothing under SP's name and then pay SP 5% of net sales. According to SP's second amended complaint, the agreement between Kellwood and SP was reached after more than a year of discussions, during which Kellwood told SP that a prominent television channel had expressed interest in promoting the brand and that two large retailers would sell it. SP claimed initial orders were set to "easily exceed $10 million."

By March 2005, SP claimed that Kellwood had failed to sell a single SP item and had not completed any direct consumer marketing. Kellwood then unilaterally terminated the License Agreement with SP in April 2005. Without any manufacturer, SP claimed Kellwood's termination "destroyed the brand" and it thereafter filed a breach of contract suit blaming the soured licensing deal on Kellwood's lack of marketing efforts.

Under New York law, exclusive license agreements require the licensee to use "reasonable efforts" to market the licensor's products. If no such reasonable efforts are found, the injured party may sue either for lost future profits or the lost value of his business on the date of the breach. To prove lost profits, the party must show both the existence and amount of such damages with "reasonable certainty."

In early proceedings, on summary judgment, the court found that Kellwood breached the agreement by terminating it early and by failing to provide free product samples to SP. A trial subsequently was held to determine whether, under New York law, Kellwood had also failed to make reasonable marketing efforts to promote the brand. The jury found Kellwood liable for failing to use reasonable efforts to promote SP's brand and calculated as damages $4.35 million in lost profits or, alternatively, $500,000 in lost value. SP opted to claim the larger verdict. In response, Kellwood moved for judgment as a matter of law and in 2016 (eleven years after the alleged breach!), the trial court found Kellwood liable for its contract breach, but ruled the jury award was too "speculative," and that SP "did not prove that its new and untested business would have achieved vast market success but for Kellwood's breaches."

On appeal, the Second Circuit heavily relied on precedent which stated that a new venture whose profits are "purely hypothetical" and that would require "untested" sales to "hypothetical" consumers does not support a damages award. In the court's reasoning, SP was a new venture with hypothetical consumers based off mere projections and therefore was not entitled to a substantial damages award. Nonetheless, SP came ready to play and presented evidence of lost future profits using Under Armour as a point of comparison.

SP's expert claimed that had Kellwood reasonably marketed SP's products, and SP's revenues between 2005 and 2007 would have been 50% of those of the compression wear market leader, Under Armour, between 2002 and 2004. The court, however, stepped away from the spiked egg nog and found that, as an established company, Under Armour was already playing in the big leagues, bringing in sales between $49.5 million and $195 million at the time in question; in fact, by the end of 2002, Under Armour had control of about 80% of the market. SP, on the other hand, had sold less than $200,000 in merchandise to a few small retailers and high school and college athletic teams. Under SP's projections, SP's revenues were set to increase to about $80 million in two years, which the court deemed "unfounded" and an unsound basis to award lost profit damages. According to the Second Circuit, Under Armour was simply not a reasonable comparative business. During the appeal process, SP also emphasized, among other things, an incipient deal for promotional exposure on a prominent television channel, yet the court found that SP could not have likely met the conditions of the deal and rejected the rosy assumptions that such television exposure would have resulted in millions of dollars in sales as "purely hypothetical."

The court also ruled that the lost business value calculations were similarly flawed. If a party cannot obtain damages from lost future profits then damages

may be measured by the company's market value at the time of breach. SP's expert provided evidence, using Under Armour as a measure, of lost business value of $532,000, but again the court ruled that Under Armour was not a reasonable comparator and no other evidence was provided of a specific price offered by a willing buyer for SP at the time of the breach.

SP's projections about potential sales and optimistic valuations, coupled with a comparison to an established clothing brand, failed to satisfy the requirement of evidence of *reasonable certainty*, thus warranting an award of nominal damages and no retrial on damages. In the end, while it looked like SP scored a winning touchdown before the jury, on further review, the multimillion-dollar award was overturned, and with winter coming, SP's hopes for a holiday miracle were dashed.

