June 2018 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. In this issue, we feature contributions from our talented group of summer associates. Thanks to Seok Whee ("Jason") Nam, Ayisha McHugh and Ian Jong for their hard work on these articles. Your feedback, thoughts and comments on the content of any issue are encouraged and welcome. We hope you enjoy this and future issues.

Edited by **Robert E. Freeman**

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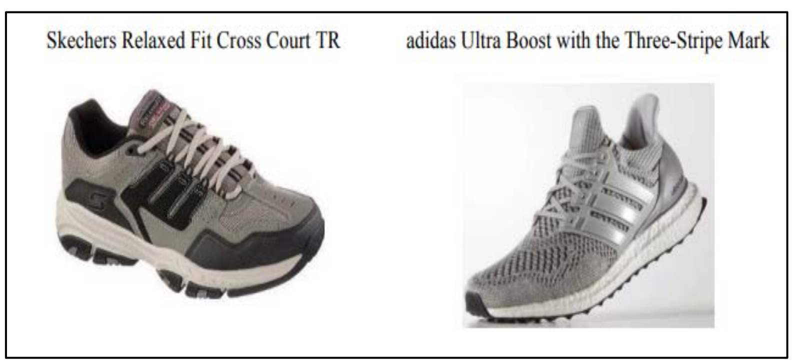
Three Stripes and You're Out in Adidas-Skechers Sneaker Trademark Row

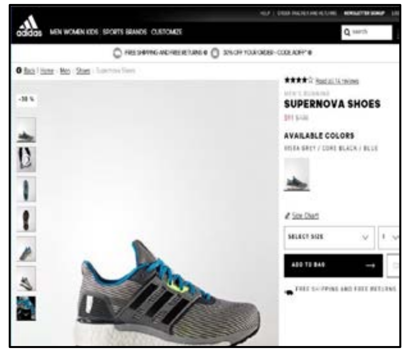
Since at least 2004, Adidas has proclaimed "Impossible is nothing," and has showcased various athletes' determination in overcoming adversity to achieve excellence. Sprint forward to February 2016: impossible apparently was not a barrier for Adidas America, Inc. ("Adidas"), as Adidas convinced an Oregon district court to issue not one, but three preliminary injunctions in a trademark dispute against another footwear company Skechers USA, Inc. ("Skechers"). Each preliminary injunction banned the sale of a certain Skechers shoe that allegedly infringed Adidas's marks or trade dress. Considering that a preliminary injunction is considered an "extraordinary remedy" by the U.S. Supreme Court, the securing of three preliminary injunctions really made the "impossible" slogan a representation of reality for Adidas. However, this past May, the Ninth Circuit showed Adidas that not everything was possible, as it affirmed in part, but also reversed in part the lower court's injunctions. (*Adidas Am., Inc. v. Skechers USA, Inc.*, No. 16-35204 (9th Cir. May 10, 2018)). How we got here requires a long walk in several pairs of shoes.

The home court for this trademark dispute was the district court of Oregon, and the case involved two of Adidas's registered trademarks, the Three-Stripe mark and the Supernova mark, as well as Adidas's unregistered Stan Smith sneaker trade dress. Adidas, as we know, is "the Brand with the Three Stripes." It began using the Three-Stripe logo on its shoes in the 1950s and, by the late 1960s, Adidas started to use the logo on apparel and other merchandise as well. The Supernova mark, although not as famous as the Three-Stripe mark, is also a well-known mark that Adidas has used to name and promote specific types of running shoes and apparel. Last but not least, the Stan Smith is a shoe line Adidas launched in 1973, which was named after an American tennis player who in the 70s was ranked number one in the world and won both the U.S. Open and the Australian Open. The sneakers were originally produced as tennis sneakers, but they eventually moved from the court to the street and runways – and, according to Adidas, have sold more than 40 million pairs worldwide since its introduction.

