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IP Cannabis Law Conference

When Disputes Arise: Cannabis IP Litigation Update

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Speakers:

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Conference Reference Materials

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The Intellectual Property Law Section presents

THE CANNABIS IP LAW CONFERENCE

When Disputes Arise: Cannabis IP Litigation Update

Katy M. Young and Joshua Masur - April 19, 2023



Katy M. Young

Katy represents both plaintiffs and defendants in business disputes, real estate claims and intellectual property litigation, with a unique focus on matters for cannabis industry litigants. Katy is one of the most experienced cannabis-focused civil litigators in the country. She is passionate about the industry and enjoys the challenges inherent in litigating cases on the cutting edge, thereby shaping policy.

Katy is graduate of University of San Francisco School of Law and University of the Pacific where she was a scholarship athlete. She has been named a Northern California Super Lawyer Rising Star for 2014 through 2020. In 2018-2020, she was named to Benchmark Litigation's top 40 under 40 list. She also the President of the InterNational Cannabis Bar Association.



Joshua Masur

Joshua Masur, head of Zuber Lawler's Intellectual Property Practice Group, represents established and emerging technology companies—including plant-touching and non-plant-touching cannabis companies—in patent, copyright, trademark, and trade secret litigation, general business litigation, and related strategic issues. Over two decades representing clients in every significant U.S. intellectual property venue, Josh's innovative strategies have set precedent on substantive and procedural issues across the intellectual property spectrum.

Josh is a past president of the Bay Area Intellectual Property American Inn of Court, the premier organization in Northern California dedicated to fostering skills, professionalism, collegiality, and ethics among the IP bar. He currently co-chairs the respective Patent Litigation Policy Subcommittees of both the American Intellectual Property Law Association and the ABA Section of Intellectual Property Law, and serves as the Assistant National Legal Advisor to the National Ski Patrol. Josh has been included in The Best Lawyers in America® since 2017, and in Northern California SuperLawyers since 2011.



What can be protected and how?

Works	Legal Protection Regimes
Brands and Identity	Trademarks and Trade Dress Federal Design Patents; State Rights of Publicity
Inventions	Federal Utility Patents Trade Secrets
Proprietary Business Information	Trade Secrets
Plant Varieties/Strains	Federal Plant Patents; State Contract Law?

The Culture Clash- A Different Kind of Client

- Industry Pioneers
 - Cowboy Personality or Kumbaya/Can't we all just get along
 - Varying levels of sophistication
 - Varying levels of capitalization
- Business Community
 - The Movement or the Money
 - Generally more sophisticated, easily frustrated by some industry pioneers
 - Generally better capitalized

Trademarks and Cannabis

Issues for Cannabis Trademark Litigation

- As trademark litigation in the cannabis industry continues, other issues and/or trends have developed:
- Determining likelihood of confusion (LOC) on same or similar marks
- Determining the senior user of the mark when cannabis company was using the mark in commerce *before* the non-cannabis company
- Litigation against unlicensed, “copycat” cannabis companies
- Strain name protection?

Trends in Cannabis Trademark Litigation

- Federal Lanham Act trademark infringement actions against cannabis companies have increased in recent years.
- The law as to registration of federal trademarks for cannabis goods with the USPTO is clear:
 - The Trademark Trial and Appeal Board has “consistently held that, to **qualify for a federal ... registration, the use of a mark in commerce must be ‘lawful’.**” *In re JJ206, LLC*, 120 USPQ2d 1568, 1569 (TTAB 2016) (affirming refusal to register trademark in connection with cannabis vaporizing and delivery services for lack of lawful use in commerce).
 - Emerging circuit split on whether protection and enforcement requires federally “lawful use”?
- USPTO reaffirmed in 2019 guidance that will not grant trademarks on cannabis products that are illegal under the CSA
- USPTO office will grant trademarks on legal hemp, hemp derived CBD products, hemp oil and other hemp derived goods with less than .3% THC, are not edible and claim no medicinal benefits which are lawful under the 2018 Farm Bill. Hemp oil extracts used as a dietary or nutritional supplements may not be trademarked.

