INTELLECTUAL PROPERTY LAW

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IP Cannabis Law Conference

High Stakes IP: Navigating the USPTO, TTAB, and PTAB

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Speakers:

Alison Malsbury

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(Moderator) Amanda R. Conley

Conference Reference Materials

Examination Guide 1-19

Examination of Marks for Cannabis and Cannabis-Related Goods and Services after Enactment of the 2018 Farm Bill

May 2, 2019

I. Introduction

Use of a mark in commerce must be lawful under federal law to be the basis for federal registration under the U.S. Trademark Act. *See generally* Trademark Manual of Examining Procedure (TMEP) §907. The United States Patent and Trademark Office (USPTO) refuses to register marks for goods and/or services that show a clear violation of federal law, regardless of the legality of the activities under state law. A determination of whether commerce involving cannabis and cannabis-related goods and services is lawful requires consultation of several different federal laws, including the Controlled Substances Act, 21 U.S.C. §§801 *et seq.*, the Federal Food Drug and Cosmetic Act, 21 U.S.C. §§301 *et seq.*, and the Agriculture Improvement Act of 2018, Pub. L. 115-334 (the 2018 Farm Bill), which amends the Agricultural Marketing Act of 1946 (AMA). The USPTO issues this examination guide to clarify the procedure for examining marks for cannabis and cannabis-derived goods and for services involving cannabis and cannabis production following the 2018 Farm Bill.

II. Examination of marks for cannabis and cannabis-derived goods such as cannabidiol

Under the Controlled Substances Act (CSA), the drug class "Marihuana" (commonly referred to as "marijuana") is defined as "all parts of the plant Cannabis sativa L., whether growing or not; the seeds thereof; the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds or resin" (subject to certain exceptions). 21 U.S.C. §802(16). Cannabidiol (CBD) is a chemical constituent of the cannabis plant that is encompassed within the CSA's definition of marijuana. *See* Clarification of the New Drug Code (7350) for Marijuana Extract, https://www.deadiversion.usdoj.gov/schedules/marijuana/m_extract_7350.html, last accessed April 23, 2019; *see also,* 21 C.F.R. §1308.11(d)(58). The CSA prohibits, among other things, manufacturing, distributing, dispensing, or possessing certain controlled substances, including marijuana. 21 U.S.C. §§812, 841(a)(1), 844(a). Therefore, the USPTO refuses registration when an application identifies goods encompassing CBD or other extracts of marijuana because such goods are unlawful under federal law and do not support valid use of the applied-for mark in commerce.

The 2018 Farm Bill, which was signed into law on December 20, 2018, amends the AMA and changes certain federal authorities relating to the production and marketing of "hemp," defined as "the plant Cannabis sativa L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol [THC] concentration of not more than 0.3 percent on a dry weight basis." Section 297A. These changes include removing "hemp" from the CSA's definition of marijuana, which means that cannabis plants and derivatives such as CBD that contain no more than 0.3% THC on a dry-weight basis are no longer controlled substances under the CSA.

For applications filed on or after December 20, 2018 that identify goods encompassing cannabis or CBD, the 2018 Farm Bill potentially removes the CSA as a ground for refusal of registration, but *only* if the goods are derived from "hemp." Cannabis and CBD derived from marijuana (i.e., Cannabis sativa L. with more than 0.3% THC on a dry-weight basis) still violate federal law, and applications encompassing such goods will be refused registration regardless of the filing date. If an applicant's goods are derived from "hemp" as defined in the 2018 Farm Bill, the identification of goods must specify that they contain less than 0.3% THC. Thus, the scope of the resulting registration will be limited to goods compliant with federal law.

For applications filed *before* December 20, 2018 that identify goods encompassing CBD or other cannabis products, registration will be refused due to the unlawful use or lack of bona fide intent to use in lawful commerce under the CSA. Such applications did not have a valid basis to support registration at the time of filing because the goods violated federal law. However, because of the enactment of the 2018 Farm Bill, the goods are now potentially lawful if they are derived from "hemp" (i.e., contain less than 0.3% THC). Therefore, the examining attorney will provide such applicants the option of amending the filing date and filing basis of the application to overcome the CSA as a ground of refusal.

Specifically, the examining attorney will advise the applicant that it may request to amend the filing date of the application to December 20, 2018. The applicant must specifically state for the record that such a change to the filing date is being authorized and must establish a valid filing basis under 37 C.F.R. §2.34 by satisfying the relevant requirements. *See* 37 C.F.R. §§2.34 *et seq.*, TMEP §§806 *et seq*. If the application was originally based on use of the mark in commerce under Section 1(a) of the Trademark Act, 15 U.S.C. §1051(a), the applicant will be required to amend the basis to intent to use the mark in commerce under Section 1(b), 15 U.S.C. §1051(b). Because of the new legal definition of "hemp" under the 2018 Farm Bill, the applicant will also be required to amend the identification of goods to specify that the CBD or cannabis products contain less than 0.3% THC. If the applicant elects to amend the application, the examining attorney will conduct a new search of the USPTO records for conflicting marks based on the later application filing date. TMEP §§206.01, 1102.03. The examining attorney will also advise the applicant that, in lieu of amending the application, it may elect to abandon the subject application and file a new application. Alternatively, the applicant may respond to the stated refusal by submitting evidence and arguments against the refusal.