For you sneaker fans out there, you may be a bit surprised to learn that Skechers is one of the largest footwear companies in the U.S. As noted by the lower court, one major reason for its success has been its "serial branding strategy." The strategy includes a process the brand calls "Skecherizing," whereby, as the court quoted, "its designers transform market trends into unique footwear products… prominently featuring Skechers' famous marks, brands and logos." Adidas has not always looked favorably upon Skecherizing, and has sued Skechers or sent a demand letter multiple times over the past two decades claiming that Skechers's shoes were infringing Adidas's own trademarked designs.

Most recently, the battle reignited over three Skechers shoes that Adidas believed were confusingly similar imitations of the Three-Strip mark, the Stan Smith trade dress, and the Supernova mark (see below). Adidas argued that Skechers Relaxed Fit Cross Court TR was a "knockoff" of Adidas's famous Three-Stripe mark, that Skechers "blatantly" copied Adidas's famous Stan Smith trade dress in producing the Onix, and also claimed that Skechers Relaxed Fit Supernova infringed Adidas's registered Supernova mark. Adidas firmly believed that Skechers had infringed its IP and asked the district court for a preliminary injunction that would prevent Skechers from selling the shoes in question.





A party seeking a preliminary injunction must establish that it is likely to succeed on the merits and that it is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in its favor, and that an injunction is in the public interest. In February 2016, Team Adidas [successfully convinced the lower court] that it was likely to succeed in showing that the Skechers shoes at issue infringed Adidas's Three-Stripe mark, Supernova mark, and Stan Smith trade dress because the Skechers shoes were likely to cause consumer confusion about the source of the products. In granting Adidas's motion, the court ruled that Adidas produced sufficient evidence of irreparable harm and the other elements required to warrant injunctive relief. In finding the requisite harm, the lower court held that Skechers's attempts to "piggy back" off of Adidas's efforts by imitating Adidas's marks meant that Adidas would lose control over its trademarks, reputations, and goodwill – "a quintessentially irreparable injury."

On appeal, Skechers lodged two coach's challenges, one against the Onix-Stan Smith trade dress ruling and another against the Cross Court – Three-Stripe ruling. Skechers argued that the lower court presumed irreparable harm even though Adidas failed to present sufficient evidence of existing or future harm. In May 2018, the [Ninth Circuit affirmed] the preliminary injunction related to the Onix-Stan Smith, ruling that there was ample evidence that Adidas would be irreparably injured by the Onix, but reversed in part, overturning the sales ban on the Skechers Cross Court, stating that there was no comparable evidence supporting the likelihood of irreparable injury. In short, one of the challenges was accepted and the other reversed, making the final score Adidas 2, Skechers 1.

Judge Nguyen, who presided over this battle between the two shoe brand giants and who wrote for the Ninth Circuit majority, provided her explanation of what constitutes sufficient evidence for irreparable injury. On the Onix-Stan Smith trade dress dispute, the appeals court first affirmed the ruling that the Stan Smith trade dress acquired distinctiveness and was an enforceable trade dress under the Lanham Act due to its commercial success, robust marketing efforts and wide media coverage. The court then affirmed that the Skechers Onix shoe, although containing some minor differences with regard to non-functional design elements, likely infringed Adidas's Stan Smith trade dress and presented an "unmistakable" overall impression that these were nearly-identical shoes. As the court summarized, those striking similarities suggested Skechers's intent to create an association between its marks and Adidas's IP. The Ninth Circuit also found sufficient evidence for irreparable harm to the Stan Smith brand because, among other things, Skechers's likely infringement undermined Adidas's substantial investment in building the Stan Smith brand reputation through specific media campaigns and market scarcity strategies.

In comparison, the Ninth Circuit held that the lower court's analysis over the Skechers Cross Court – Adidas Three-Stripe mark claim went over the line. The Ninth Circuit, while agreeing with the lower court's reasoning that Adidas showed a likelihood of success on the merits of its infringement claim (given Adidas's strong mark and the Cross Court's similar stripe design), nevertheless found that the lower court erred in finding that Adidas made a requisite showing of irreparable harm. Adidas's irreparable harm argument, in a shoebox, was that "Skechers harmed Adidas's ability to control its brand image because consumers who see others wearing Cross Court shoes associate the allegedly lesser-quality Cross Courts with Adidas and its three-stripe mark." However, the appeals court ruled that Adidas did not present evidence sufficient to show its efforts to cultivate a supposedly premium brand image for itself. It also did not help, according to the appeals court, that Adidas did not set forth "evidence probative of Skecher's allegedly less favorable reputation" or how it would suffer irreparable harm especially when consumers viewing the Skechers Cross Court from afar could not tell the shoes were not Adidas or low quality to begin with. The court's ultimate post-sale confusion question went unanswered: "If the 'misled' consumers could not assess the quality of the shoe from afar, why would they think any differently about Adidas's products?"