Trends in Cannabis Trademark Litigation

The LOC Analysis in Cannabis Trademark Litigation

- **LOC Test for Infringement:** whether the defendant's use of the trademark is likely to cause confusion about the source of the plaintiff's or the defendant's goods.
- **The *Sleekcraft* Factors Considered in Determining LOC:**
 1. Strength or Weakness of the Marks
 2. *Relatedness of the Goods/Services**
 3. Similarity of the Marks
 4. Evidence of Actual Confusion
 5. *Marketing Channels Used**
 6. Degree of Consumer Care
 7. Defendant's Intent in Selecting the Mark
 8. Likelihood of Expansion of Product Lines

AMF Inc. v. Sleekcraft Boats, 599 F.2d 341, 348-49 (9th Cir. 1979).

Trends in Cannabis Trademark Litigation

The LOC Analysis in Cannabis Trademark Litigation

- ***Lochirco Fruit & Produce Co., Inc. v. Tarukino Holdings, Inc.*, No. C18-763-RAJ, 2019 WL 157939 (W.D. Wash. Jan. 9, 2019)**
 - No LOC at PI stage
 - “While both products are sold in the State of Washington, Defendants’ products contain cannabis [and] cannabis containing beverages can only be distributed and sold by retail stores licensed and regulated by the Washington [SLCB]. These retail stores may only sell marijuana...[so] Defendants’ products and Plaintiffs’ products are not likely to be sold in close proximity to each other.”
- ***Kiva Health Brands LLC v. Kiva Brands Inc.*, 402 F. Supp. 3d 877 (N.D. Cal. 2019)**
 - No LOC at PI stage
 - “At a high enough level of abstraction, the goods are related: they are both food items, sold to people looking for food. But upon any closer examination, they are quite different. One is candy combined with a recreational drug, the other is health food...KHB's products are available on the internet, while KBI's products are only available to adults over 21 years old and/or approved medical marijuana users, and then only through state-licensed dispensaries and delivery services.”
 - “This factors weighs heavily against confusion.”

Trends in Cannabis Trademark Litigation

The LOC Analysis in Cannabis Trademark Litigation

- ***Woodstock Ventures LC v. Woodstock Roots, LLC*, 387 F. Supp. 3d 306 (S.D.N.Y. 2019)**
 - No LOC at PI stage
 - “[E]ven if the parties' products are marketed through the same or similar trade channels, this fact does not suggest a likelihood of confusion, because Plaintiffs' products either constitute or are intended for use with recreational marijuana, while Defendants' “smokers' articles” are not intended for use with recreational marijuana.”
 - Appeal pending
- ***White Hall Pharmacy LLC v. Doctor's Orders RX Inc.*, No. 4:19-CV-00366-KGB, 2019 WL 3939357 (E.D. Ark. Aug. 20, 2019)**
 - Likelihood of success as to LOC at PI stage
 - “White Hall Pharmacy argues that, since medicinal marijuana is directed at medical ailments, medicinal marijuana and pharmaceutical services are related....[T]he Court concludes that the parties' services and products do overlap to some extent. The Court therefore finds that this factor weighs in favor of White Hall Pharmacy.”

Trends in Cannabis Trademark Litigation

Who is the Senior User?

- What is the significance of the “senior user” in trademark law?
 - Senior user generally has superior rights to the mark over junior users, including the right to register the mark with the USPTO
 - Prior use is a defense to infringement claims
 - Prior use can be a basis for cancelling a federally registered mark

Trends in Cannabis Trademark Litigation

Who is the Senior User?

Kiva Health Brands LLC v. Kiva Brands Inc., 439 F. Supp. 3d 1185, 1195 (N.D. Cal. 2020)

- Dec 2010: KBI began selling cannabis-infused chocolate confections under KIVA mark, but cannot register the mark with the USPTO
- Feb. 2013: KHB began selling natural foods and health supplements under KIVA mark
- April 2014: KHB obtains federal registration for KIVA mark
- KBI asserted prior lawful use in commerce in California as defense to trademark infringement
- Judge Breyer: “[W]hile KBI's product is legal under California law, its illegality under federal law means that KBI cannot have trademark priority.” *Id.* at 1195.