Applicants should be aware that even if the identified goods are legal under the CSA, not all goods for CBD or hemp-derived products are lawful following the 2018 Farm Bill. Such goods may also raise lawful-use issues under the Federal Food Drug and Cosmetic Act (FDCA). The use in foods or dietary supplements of a drug or substance undergoing clinical investigations without approval of the U.S. Food and Drug Administration (FDA) violates the FDCA. 21 U.S.C. §331(ll); *see also* 21 U.S.C. §321(ff) (indicating that a dietary supplement is deemed to be a food within the meaning of the FDCA). The 2018 Farm Bill explicitly preserved FDA's authority to regulate products containing cannabis or cannabis-derived compounds under the FDCA. CBD is an active ingredient in FDA-approved drugs and is a substance undergoing clinical investigations. *See* FDA Regulation of Cannabis and Cannabis-Derived Products: Questions and Answers, available at https://www.fda.gov/newsevents/publichealthfocus/ucm421168.htm#whatare, last accessed April 23, 2019. Therefore, registration of marks for foods, beverages, dietary supplements, or pet treats containing CBD will still be refused as unlawful under the FDCA, even if derived from hemp, as such goods may not be introduced lawfully into interstate commerce. 21 U.S.C. §331(ll); *see also* statement of former FDA Commissioner Scott Gottlieb, M.D., on signing of the Agriculture Improvement Act and the agency's regulation of products containing cannabis and cannabis-derived compounds. https://www.fda.gov/NewsEvents/Newsroom/PressAnnouncements/ucm628988.htm

III. Examination of marks for services involving cannabis and cannabis production

When applications recite services involving cannabis-related activities, they will be examined for compliance with the CSA and the 2018 Farm Bill. As discussed above, the CSA prohibits, among other things, manufacturing, distributing, dispensing, or possessing cannabis that meets the definition of marijuana. Therefore, the USPTO will continue to refuse registration when the identified services in an application involve cannabis that meets the definition of marijuana and encompass activities prohibited under the CSA because such services still violate federal law, regardless of the application filing date. If the identified services involve cannabis that is “hemp” (i.e., contains less than 0.3% THC), the applications will also be examined for compliance with the requirements of the 2018 Farm Bill. Applicants refused registration under the CSA will have the same options outlined in section II above of overcoming the refusal by requesting amendment of the filing date and basis of their application, and amending the identification of services to specify that the involved cannabis contains less than 0.3% THC on a dry-weight basis. In lieu of amending the application, an applicant may elect to abandon the subject application and file a new application. Alternatively, the applicant may respond to the stated refusal by submitting evidence and arguments against the refusal.

For applications that recite services involving the cultivation or production of cannabis that is “hemp” within the meaning of the 2018 Farm Bill, the examining attorney will also issue inquiries concerning the applicant’s authorization to produce hemp. Applicants will be required to provide additional statements for the record to confirm that their activities meet the requirements of the 2018 Farm Bill with respect to the production of hemp. The 2018 Farm Bill requires hemp to be produced under license or authorization by a state, territory, or tribal government in accordance with a plan approved by the U.S. Department of Agriculture (USDA) for the commercial production of hemp. To date, the USDA has not promulgated regulations, created its own hemp-production plan, or approved any state or tribal hemp-production plans. However, the 2018 Farm Bill directs that states, tribes, and institutions of higher education may continue operating under authorities of the 2014 Farm Bill until 12 months after the USDA establishes the plan and regulations required under the 2018 Farm Bill.

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

WUNDERWERKS, INC.,

Plaintiff,

v.

DUAL BEVERAGE COMPANY LLC, et al.,

Defendants.

Case No. 21-cv-04980-SI

ORDER DENYING PLAINTIFF'S MOTION FOR A PRELIMINARY INJUNCTION

Dkt. No. 16

On November 5, 2021, the Court heard oral argument on plaintiff's motion for a preliminary injunction. Dkt. No. 17. Plaintiff Wunderwerks, Inc. ("plaintiff" or "Wunderwerks") alleges defendants Dual Beverage Company LLC ("DBC"), WNDER, LTD ("Wnder"), and DOES 1-10, collectively "defendants," infringe plaintiff's trademark and should be preliminarily enjoined from doing so. Dkt. Nos. 1 and 17. Having considered the papers and arguments made, the Court hereby DENIES plaintiff's motion.

BACKGROUND

Plaintiff's complaint (Dkt. No. 1 at 1) alleges five causes of action against defendants:

(1) Federal Trademark Infringement under 15 U.S.C. § 1114;

(2) Federal False Designation of Origin under 15 U.S.C. § 1125(a)(1)(A);

(3) Common Law Trademark Infringement;

(4) California Statutory Unfair Competition under Cal. Bus. & Prof. Code § 17200 *et seq.*; and

(5) Declaratory judgment that Trademark Reg. No. 6,198,393 is valid and enforceable.