Having been denied a preliminary injunction in its trademark infringement dispute, one may assume Adidas's disappointment with the Ninth Circuit ruling. Regardless, Adidas, already seems to have moved forward. Another battle line emerged between Adidas and Skechers as Adidas filed a motion for contempt sanctions after allegedly discovering another Skechers copy of the Stan Smith, called Ironwood (which Skechers claims it had voluntarily suspended sales of following notice from Adidas). The parties settled twelve days after that filing, on May 30, 2018, and on undisclosed terms, but judging by the trend, we may be seeing another judicial playoff series between the two brands soon.

Yahoo! Lets the Clock Run Down on Rivals.com Auto-Renewal Class Action

Letting the clock hit zero on a putative class action concerning its college sports site Rivals.com ("Rivals"), Yahoo! recently entered into a proposed settlement brought by subscribers who claimed that the site engaged in unfair business practices in its sales of monthly and annual subscriptions that automatically renewed. (*Wahl v. Yahoo! Inc.*, No. 17-02745 (N.D. Cal. Proposed Settlement May 17, 2018)). Rivals's subscribers, who allegedly subscribed to a paid service without adequate prior notice and consent that the subscription would automatically renew, asserted violations of the California Automatic Renewal

Law (Cal. Bus. & Prof. Code §§ 17600-17606), which generally requires businesses to clearly present renewal offer terms before the user signs up and also obtain the consumer's consent to the terms and cancellation policy before charging the consumer. In the plaintiff's view, Rivals.com, an online hub for premium coverage of the top high school football and basketball prospects, committed a recruiting violation when signing up users to a recurring subscription without adequate notice.

Rivals.com is a website containing free and subscriber-only content featuring local coverage of a number of college sports teams and premium message boards, as well as regional sites covering statewide college sports developments. The site also has extensive coverage of college basketball and football recruiting, and features rankings of the high school players being recruited by the top programs. The site's audience is composed of avid fans, players and their parents, and coaches. In 2007, Yahoo! added Rivals to its roster for a reported $100 million.

Plaintiff Andrew Wahl ("Wahl" or "Plaintiff"), quarterbacked the putative class action against Yahoo!, which was filed on March 31, 2017 in Santa Clara Superior Court. Wahl stated that he purchased a one-year $99.95 subscription to Yahoo's Rivals.com in February 2015; in February 2016, plaintiff's credit card was charged when Rivals automatically renewed his yearly subscription. However, after he was charged again for a subscription in 2017, he attempted to cancel, but his shot at a refund was rejected because subscription fees were "non-refundable."

Wahl brought a single cause of action under California's Unfair Competition Law (UCL) for alleged "unlawful" and "unfair" practices. The plaintiff based his unlawful UCL claim upon an alleged violation of California's Automatic Renewal Law governing the notice and consent requirements that must be offered to consumers in recurring contracts and California's liquidated damages statute (Cal. Civ. Code § 1671) governing such contractual remedies. Breaking down the X's and O's, plaintiff claimed that: Rivals violated the Automatic Renewal Law by "failing to present the automatic renewal offer terms…in a clear and conspicuous manner before the subscription is fulfilled and in visual proximity to the request for consent to the offer" and by failing to obtain plaintiff's consent to the terms containing the automatic renewal offer. Plaintiff also claimed that Rivals did not follow the requirements of the law by failing to provide an acknowledgement that included the automatic renewal offer terms and cancellation policy. The plaintiff requested damages, injunctive relief and an award of attorney's fees.

