



October 2019 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.

Edited by **Robert E. Freeman**

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For Fantasy Sports Operators, Operating without a Permit Can Prove to be a Losing Bet

Many businesses that offer paid fantasy sports in New Jersey without a permit appear to be betting that the [New Jersey Division of Consumer Affairs](#), Office of Consumer Protection (the "Division") will not enforce the provisions of the [Fantasy Sports Act](#), N.J.S.A. 5:20-1 et seq. ("the FSA"). One such business, [SportsHub Games Network, Inc.](#) ("SportsHub"), recently lost that bet when the Division called their bluff and brought its first enforcement action for operating without a license. In doing so, according to New Jersey Attorney General Gurbir Grewal, the Division seeks to "enforce the laws in place to ensure transparency and protect consumers from hidden threats to their online privacy." On August 16, 2019, the Division and SportsHub entered into a [settlement](#) (the "Consent Order") that cost SportsHub \$30,000 in civil penalties and mandated several changes to its business practices. With the Consent Order in place, paid fantasy sports operators in New Jersey and elsewhere should be on notice that continuing to operate in contravention of state fantasy sports laws can prove to be a losing gamble.

What is paid fantasy sports? Under the FSA, "fantasy sports activity" means "any fantasy or simulated activity or contest with an entry fee in which a participant owns or manages an imaginary team and competes against other participants or a target score for a predetermined prize with the outcome reflecting the relative skill of the participants and determined by statistics generated based on performance by actual individuals participating in actual competitions or athletic events...."

The FSA went into effect in New Jersey on August 24, 2017. Under the FSA, businesses that offer the opportunity to participate in paid fantasy sports activities in New Jersey must hold a permit issued by the Division. Paid fantasy sports operators who were conducting business prior to August 24, 2017 were given until February 6, 2018 to apply for the necessary permit (or else cease operations). The FSA also requires operators to, among other things, adopt procedures to ensure that participants are at least 18 years of age, disclose the number of entries participants may submit to each fantasy sports activity, take reasonable steps to prevent participants from exceeding that number and pay a

quarterly operations fee in an amount equal to 10.5 percent of gross revenue attributable to fantasy sports activities.

SportsHub is a Minnesota-based company that operates a number of websites related to the paid fantasy sports activities it offers. According to the Consent Order, SportsHub failed to apply for a permit by the February 6, 2018 deadline, yet it continued to offer paid fantasy sports activities. SportsHub ultimately applied for a permit on September 18, 2018, but by operating without a permit for the prior seven months, SportsHub not only allegedly violated the FSA, but also opened itself up for the Division to “double down” and closely scrutinize the rest of SportsHub’s business practices.

In addition to violating the FSA, the Division also found that certain aspects of SportsHub’s business violated the [New Jersey Consumer Fraud Act](#), N.J.S.A. 56:8-1 et seq. (the “CFA”). For example, according to the Division, SportsHub advertised itself as “the only fantasy sports consumer protection agency on Earth,” a representation the Division considered misleading. SportsHub also represented that it “generally does not sell, rent or share participants’ personal information with third parties for marketing purposes without participants’ consent.” However, the Consent Order notes that SportsHub “collected information from consumers’ social media accounts, including names, user IDs, images, email addresses, dates of birth, friend lists, school names and other public profile information.” SportsHub then allegedly shared that personal information with third parties and failed to clearly and conspicuously disclose to consumers how they could opt-out of such sharing of their personal information.

The Division also claimed that SportsHub failed to clearly and conspicuously disclose that it did not issue refunds to consumers, and that it limited consumers’ rights by requiring that any claims or causes of action against SportsHub be brought only through binding arbitration. Finally, the Division asserted that SportsHub made it confusing for consumers to determine which set of Terms and Conditions they were agreeing to when accessing a SportsHub-operated website. For example, a consumer who visited www.fanball.com and clicked on the Terms and Conditions was redirected to a www.leaguesafe.com address, even though www.fanball.com had its own specific Terms and Conditions.

To resolve the Division’s enforcement action, SportsHub agreed to pay \$30,000 in civil penalties, enter into the Consent Order and bring its business practices into compliance with applicable laws, rules and regulations. Specifically, it agreed to revise its Privacy Policy accordingly and to clearly and conspicuously disclose on its website how consumers could opt-out of the sharing of their personal information. Moreover, SportsHub agreed to maintain separate and distinct Privacy Policies and Terms for each of its SportsHub websites. SportsHub remains, however, subject to private rights of action, actions to enforce the Consent Order and any claims against it by any other agency or subdivision of the state of New Jersey.

The future of enforcement, as they say, is in the cards. While SportsHub offers paid fantasy sports games, the New Jersey Attorney General appears to also be

looking into unlicensed sports betting operators in order to protect the integrity of that nascent market. Given the licensing and tax money at stake, states have good reason to step up enforcement. In New Jersey, a fantasy sports permit can cost up to \$50,000 per year, and a sports wagering license costs at least \$100,000 per year. Moreover, having both licensed and unlicensed operators in the same jurisdiction can hit states' pocketbooks by undermining consumer confidence in the entire industry.