Plaintiff Wunderwerks was founded in September, 2019, as a wholly owned subsidiary of parent company Radix Labs, Inc. ("Radix"), incorporated in California. Dkt. No. 20 at ¶ 9 (Chialtas Decl.). Radix is based in Napa, California, and was founded in 2018. *Id.* at ¶ 3. Radix began to sell "all-natural, ***uninfused***[1] sparkling fruit beverages under the word mark WUNDER" in April, 2019, to customers in California and Florida. *Id.* at ¶ 4, referencing Dkt. No. 20-1 (Invoices) (emphasis added).

On September 14, 2019, Radix assigned its rights and interests in the "WUNDER" mark to plaintiff. Dkt. No. 20 at ¶ 10; *see* Dkt. No. 19-1 Exhibit A (Assignment and Transfer Agreement). Plaintiff maintains it has "continued to develop and refine the line of uninfused . . . beverages" and has registered several domain names in connection with uninfused beverages. Dkt. No. 19 at ¶ 9. On October 24, 2019, plaintiff filed a trademark application, U.S. Serial No. 88667500, with the USPTO to register the mark "WUNDER" (the '500 application). Dkt. No. 19-1 Exhibit E. The '500 application matured to Registration No. 6,198,393 (the '393 Registration) on November 17, 2020, and has a first use date of April 1, 2019. Dkt. No. 19-1 Exhibit F (Registration certificate). The '393 Registration indicates "CLASS 32: Fruit Juices Non-alcoholic sparkling fruit juice beverages; Non-alcoholic carbonated beverages; Concentrates and powders used in the preparation of energy drinks and fruit-flavored beverages." *See* WUNDER, Registration No. 6,198,393.

Around July 2020, plaintiff launched its ***infused*** beverage product, with sales alleged to have begun thereafter around July 2020. Dkt. No. 26 at 8[2] (Opposition); Dkt. No. 29 at 5 (Reply); Dkt. No. 27-4 Exhibit D (plaintiff's Instagram post of June 27, 2020); Dkt. No. 27-5 Exhibit E (plaintiff's Instagram post of July 10, 2020). This "separate line of infused . . . beverages also sold under the WUNDER mark" is available in eight-ounce cans in three flavors. Dkt. No. 29-3 at ¶ 10. Plaintiff

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[1] The term "uninfused," as used by plaintiff, refers to products containing "no [cannabidiol] CBD or [tetrahydrocannabinol] THC, or anything else derived from the Cannabis plant or hemp therefrom." Dkt. No. 20 at ¶ 7. The term "infused," as used by plaintiff, refers to products containing "an extract or [] otherwise supplemented with material from the Cannabis plant." Dkt. No. 19 at ¶ 6 (Peterson Decl.).

[2] For ease of reference, citations to page numbers refer to the ECF branded page number in the upper right corner of the page.

asserts the infused beverages and uninfused beverages differ only by the CBD and THC additives and "[n]one of the ingredients in the uninfused beverage have been substituted." *Id.* at ¶¶ 8-9. For example, plaintiff asserts plaintiff's infused Lemon Ginger flavored beverage and Radix's uninfused Lemon Ginger flavored beverages differ only by added CBD and THC. *Id.* Plaintiff admits the WUNDER mark has not been used since the "end of 2019" in connection with uninfused beverages. Dkt. No. 29 at 9. However, plaintiff maintains that while Radix developed only a single flavor of uninfused beverage (Lemon Ginger), plaintiff is currently developing further flavors of uninfused beverages. Dkt. No. 29-3 at ¶¶ 5-7 (Chialtas Reply Decl.); See Dkt. No. 29-12 Exhibit L (taste-test survey indicating Q3 2021). Plaintiff maintains it is "in the process of securing a manufacturer so that it can release [uninfused beverages] in early 2022." Dkt. No. 29 at 10; Dkt. No. 29-3 at ¶ 7.

In 2021, plaintiff introduced a product having "larger amounts of extracts from the Cannabis plant," in three flavors, under the sub-brand "HIGHER VIBES 20." *Id.* at ¶ 11. Both the WUNDER brand beverages and HIGHER VIBES 20 beverages are available at plaintiff's website (www.findwunder.com) via online orders or from retail locations. *Id.* at ¶ 12. To date, plaintiff has spent about $165,000 on advertising and has "actively marketed and promoted its . . . [infused] beverages throughout the United States." *Id.* at ¶ 15.

Defendant DBC was founded in April 2019, and defendant Wnder was formed months later "as the holding company for DBC." Dkt. No. 26 at 7 (Defendants' Opposition). Defendants selected the brand name "W*NDER" for a line of beverages, wherein the "*" character stands for an "abstract representation of a leaf." *Id.* (referencing Dkt. No. 27 at ¶ 3).