Alternative Trademark Strategies

- Alternative method is to trademark ancillary products such as a line of clothing, ashtrays, lighters, vaporizer pipes, rolling papers or glassware or websites.
- As an alternative a Cannabis business may seek a state trademark which covers only the state in which it has been filed. California allows state trademark filings for Cannabis products that are lawfully in use in commerce. Upon issuance it can be labeled with a superscript “TM”.
- As an alternative a cannabis business may establish a common law trademark which is enforceable only in the geographic area in which the business operates or may expand, and may use superscript “TM”.
- When working with others, a Cannabis business should consider contract language that the Company retains an ownership interest in all intellectual property concerning the company’s products.

Patents and Cannabis

Utility Patents and Cannabis

- PTO grants patents for inventions that are new, useful, and nonobvious
 - No lawful use requirement
- Prior Art: Can't get a patent for an invention that has been disclosed publicly before the "effective filing date" for the application
- Patentee gets a 20-year monopoly limited by the patent claims in exchange for full disclosure and post-expiration entry of the invention into public domain
- Cannabinoid patents date back at least to the 1940s

Varieties of Cannabis Utility Patent Litigations

Technology	Exemplar Cases
Product Formulations	<i>UCANN v Pure Hemp</i> (CO 2018)
Extraction Processes	<i>Canopy Growth v GW Pharma</i> (WDTX 2020)
Packaging	<i>A&A Global Imports</i> cases (CDCA 2017+)
Production Equipment	<i>Portland Eng'g v ATG</i> (OR 2019)
Consumption Devices	<i>Kandypens v Puffco</i> (CACD 2020); <i>VPR Brands & GS Holistic</i> cases (2021+); <i>Puffco v SHO Products</i> cases (CACD 2022)

Most Cannabis Patent Litigation Is Surprisingly Normal

- ... at least as patent litigation goes
- The unusual cases are unusual in ways unrelated to technological subject matter
 - *Puffco v SHO Products*: 12(c) motion for invalidity based on patentee's commercial exploitation / public use of prototype that purportedly lacked certain limitations; denied without prejudice
- Caveat that only a handful of cases have made it to *Markman*, and none to a true determination on the merits with the benefit of full discovery
 - Closest was *Kandypens v Puffco*, where court granted summary judgment of infringement but denied cross-motions on other issues, and the case settled before trial

UCANN: Claim Construction

- “Every independent claim [of US 9,730,911] describes ‘[a] liquid cannabinoid formulation, wherein at least 95% of the total *cannabinoids* is’ a specified cannabinoid or combination of them”
- Defendant contended that “‘cannabinoids’ ... should be construed to mean ‘cannabinoid content’ or ‘cannabinoid concentration,’ [including] formulations with a single cannabinoid”
- UCANN successfully contended that “‘cannabinoids’ should be construed as ‘more than one cannabinoid,’” *i.e.*, that the formulation must have plural cannabinoids

***UCANN*: Bankruptcy, Dismissal, and Fee Motion**

- Shortly after fact discovery closed, UCANN filed for bankruptcy and the case was stayed
- Then the U.S. trustee moved to dismiss the bankruptcy for illegality, despite UCANN's representations that its current business was limited to hemp products legal under the 2018 Farm Bill
- The parties jointly moved to lift the stay and dismiss
- Then defendant moved for fees based on inequitable conduct
 - Prosecution counsel copied and pasted from undisclosed material prior art, and later began representing the prior art patentee on related matters
- Oral argument held 2/8/23 (Lourie/Cunningham/Stark)

Cannabis-Specific Patent Issues: Validity

- Prohibition often makes publication and public use more difficult to prove
- Even a secret commercial sale or offer is still prior art under the AIA, *Helsinn v Teva* (US 2019)
 - Is an unlawful sale still “commercial”? Is it a question of state law?

Cannabis-Specific Patent Issues: Remedies

- No cannabis patent cases have gotten to a disputed remedy phase
- Theory: The patentee's primary right is to exclude others
 - Not inconsistent with the federal government's interest in enforcement
 - Best thought of as a variant on the "patent thicket" problem
- If you can get a **reasonable royalty** notwithstanding that other patentees might also have the ability to stop you, you should be able to get one on federally illegal activity
 - Same should apply to injunctions, preliminary and permanent
- **Lost profits** are probably *not* available absent federal descheduling

But What About Plant Patents and Variety Protections?