It is also noteworthy that the Division issued a [press release](#) to publicly announce the Consent Order, sending a message to all paid fantasy sports and sports betting operators to operate under the existing state licensing regime or else face a parlay of fines, compliance costs and government scrutiny.

After Victory in Trademark Suit, Do Gatorade's Lawyers Deserve a Gatorade Shower?

The [Gatorade Shower](#) was popularized over 30 years ago by the New York Giants during their 1986 championship season, when certain players would celebrate a victory by dousing head coach Bill Parcells with a large orange cooler filled with Gatorade. For the Giants, this culminated in a famous splash at the end of Super Bowl XXI. Since then, many a football coach has received a bath of Gatorade upon winning a title. Moving from the gridiron to the courtroom, Gatorade Co. and parent company PepsiCo, Inc. ("Gatorade" and "Pepsi", respectively) were recently showered with a victory over SportFuel, Inc. ("SportFuel") in the Seventh Circuit in a trademark dispute. ([SportFuel, Inc. v. PepsiCo, Inc.](#), No. 18-3010 (7th Cir. Aug. 2, 2019)). The dispute arose over Gatorade's efforts to rebrand itself in 2016 as the source of refueling for athletes by using a new trademarked tagline, "Gatorade The Sports Fuel Company," alongside its traditional logos.

[SportFuel](#) is a sports nutrition and wellness consulting firm that provides services to athletes and sells dietary supplements. SportFuel has two registered trademarks for "SportFuel", one for [food nutrition consulting purposes](#) and the second for [goods and services relating to dietary supplements](#). According to the court, Gatorade has used variations of the word "fuel" in marketing language for decades and began using the slogan "Gatorade The Sports Fuel Company" in national media in 2015 when it rebranded to reflect, among other things, its expanded business model in customized sports drinks for individual professional athletes.

Gatorade registered "GATORADE THE SPORTS FUEL COMPANY" as a trademark in 2016 ([Reg. No. 5,025,026](#)), but it disclaimed the exclusive use of "The Sports Fuel Company" after the United States Patent and Trademark Office (USPTO) advised them that the phrase was descriptive of Gatorade's products. In its opinion, the appeals court noted that Gatorade had knowledge of SportFuel's mark before it registered the "Gatorade The Sports Fuel Company" mark. Gatorade claimed that it uses its well-known house mark or "G-bolt" design mark on its packaging, but does not use the "Sports Fuel" tagline on

product packaging or labeling. [See below example of a Gatorade advertisement included in the court opinion. Note, the “G-bolt” mark appears on the left side of the protein bar label, but the “Gatorade The Sports Fuel Company” tagline does not appear on the product packaging, rather in the ad text (with the word “Gatorade” appearing in noticeably larger type)].



In light of Gatorade’s use of “Gatorade The Sports Fuel Company” in its rebranding, SportFuel sued Gatorade and Pepsi in August 2016 in the U.S. District Court for the Eastern District of Illinois alleging violations under the Lanham Act (15 U.S.C. §1125(a)), which included trademark infringement, unfair competition and false designation of origin. In response, Gatorade asserted two principal defenses. The first argument was that SportFuel did not provide adequate evidence that would show a likelihood of confusion to a jury. Second, Gatorade argued that its use of the tagline “Gatorade The Sports Fuel Company” was a fair use protected by the Lanham Act. After a three-year chase, SportFuel’s suit was sacked when the district court [found](#) that “Gatorade The Sports Fuel Company” was in fact fair use, and therefore granted summary judgment in favor of Gatorade, because Gatorade used the term “Sports Fuel” in a non-trademark, descriptive sense and used it “fairly and in good faith” to describe its goods and services.

Catching its second wind, SportFuel appealed to the U.S. Court of Appeals for the Seventh Circuit, arguing, among other things, that Gatorade failed to produce sufficient evidence to support its fair use defense. SportFuel’s comeback was short-lived, however, as the Seventh Circuit affirmed the lower court’s ruling on fair use grounds.

The fair use defense allows individuals to use otherwise trademarked language in a descriptive sense. See [15 U.S.C. § 1115\(b\)](#). According to the Seventh Circuit, to raise the fair use defense successfully, Gatorade had to show that (1) it did not use the phrase “The Sports Fuel Company” as a trademark, (2) the use was descriptive of its goods, and (3) it used the mark fairly and in good faith. Going through the three factors, the court found that Gatorade had satisfied each one:

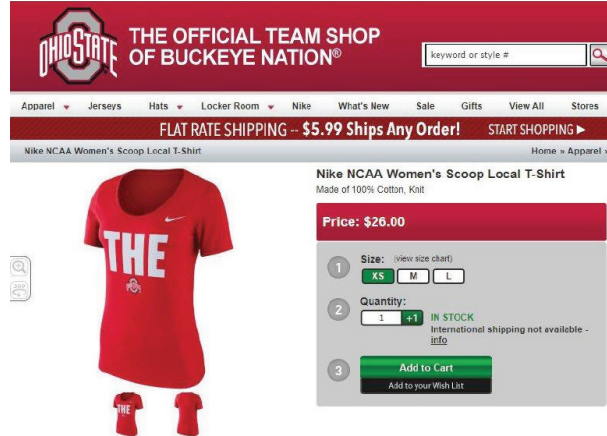
- First, the court found that Gatorade did not use the term “Sports Fuel” as a trademark because it did not use the term as a source indicator. The court noted that Gatorade specifically disclaimed exclusive use of the phrase “The Sports Fuel Company” in its trademark application and that Gatorade products’ packaging and displays feature Gatorade’s house mark and G-Bolt logo (i.e., their source indicators) more prominently than the “Sports Fuel” tagline.
- Second, the court found that the use of the term “Sports Fuel” was descriptive in that it described the nature of the products Gatorade sells. The appeals court noted that the term “fuel” was commonly used in reference to sports nutrition products and it rejected SportFuel’s argument that the use of “Sports Fuel” in the tagline was “suggestive” of Gatorade’s products because non-athletes regularly consumed Gatorade’s products: “That non-athletes regularly consume Gatorade’s products has no bearing whether the term is descriptive. Just as the pervasive use of yoga pants and other active wear as casual clothing does not change the athletic characteristics of those products, the fact that Gatorade sells more sports drinks to average joes who limit their rigorous exercise to lawn mowing does not change the athletic characteristics of Gatorade’s products.”
- Finally, the court concluded that Gatorade used the mark fairly and in good faith. The court rejected SportFuel’s argument that Gatorade could not show good faith since it had knowledge of SportFuel’s marks before it registered GATORADE THE SPORTS FUEL COMPANY, and found that “mere knowledge” of SportFuel’s mark, without other evidence of subjective bad faith, was insufficient. The court also observed that evidence demonstrated that Gatorade viewed itself as a producer of sports fuels.

With its fair use defense successfully argued, perhaps it is Gatorade’s lawyers that deserve a Gatorade shower for their victory over SportFuel.

Buckeyes’ Attempt Sails Wide Right in “The” Trademark Registration

In an out-of-conference game, the U.S. Patent and Trademark Office (the “USPTO”) handed [The Ohio State University](#) (“Ohio State”) a loss when, in September 2019, it refused Ohio State’s application ([No. 88571984](#)) to register the word “THE” as a trademark for apparel. The word “The” has special meaning to Ohio State players and alumni. NFL players who previously played at Ohio State tend to use the full name of the university when announcing their alma mater (with an emphasis on the “The”) during player introductions. Ohio State, not wanting to squander a good opportunity to cement their status as “The” university, began to sell some school-branded merchandise featuring the word “The” to some of the 104,000 Buckeye fans that regularly fill Ohio Stadium (a.k.a the Horseshoe). [See below image of one specimen from Ohio State’s trademark application.] Ohio State then filed a trademark application with the USPTO to

bolster their defense against efforts by other colleges or clothing companies to use “The” on apparel.



The “THE” application filed by Ohio State was for a ‘standard character mark’ which is a federal mark registration that is not limited to any particular rendition or design variation of the mark and makes no claim to any particular logo, font, color or configuration. Ohio State produces and sells shirts and hats with the word “The” in large letters across the front, and in their application, contended that people who see the word THE will instantly recognize the connection with Ohio State. The University submitted a specimen with its trademark application (see above) and claimed that the proposed THE mark has been used by Ohio State since 2005. When [media reports](#) of the trademark application first hit, they were met with widespread incredulity. Some in the media thought that Ohio State had gone offside by filing for the mark, not understanding that the application didn’t seek to monopolize all uses of the word “The,” but instead sought trademark protection only for International Class 025 for clothing, including T-shirts, ball caps and hats.

In batting down Ohio State’s trademark attempt, the USPTO [refused the application](#) and indicated that the proposed mark THE appeared “merely [as] a decorative or ornamental feature of [Ohio State’s] clothing” and “does not function as a trademark to indicate the source of [Ohio State’s] clothing and to identify and distinguish [Ohio State’s] clothing from others.”

Specifically, the USPTO’s [non-final office action letter](#) pointed out that the way the mark was used on the specimen was more [ornamental](#) than distinctive. They noted that the shirt that Ohio State submitted “shows the applied-for mark, THE, located directly on the upper-center area of the front of the shirt and the front portion of the hat, where ornamental elements often appear.” Since the mark appears to be more ornamental than distinctive, the USPTO rejected the application, since it did not find that the mark helped consumers identify the source of the shirt. In all, the USPTO noted that, under its precedent, “consumers may not ... perceive larger designs or slogans as trademarks when such matter is prominently displayed across the front of a t-shirt.”

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Since this was only an initial refusal, Ohio State still has an opportunity to, among other things, submit different specimens to show trademark use or submit evidence that the applied-for THE mark has become distinctive. In order for the application to be granted upon review, Ohio State will need to show that the applied-for THE mark is more than ornamental, either by providing the USPTO with other examples of the mark in commerce, or further evidence that the mark is used to distinguish Ohio State's products.

While the USPTO might have Ohio State backed up on their own goal line, Ohio State has one last chance to, as their [fight song](#) urges, move “across the field” and link “The” with Ohio State in the THE U.S. Trademark Registry.

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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