On July 17, 2019, defendant DBC filed an intent-to-use trademark application, U.S. Serial No. 88519040, with the USPTO to register the mark "W*NDER" (the '040 application) in connection with uninfused beverages. Dkt. No. 28-1 Exhibit 2-A. With respect to beverages, the '040 application pertains to "[n]on-alcoholic beverages, namely, carbonated beverages, ***carbonated beverages enhanced with plant extracts***, carbonated beverages enhanced with vitamins, carbonated beverages with fruit flavor with none of the foregoing comprised of any oils, extracts, derivatives or ingredients from Cannabis sativa L with a delta-9 tetrahydrocannabinol (THC) content of more than 0.3 percent on a dry weight basis and none of which contain cannabidiol (CBD)." U.S.

Trademark Application Serial No. 88/519040 (filed July 17, 2019) (emphasis added).

In January, 2020, defendants launched the "W*NDER" branded beverages, via online and "brick-and-mortar" distribution. Dkt. No. 27 at ¶¶ 5-6. Defendants' products for sale include CBD-infused beverages. *See, e.g.*, Dkt. No. 18-1 Exhibits 1-6; *See, e.g.*, www.wnder.com (defendants' website). Defendants assert they are also developing a "non-CBD infused line of beverages."[3] *Id.*

In late February 2021, defendants learned of plaintiff Wunderwerks and the WUNDER brand upon receipt of plaintiff's February 23, 2021 cease-and-desist letter. Dkt. No. 27 at ¶ 7 (Robinson Decl.); Dkt. No. 18 at ¶ 8 (Kowsari Decl.); Dkt. No. 18-1 Ex. 10 (Plaintiff's cease and desist letter). Images of plaintiff's and defendants' product marks are shown below:

Defendants filed a Petition to Cancel No. 92076715 with the USPTO on March 18, 2021, in connection with plaintiff's '393 Registration. Dkt. No. 1 at ¶ 31; Dkt. No. 18 at ¶ 9; *see* Cancellation No. 92076715, USPTO (filed March 18, 2021).[4]

On June 28, 2021, plaintiff filed the instant action and this Motion for Preliminary Injunction on August 23, 2021. Dkt. Nos. 1 and 17. Plaintiff contends defendants' use of the mark "W*NDER" will cause consumer confusion in the reverse direction relative to Wunderwerks' "WUNDER" mark,

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[3] The meaning of "non-CBD infused" is not clear. For example, it is not clear whether this refers to THC-infused products.

[4] Available at www.ttabvue.uspto.gov/ttabvue/v?pno=92076715&pty=CAN

as plaintiff is a relatively smaller company.[5]

LEGAL STANDARD

To obtain a preliminary injunction, a plaintiff must establish (1) a likelihood of success on the merits, (2) it is likely to suffer irreparable harm in the absence of preliminary relief, (3) the balance of equities tips in plaintiff's favor, and (4) an injunction is in the public interest. *Winter v. Natural Res. Def. Council*, 555 U.S. 7, 20, 129 S. Ct. 365, 172 L. Ed. 2d 249 (2008). Courts have also applied an alternative "sliding scale" or "serious questions" test, requiring the plaintiff raise "serious questions going to the merits" and showing "the balance of hardships tip[s] sharply in plaintiff's favor." *See Alliance for the Wild Rockies v. Cottrell*, 632 F.3d 1127, 1131-32 (9th Cir. 2011); *id.* at 1135 (stating plaintiff must also show a "likelihood of irreparable injury and that the injunction is in the public interest."). The sliding scale approach allows courts to balance the factors, offering flexibility where, for example, the plaintiff makes a weaker showing of likelihood of success, but a strong showing of irreparable harm. *Id.* at 1131. Regardless of the approach, a preliminary injunction is an "extraordinary remedy that may only be awarded upon a clear showing that the plaintiff is entitled to such relief." *Winter*, 555 U.S. at 22; *see also Earth Island Inst. v. Carlton*, 626 F.3d 462, 469 (9th Cir. 2010) (Plaintiffs "face a difficult task in proving that they are entitled to this 'extraordinary remedy[.]'").

A preliminary injunction "should not be granted unless the movant, *by a clear showing*, carries the burden of persuasion." *Mazurek v. Armstrong*, 520 U.S. 968, 972 (1997) (citation omitted) (emphasis in original). However, "[d]ue to the urgency of obtaining a preliminary injunction at a point when there has been limited factual development, the rules of evidence do not apply strictly to preliminary injunction proceedings." *Herb Reed Enters., LLC v. Fla. Entm't Mgmt., Inc.*, 736 F.3d 1239, 1250 n.5 (9th Cir. 2013) (internal citation omitted).

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[5] Reverse confusion "is the misimpression that the junior user is the source of the senior user's goods" where, for example, "the junior user saturates the market and 'overwhelms the senior user.'" J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, § 23.10 (5th ed. 2019). *See Surfvivor Media, Inc. v. Survivor Prods*., 406 F.3d 625, 630 (9th Cir. 2005).