- Like utility and design patents, plant patents protect novel and non-obvious creations
- A plant patent can only cover a new variety that is created asexually: “cultivated sports [bud variants], mutants, hybrids, and newly found seedlings” but not “a plant found in an uncultivated state”
 - USDA can issue Plant Variety Protection Certificates for sexually reproduced or propagated varieties
 - Utility patent protection for plants can include trait claims, breeding method claims, seed deposit claims, and food product claims
- *Imazio Nursery v Dania* (Fed Cir 1995): “Asexual reproduction is the cornerstone of plant patent protection, while sexual reproduction is the distinguishing feature of plant variety protection”

Plant Patent Litigation Is Vanishingly Infrequent

- Only one plant patent litigation has gone to trial in recent years: *Regents v California Berry Cultivars* (CAND 2016)
 - UC sued the former head of its strawberry breeding program
 - All defendants were found to have infringed willfully
 - Settled before damages were assessed
- Two active plant patent litigations:
 - *Queen v Van Well Nursery* (EDWA 2020) – Staccato® cherries – one patent invalidated under on-sale bar; trial now set for April 2024 on remaining patent
 - *Driscoll's v CBC* (EDCA 2019) – related to UC case – complaint appears likely to be settled end of April 2023, and schedule set thereafter
- With plant patent applications for cannabis varieties increasing exponentially, cannabis companies may create a new body of law

Trade Secrets and Cannabis

Misappropriation of Trade Secrets

- Three fundamental characteristics of trade secrets: Not generally known in the industry or trade; provides an economic advantage; has been the subject of reasonably appropriate efforts to protect its secrecy
- Misappropriation:
 - *Acquisition* by one who knew (or should have) that it was acquired by improper means; or
 - *Disclosure* or use of other's secret without express or implied consent by one who
 - Used improper means to acquire the secret, or
 - Knew (or should have) that his knowledge of the secret was derived from or through a person who has utilized improper means to acquire it; or acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use, or derived from or through one who owed a duty to maintain secrecy or limit use

Cannabis Trade Secret Subject Matter

- Secret information about proprietary products or methods
 - Extraction
 - Product recipes and formulas
 - Outdoor growing methods?
 - Uniform Trade Secrets Act Comments suggest that “improper means could include otherwise lawful conduct which is improper under the circumstances; e.g., an airplane overflight used as aerial reconnaissance,” see *DuPont v Christopher* (5th Cir 1970)
- Customer and other contact lists

Trade Secret Choice of Venue and Law: State vs Federal

- Does the DTSA apply?
 - CDCA refused to dismiss claim against former cannabis corporate officers that focused on “client lists and client information,” *Siva Enters. v Ott* (2018)
 - But DTSA requires a connection to interstate commerce – must it be lawful?
- Conventional and non-THC plaintiffs can sue in state or federal court; THC plaintiffs primarily sue in state court
 - Edge Case: *SC Botanicals v Intragenix* (DE 2020): breakdown of license agreement involving *remediation* of THC to comply with 2018 Farm Bill
 - Preliminary injunction denied for lack of likelihood of success on the merits
 - Motions to dismiss based on familiar issues (failure to adequately identify secrets, independent development right under agreement) were granted in part
 - Settled before answer to amended complaint
 - DTSA plaintiffs invariably assert UTSA/state law claims as well

Cannabis Trade Secret Litigation Varieties

- Merits decisions are relatively hard to find in trade secrets cases generally – and not surprisingly, cannabis is no exception
- Several cases involving state right-to-know laws and cannabis business regulation (at least PA/FL/CT)
- *Ghost Mgmt (Weedmaps) v CC Software* (NDCA 2017): DTSA, Cal UTSA, copyright (software), ECPA, Lanham Act, contract, and business tort claims against a former potential lab testing integration partner, which allegedly claimed affiliation with Weedmaps to obtain login information from customers
 - Settled without anything more substantive than pleadings and CMC statement

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