In response, Yahoo! removed the case to the Northern District of California and moved to dismiss the claim on the ground that Wahl lacked standing to sue under the Auto Renewal Law, which protects only California consumers. Yahoo! further stated that plaintiff failed to plead a sufficient injury-in-fact, arguing that plaintiff agreed to Rivals's terms when he signed up for a subscription and had in fact allowed his subscription to renew twice without objection.

In September 2017, the court benched Wahl and granted Yahoo!'s motion to dismiss, with leave to amend. The court determined that plaintiff, as a resident of Missouri, did not have standing to bring a claim under California's Automatic Renewal Law. Lacking standing, Wahl did not satisfy the criteria of being "a consumer in this state" under §17602(a) of the statute. (*Wahl v. Yahoo! Inc.*, No. 17-02745 (N.D. Cal. Sept. 15, 2017)). The court also ruled that Wahl failed to adequately allege an unlawful act under the liquidated damages statute because under the text of the statute, such a provision must (1) arise from a breach, and (2) provide for a fixed and certain sum. Plaintiff's counsel conceded that the complaint did not allege a breach of the underlying agreement by either party, but argued that even though plaintiff did not prematurely terminate the contract prior to the end date, any consumer who similarly terminated his or her contract would have breached the agreement. Swatting away this attempted work-around, the court ruled no breach in this instance meant no claim under this statute. With no unlawful act upon which to base a UCL "unlawful" claim, the court dismissed that portion of the complaint. Although Wahl also failed to plead an adequate "unfair" UCL claim, the court granted Wahl leave to amend.

Subsequently, plaintiff's counsel filed an amended complaint. A substitute plaintiff (and California resident) Yuan Guo was put in as a backup, after the parties agreed to extend deadlines to allow for a California plaintiff to be identified as a class representative while the parties pursued settlement. (*Wahl v. Yahoo! Inc.*, No. 17-02745 (N.D. Cal. Amended Complaint filed May 17, 2018)).

In May 2018, Yahoo! decided against another match on the hardwood and settled the action, agreeing to offer cash or membership credit to California subscribers who claimed that the company violated California consumer protection laws in its automatic renewal practices. (*Wahl v. Yahoo! Inc.*, No. 17-02745 (N.D. Cal. Proposed Settlement May 17, 2018)). The provisional class consists of all California customers of Rivals who were charged on a recurring basis for automatic renewals between March 2013 and the present. Specifically, under the proposed settlement such members of the class who purchased annual subscriptions are eligible for a five-month credit to Rivals.com or $20 in cash; monthly subscribers are eligible for a three-month credit or $10 cash. Additionally, under the settlement Yahoo! agreed to modify the Rivals.com subscription page to present its automatic renewal terms in a "clear and conspicuous" manner for California customers within 90 days of the effective date of the settlement agreement.

In clarifying the expected online subscription processes for Rivals subscribers, the settlement affirmatively demonstrates the importance for services that auto-renew to procure sufficient notice and consent to ensure compliance with applicable laws and avoid similar claims.

Eleventh Circuit Throws Divemaster's Coverage Argument Overboard

Last month, a three-judge panel of the Eleventh Circuit Court of Appeals affirmed a Florida district court ruling that Travelers Property Casualty Co. of America

("Travelers") does not have to cover a professional dive leader's (and his insurer's) costs to defend and settle a wrongful death action filed by the family of a young man who drowned during a lobster diving trip. (*Travelers Property Casualty Co. of America v. Salt 'N Blue LLC*, No. 17-14235 (11th Cir. May 7, 2018) (unpublished)).

On July 30, 2014, Joseph Grosso ("Joseph" or "Grosso") and his brother Nicholas boarded a small diving vessel for a lobster dive off the coast of Pompano Beach, Florida (What is lobster diving? See this up close video taken from a GoPro). The vessel was operated by Robert Wranovics, its captain, and Douglas Barkley ("Barkley"), a mate and divemaster for the lobster expedition.