DISCUSSION

Plaintiff requests a preliminary injunction restraining "defendants . . ., their agents, and [others] from using the "W*NDER" mark or any mark confusingly similar to Wunderwerk's WUNDER mark in connection with wellness and lifestyle beverages." Dkt. No. 16 at 1 (Plaintiff's Notice of Motion). Defendants argue plaintiff is not likely to succeed on the merits, the balance of equities tips in defendants' favor, defendants will suffer irreparable harm, and an injunction is not in the public interest. *See* generally Dkt. No. 26 (Defendants' Opposition).

I. Likelihood of Success on the Merits

For the reasons discussed during the November 5, 2021 hearing, the Court agrees with defendants that plaintiff has failed to carry its burden of showing likelihood of success on the merits. These reasons include but are not limited to:

(1) There are serious questions going to the validity of plaintiff's mark due to the fact that it encompasses an illegal product – rendering plaintiff's likelihood of success on the merits of its federal claims unlikely.[6] Marijuana and derived substances, including tetrahydrocannabinols (THC), are designated as Schedule I drugs. 21 U.S.C. § 812(c)(10) and 21 CFR § 1308.11.[7] Excluded from that designation, however, is "any material, compound, mixture, or preparation that falls within the definition of hemp[8] set forth in 7 U.S.C. 1639o)." 21 CFR § 1308.11. During the

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[6] *See In re Brown*, 119 U.S.P.Q.2d 1350 (T.T.A.B. 2016) (If a mark "encompasses" illegal goods, that alone can provide a basis for refusing the mark's registration.); *see also Kiva Health Brands LLC v. Kiva Brands Inc.*, 402 F. Supp. 3d 877, (N.D. Cal. 2019) (prior use cannot be established for a mark on an illegal product).

[7] "(i) Meaning tetrahydrocannabinols, except [hemp], naturally contained in a plant of the genus Cannabis (cannabis plant), as well as synthetic equivalents of the substances contained in the cannabis plant, or in the resinous extractives of such plant, and/or synthetic substances, derivatives, and their isomers with similar chemical structure and pharmacological activity to those substances contained in the plant . . ." 21 CFR § 1308.11.

[8] Hemp is excepted from Schedule I, defined as "the plant [] and any part of the plant . . ." including "a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis." 7 U.S.C. § 1639o (West). "The term 'hemp' means the plant Cannabis sativa L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis."

November 5, 2021 hearing plaintiff admitted its products contain CBD and THC derived from marijuana, not hemp.

In May, 2019, the PTO discussed goods derived from marijuana and hemp in an Examination Guide, stating: "[i]f an applicant's goods are derived from 'hemp' as defined in the 2018 Farm Bill, the identification of goods must specify that they contain less than 0.3% THC" thus rendering the goods "compliant with federal law," and removing a basis for refusal of trademark registration for applications filed on or after December 20, 2018. *Examination of Marks for Cannabis and Cannabis-related Goods and Services after Enactment of the 2018 Farm Bill*, USPTO Examination Guide 1-19, May 2, 2019.[9]

Based on the evidence presented, the Court finds the "WUNDER" federally registered mark is likely to be invalid because plaintiff's products encompass products illegal under federal law, and thus lawful use in commerce cannot be established.

(2) There are serious questions going to the validity of plaintiff's mark due to issues around prior use – rendering plaintiff's likelihood of success on the merits of its federal and state[10] law claims unlikely. A trademark is a "symbol of good will" and accordingly cannot be assigned in gross, and any assignment must also include a "transfer of the goodwill to which the mark pertains."

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[9] Available at www.uspto.gov/sites/default/files/documents/Exam%20Guide%201-19.pdf.

[10] While California state law trademark infringement claims generally follow "federal law," (Cal. Bus. & Pro. Code § 14272 (West); See, e.g., *Jada Toys, Inc. v. Mattel, Inc.*, 518 F.3d 628, 632 (9th Cir. 2008) ("…infringement claims subject to the same test.")), the requirements for protection under state and federal law can be characterized as "parallel but separate" (J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 19:8 (5th ed.)). See also J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 19:8 (5th ed.) ("Federal registration and state common law rights stand independent of each other.").

Regarding plaintiff's state law claims (3) and (4), the Ninth Circuit "has consistently held that state common law claims of unfair competition and actions pursuant to California business and Professions Code 17200 are 'substantially congruent' to claims made under the Lanham Act." *Cleary v. News Corp.*, 30 F.3d 1255, 1262-63 (9th Cir. 1994); *see Grupo Gigante SA De CV v. Dallo & Co.*, Inc., 391 F.3d 1088, 1100 (9th Cir. 2004) ("As a general matter, trademark claims under California law are 'substantially congruent' with federal claims and thus lend themselves to the same analysis."); *see Starbuzz Tobacco, Inc. v. Melnick*, No. SACV150224DOCRNBX, 2015 WL 12656925, at 4* (C.D. Cal. July 31, 2015) ("This also applies to common law trademark infringement claims.").