Not in My House: Federal Court Rejects Trademark Infringement Claim over Basketball Apparel Logos

With Dikembe Mutombo-like force, Judge William Orrick of the United States District Court for the Northern District of California blocked a trademark infringement claim filed against Kmart, Sears Holdings Management, and their partner brand, Risewear. Rise Basketball Skill Development LLC ("Rise Basketball") filed the suit last year alleging that Risewear's logo is too similar to its own trademarked logo. The court, however, swatted away the claim by granting the defendants' motion for summary judgment, finding that "the dissimilarity of the marks is striking." (Rise Basketball Skill Dev., LLC v. K Mart Corp., No. 16-04895 (N.D. Cal. Oct. 27, 2017)).

Rise Basketball has offered basketball training and branded apparel since 2010. The company's logo, which consists of a large winged basketball under the word "RISE," was registered in 2015 ("Winged Basketball Logo"). The alleged infringer, Risewear, is a "lifestyle athleisure brand" whose apparel features a logo consisting of the word "RISE" with the letter "I" replaced by a silhouette of a dunking basketball player ("Dunking Basketball Logo"). In 2016, Kmart's parent company, Sears Holdings, announced a partnership with Risewear that included Kmart's sponsorship of the Rise Challenge parking lot dunk contest and began selling the brand's footwear in stores and online. The partnership is part of Kmart's larger initiative to target millennials.

In August 2016, Rise Basketball demanded that Risewear cease and desist the sale of Risewear shoes, alleging that Risewear's Dunking Basketball Logo infringes Rise Basketball's Winged Basketball Logo. When Risewear refused,

Rise Basketball filed suit, bringing trademark infringement and related claims. In response, Risewear filed its own counterclaims including that Rise Basketball created new logos to market its apparel on its website to mimic Risewear's Dunking Basketball Logo. In this latest round, Risewear moved for summary judgment, arguing that Rise Basketball failed to raise a material question of fact over consumer confusion from Risewear's use of the Dunking Basketball logo on its apparel.

Generally speaking, to prevail on a trademark infringement claim, a party must show that it has a protectable interest in the mark and that the defendant's use of the mark is likely to cause consumer confusion, with each circuit using a multi-factor test (e.g., the Ninth Circuit's *Sleekcraft* test) to measure consumer confusion in a particular dispute. After the opening tip, Risewear had the ball and never relinquished possession. The court granted summary judgment in its favor, ruling no reasonable jury could find consumer confusion in this case. Risewear established a big lead early, as the court stated that the similarity factor weighed "heavily in Risewear's favor," considering "the marks are decidedly distinct in terms of appearance" and "each mark uses substantially different typefaces with starkly different surrounding designs." Later in the opinion when analyzing how potential buyers would approach the brands when purchasing apparel, the court noted that "a consumer using any degree of care would be able to differentiate the brands." Moreover, on the issue of convergent marketing channels, the court found the companies do not sell their products in the same outlets (i.e., Rise Basketball sells its goods on its website and training programs, while Risewear's products are exclusively at Kmart and Sears), and thus such different marketing channels decreases the likelihood of confusion. Risewear maintained its lead, as the court ruled that Rise Basketball threw up a brick when pleading instances of actual consumer confusion, since the examples proffered by Rise Basketball were from clients of Rise Basketball or from family and friends of its founder.

Following its analysis, the court offered a bit of post-game commentary on why Rise Basketball failed to make an adequate showing of consumer confusion: "An overall evaluation of the *Sleekcraft* factors demonstrates that a fact finder could not find a likelihood of confusion. The dissimilarity of the marks is striking. Rise Basketball's mark is conceptually and commercially weak. The companies use different marketing channels and there is scant, at best, evidence of confusion."

Despite the clear rout under the *Sleekcraft* analysis, the district court's decision to grant Risewear's motion for summary judgment was not a slam dunk. The Ninth Circuit has advised district courts to "sparingly grant summary judgement in trademark cases because they are so fact-intensive." However, Judge Orrick determined that this trademark case was one of the few that warrants summary judgement because Rise Basketball was unable to create any material question of fact of consumer confusion under any theory.

We will have to wait to see how the decision impacts the growth of both Risewear and Rise Basketball. In the meantime, it seems safe to say that the two brands will not be teaming up to create a basketball holiday jingle any time soon.

Proskauer has more than 50 years of experience counseling the world's premier sports organizations on their most critical and complex matters.

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