After spending some time under the water, the Grossos returned to the vessel. Nicholas had used up his entire air supply, but Joseph was intent on returning to the water to retrieve a lobster he had previously marked with a buoy. According to the court, apparently none of the vessel's crew members checked the amount of air left in Joseph's tank, and he was allowed to re-enter the water without a dive buddy. During Joseph's second dive, the captain steered the vessel away to pick up other divers and sadly, when the vessel returned to Joseph's location, they found him without his regulator and unresponsive in 15 feet of water; he had become tangled in a dive flag line with a buoy attached to it, and drowned as a result.

Grosso's estate filed a wrongful death action in Florida state court, alleging that Salt 'N Blue LLC (the owners of the vessel) ("Salt 'N Blue"), Wranovics, and Barkley breached the duty of care owed to Grosso by allowing him to re-descend without a dive buddy, and leaving the dive site to collect other divers. Certain underwriters at Lloyd's of London, Syndicate 4020, Ark Underwriting, Inc.

("Lloyd's") defended Barkley in the wrongful death suit, since Barkley was a named insured under a Lloyd's-issued Professional Liability Insurance Master Policy. The plaintiff Travelers had issued a Commercial Marine Insurance Policy to Salt 'N Blue and covered crewmembers, including the captain and the divemaster Barkley. During the initial action, counsel for Barkley demanded that Travelers join in indemnifying and defending Barkley in the wrongful death litigation because Barkley was an additional named insured under the Travelers policy. Travelers conditionally accepted the defense of Barkley while reserving its rights to withdraw its defense based on any applicable policy exclusions.

The wrongful death suit was eventually settled for an undisclosed amount, and the case was dismissed in November 2016. Although Travelers paid sums for Wranovics and Salt 'N Blue, the defendant claimed Travelers did not contribute toward costs and expenses incurred in the defense of Barkley in the underlying litigation, nor reimburse Lloyd's for its pro-rata share of defense fees and costs incurred in the defense of Barkley. Defendant Barkley also claimed Travelers refused to participate in funding the settlement on a pro-rata basis with Lloyd's in the underlying litigation. While the wrongful death litigation was still ongoing, Travelers filed a declaratory action seeking a ruling that it was not obligated to defend Barkley because of a "Diveboat Limitation Endorsement" included in Travelers policy, which excludes from coverage, "bodily injury, loss of life, or illness of any person while in the water or arising as a consequence of being in the water." In short, Travelers argued that the exclusion plainly applied to Grosso's drowning death. For his part, Barkley filed a counterclaim seeking a declaration that Travelers had a duty to defend and indemnify him and his assignee Lloyd's against claims from the wrongful death action because, among other things, the Diveboat Limitation Endorsement was ambiguous and illusory.

In August 2017, the district court entered summary judgment for Travelers, holding that it had no duty to defend or indemnify Barkley and finding none of Barkley's arguments provided any grounds to disregard the language of the Diveboat Limitation Endorsement. His claims having sank to the bottom, Barkley appealed.

In considering the parties' arguments, the appeals court took a deep dive into the scope of coverage and the policy exclusion. Barkley's main argument on appeal was that the Diveboat Limitation Endorsement, standing alone, was susceptible to more than one reasonable interpretation, and ambiguous and should be construed in favor of the insured. Here, the court stated, the standalone text of the Diveboat Limitation Endorsement was unambiguous as to the issue at hand ("A drowning death while scuba diving is unambiguously excluded from coverage by the Diveboat Limitation Endorsement").

Barkley's other major argument was that the Diveboat Limitation Endorsement was so overbroad that it rendered the Travelers policy illusory by eliminating all or virtually all coverage in the policy. Agreeing with the lower court, the Eleventh Circuit wrecked this argument, finding that the exclusion would not apply to injuries or deaths occurring onboard as a result of negligence in the vessel's operation and that the Diveboat Limitation Endorsement merely "excludes coverage for a subset of claims that would ordinarily fall within the [policy]."

Affirming the ruling of summary judgment in favor of Travelers, this maritime insurance coverage litigation has finally re-surfaced and appears to be concluded, affirming the importance for both the insurer and the insured to read the policy carefully.

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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