See Visa, U.S.A., Inc. v. Birmingham Trust Nat. Bank, 696 F.2d 1371, 1375 (Fed. Cir. 1982); *see E. & J. Gallo Winery v. Gallo Cattle Co.*, 967 F.2d 1280, 1289 (9th Cir. 1992) ("[i]t is not necessary that the entire business or its tangible assets be transferred; it is the goodwill of the business that must accompany the mark."). "A mere recitation in the assignment agreement that the mark was assigned 'together with the goodwill of the business symbolized by the mark' is not sufficient to establish a valid transfer." *The Money Store v. Harriscorp Finance*, Inc., 689 F.2d 666, 676 (7th Cir.1982); *see also Glow Indus., Inc. v. Lopez*, 273 F. Supp. 2d 1095, 1108 (C.D. Cal. 2003) (citing *Dial-A-Matress Operating Corp. v. Mattress Madness, Inc.*, 841 F. Supp. 1339, 1350 (E.D. N.Y. 1994 ("[T]he test is simply whether the transaction is such that the assignee can 'go on in real continuity with the past.'"). Goodwill associated with a totally different product is not sufficient to show a valid assignment. *See PepsiCo, Inc. v. Grapette Co.*, 416 F.2d 285, 289-90 (8th Cir. 1969); *see Independent Baking Powder Co. v. Boorman*, 175 F. 448, 455 (C.C.D. N.J. 1910) (The Court found the "substitution of one important ingredient for another" would forfeit trademark rights, in the context of alum and phosphate baking powders.); *see W. T. Wagner's Sons Co. v. Orange Snap Co.*, 18 F.2d 554, 555 (5th Cir. 1927) (The court considered ginger ale and fruit beverages to be different goods, because their "general and essential characteristics … are so different that a person desiring one … would not be likely to be misled into accepting the other.").

Defendants argue plaintiff offers only THC-infused beverages, and the "entire nature of the product . . . was fundamentally altered from what plaintiff now claims was sold by Radix Labs." Dkt. No. 26 at 17. Defendants also refer to California Business & Professions Code § 26080[11] in asserting plaintiff's products can only be sold legally though "licensed and regulated dispensaries" and "could not legally be sold or transported across state lines." Dkt. No. 26 at 8, 18. Defendants assert the addition of THC precludes "legitimate use in interstate commerce" and invalidates the federal trademark rights associated with plaintiff's '393 registration. Dkt. No. 26 at 18. Defendant

[11] "(a) This division shall not be construed to authorize or permit a licensee to transport or distribute, or cause to be transported or distributed, cannabis or cannabis products outside the state, unless authorized by federal law. (b) A local jurisdiction shall not prevent transportation of cannabis or cannabis products on public roads by a licensee transporting cannabis or cannabis products in compliance with this division." Cal. Bus. & Prof. Code § 26080 (West).

also refers to the "psychoactive effects" of THC, which require "an entirely new type of customer, separate and distinct . . . channels of trade, and an entirely new legal and regulatory framework." Dkt. No. 26 at 17.

Plaintiff has not established its uninfused and infused beverages are essentially the same. Accordingly, the Court finds questions exist as to the Radix-Wunderwerks assignment and transfer of goodwill.

(3) There are serious questions as to consumer confusion. Prior to the November 5, 2021 hearing, the Court understood plaintiff was asserting likelihood of confusion between plaintiff's *infused* products and defendants' *infused* products. However, during the hearing plaintiff's argument seemed to change such that plaintiff was alleging confusion between plaintiff's *uninfused* beverages and defendants' *infused* beverages. If this is indeed plaintiff's argument, plaintiff did not offer *any* evidence whatsoever as to what its uninfused products look like in order to conduct a likelihood of confusion analysis.

In sum, the Court finds plaintiff failed to carry its burden with respect to likelihood of success on the merits.

II. Irreparable Harm

Plaintiff must establish it is likely to suffer irreparable harm, and more particularly, plaintiff must establish "remedies available at law, such as monetary damages, are inadequate to compensate for that injury." *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006). Irreparable harm is presumed upon a showing of "a violation" or a showing of "likelihood of success on the merits." *See* 15 U.S.C.A. § 1116(a) (West); *see also Marlyn Nutraceuticals, Inc. v. Mucos Pharma GmbH & Co.*, 571 F.3d 873, 877 (9th Cir. 2009).

Plaintiff asserts it has "lost and will continue to lose significant business opportunities," and "efforts to expand its business . . . [is] being thwarted by Defendants." Dkt. No. 17 at 26. Defendants argue plaintiff is selling an illegal product, and therefore cannot show a likelihood of success on the merits, and thus is "not entitled to any such presumption" of irreparable harm as provided by 15 U.S.C. § 1116(a) . Dkt. No. 26 at 21.

The Court finds plaintiff has not established irreparable harm beyond speculative concerns. Further, because the Court has already concluded plaintiff is not likely to succeed on the merits, irreparable harm is not presumed.

III. Balance of Equities

"The purpose of such interim equitable relief is not to conclusively determine the rights of the parties but to balance the equities as the litigation moves forward." *Trump v. International Refugee Assistance Project*, 137 S. Ct. 2080, 2087 (2017) (internal citations omitted).

Plaintiff asserts (1) defendants' "plans to expand" will likely destroy plaintiff's "ability to market the WUNDER brand," and (2) defendants "are not entitled to relief in equity" because of their choice to use the W*NDER mark. Dkt. 17 at 26-27.

Defendants argue an injunction would cause them irreparable harm, "as DBC would be forced to halt sales," impacting cash flow and "result[ing] in DBC's inability to continue operation." Dkt. No. 26 at 25, referencing Dkt. No. 27 at ¶¶ 22-23 (Robinson Decl.) (defendant points to $110,000 in product inventory costs with a retail value of $450,000). Defendants also assert "momentum is crucial" for a startup in the competitive carbonated beverage industry. *Id*.

If granted, injunctive relief would prevent defendants from using the W*NDER mark and from providing goods in commerce bearing the W*NDER mark, which would effectively stop all of defendants' cash flow. Plaintiff's hardships include, potentially, at least some confusion by consumers and possible loss of sales, but the impact on plaintiff's cash flow is speculative. While both parties point to at least some potential hardships, the Court finds plaintiff has not made a clear showing that the balance of equities tips clearly and strongly in their favor.

IV. Public Interest

Plaintiff asserts "[t]he public interest favors a preliminary injunction to prevent further confusion" amongst potential customers. Dkt. No. 17 at 27, citing *Internet Specialties W., Inc. v. Milon-DiGiorgio Enters., Inc.*, 559 F.3d 985, 993 (9th Cir. 2009). Plaintiff further asserts "[c]onfusion is likely to only increase in the future due to [d]efendants' ongoing efforts" and that "the public has a strong interest in ensuring the integrity of the USPTO's trademark registration system." Dkt. No. 17 at 27-28.

As indicated by plaintiffs (Dkt. No. 29 at 4), defendants did not address public interest in their reply (Dkt. No. 26). However, the Court finds the public interest does not weigh heavily in plaintiff's favor because, although plaintiff's products may be legal under state law, the products offered by plaintiff are illegal under federal law.

CONCLUSION

For the foregoing reasons and for good cause shown, plaintiffs have not shown that an injunction should issue. Accordingly, the Court hereby DENIES plaintiff's motion for a preliminary injunction.

IT IS SO ORDERED.

Dated: December 6, 2021

Susan Illston

SUSAN ILLSTON
United States District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

KIVA HEALTH BRANDS LLC,
Plaintiff,

v.

KIVA BRANDS INC., et al.,
Defendants.

Case No. 19-cv-03459-CRB

ORDER ON CROSS-MOTIONS

In this trademark case, Plaintiff Kiva Health Brands LLC ("KHB"), a maker of natural foods, and Defendant Kiva Brands Inc. ("KBI"), a maker of cannabis-infused chocolates, both claim the right to the KIVA mark. The Court instructed the parties to file "any motions for summary judgment or partial summary judgment, as to the federal claims in this case only." Order Vacating CMC (dkt. 61). In response, KHB filed a motion for partial summary judgment on KBI's affirmative defenses of laches, prior use, acquiescence, waiver, and estoppel. KHB MSJ (dkt. 63). The same day, KBI filed a motion for partial summary judgment on the single affirmative defense of laches. KBI MSJ (dkt. 64). Because there is a dispute of fact as to when KHB knew or should have known about the threat from KBI, the Court DENIES both motions as to laches. Because KHB prevails on the prior use affirmative defense, the Court GRANTS its motion on that ground. Because there has not yet been discovery on the issues of acquiescence, waiver and estoppel, the Court DENIES KHB's motion on those grounds.

I. BACKGROUND

A. Plaintiff Kiva Health Brands ("KHB")

Plaintiff KHB is a Nevada corporation, with a principal place of business in Hawaii. Henderson Decl. (dkt. 63-1) ¶ 3. It sells health and wellness products throughout the United States and internationally. Id. ¶ 2. Tchad Henderson, a managing member of KHB, along his wife, Janet Chong-Henderson, chose the name KIVA in May or June of 2009 after a trip to Arizona: it refers to a Pueblo word for underground rooms that the Hopi and other Puebloan people used for religious ceremonies. Id. ¶ 4. When starting the business in 2009, Mr. Henderson conducted internet searches to see if other companies used the name KIVA. Id. In 2009, he registered the domain name kivahealthbrands.com. Id. KHB developed its KIVA logo in March 2010 for use on its KIVA Maqui Berry Powder. Id. ¶ 5. In 2010, in connection with the incorporation process, Mr. Henderson conducted another round of searches for other companies using KIVA, and found none that sold health or food products. Id. ¶ 6. KHB began selling its KIVA Maqui Berry Powder to the public in February 2013. Id. ¶ 7. KHB's first online sales were via Amazon.com in June 2013; in September 2013, KHB also sold products through its website, www.kivahealthfood.com. Id. ¶ 9.

In September 2013, KHB filed an application with the USPTO to register the KIVA mark in connection with food products. Id. ¶ 10. Before that, Mr. Henderson "again conducted searches for companies that used 'KIVA' in connection with their provision of goods and services," and he "did not turn up any companies that used 'KIVA' to market health products or food products such as those that [KHB] sells." Id. ¶ 12. USPTO issued KHB a registration on April 15, 2014. Id. ¶ 10. In 2015 and 2016, KHB obtained additional trademark registrations for marks with the word KIVA on additional food and cosmetic products. Id. ¶ 11.

B. Defendant Kiva Brands Inc. ("KBI")

Defendant KBI is an Oakland-based company incorporated in Delaware. First

Amended Counterclaim ("FACC") (dkt. 10) ¶ 1. It is a leading provider of cannabis-infused edible chocolates and confections. Palmer MPI Decl. (dkt. 24-1) ¶ 4. Scott Palmer, the CEO and co-founder of KBI, asserts that KBI started in November 2010 as a California not-for-profit mutual benefit corporation (CNMBC) named Indica. Id. ¶¶ 6, 8.[1] Mr. Palmer and his wife, Kristi Knoblich, brainstormed potential trade names for the company, and decided to do business as "Kiva Confections." Id., Ex. A.

Mr. Palmer declares that Indica manufactured, sold and distributed products bearing the names KIVA and/or KIVA CONFECTIONS with permission from Mr. Palmer and Ms. Knoblich. Id. ¶ 9. The contract that purports to govern that arrangement is the TM License Agreement, between Mr. Palmer and Ms. Knoblich, Licensors, on the one hand, and Indica, Licensee, on the other. See Palmer MPI Decl. Ex. B. The "TM License Agreement was signed on or around October 2018, but [purportedly] memorialized the agreement that had existed since November 2010." Palmer MPI Decl. ¶ 9, Ex. B.[2] The Court has previously stated that irregularities with the TM License Agreement made the Court disinclined to accept it "as proof of a 2010 assignment of the KIVA mark from Palmer and Knoblich to Indica." Order re MPIs (dkt. 52) at 8–11.

There was a Kiva Confections website as early as March 2011. See Palmer MSJ Decl. (dkt. 67-2) ¶ 6, Ex. A (single page with "KIVA Cannabis Confections," describing Kiva chocolates as "a chocolate bar that redefines what a cannabis confection ought to be," and listing under "where to find us" locations in Berkeley and San Jose, with Oakland and San Francisco "coming soon"); see also id. Ex. B (essentially the same page from March 2012); id. Ex. C (essentially the same page from March 2013, with "please contact us for a list of supporting collectives in your area" instead of a locations list). Kiva Confections had a publicly-available Facebook page since December 2010. See id. ¶ 12; id. Ex. G

[1] The legal relationship between Indica and KBI is a matter of great dispute and impacts the defense of prior use, as discussed below.
[2] Mr. Palmer testified in his deposition that it appeared that the license agreement was signed in November 2010. See Miller Decl. (dkt. 21-4) ¶ 8. In subsequent correspondence, Mr. Palmer corrected that testimony to say that it was signed around October 2018 effective November 23, 2010. Id., Ex. L

(Facebook page from December 2010, showing photo of KIVA "Medical Cannabis Chocolate Bar[s]"); id. Ex. H (Facebook page from February 2011, showing three people in KIVA t-shirts at a KIVA booth, advertising KIVA bars); id. Ex. I (Facebook page from May 8, 2012, showing KIVA "medical cannabis" bars, introducing "Blackberry Dark Chocolate" flavor, along with the message, "When you plan a trip to Cali, we'll be here waiting for you!").

Mr. Palmer and Ms. Knoblich formed KBI in 2014. Palmer MPI Decl. ¶ 10. Mr. Palmer asserts that "[b]etween approximately 2014 through 2017, Indica and related entities were reorganized into KBI and its wholly-owned subsidiaries." Id.[3] Mr. Palmer and Ms. Knoblich agreed to transfer all of the intellectual property to KBI in October of 2014. Palmer MPI Decl. ¶ 11, Ex. C ("IP Sale Agreement"). That agreement, between KBI, Buyer, and Mr. Palmer and Ms. Knoblich, Sellers, listed the California trademark for KIVA and the trademark application for KIVA among the intellectual property being sold. Id. Schedule A. Mr. Palmer and Ms. Knoblich co-founded KBI, Indica, and all of their affiliates. Palmer MPI Decl. ¶ 12. They have been the majority and controlling owners and members since the entities' inception. Id. "The main activity of all of these businesses has always been to manufacture, distribute, and sell and promote 'Kiva Confections' and its products." Id.

Indica made its first sales of cannabis-infused chocolate in December 2010. Id. ¶ 13. In 2015, KBI expanded its business to Arizona, Nevada, Illinois, Hawaii and Michigan. Id. ¶ 14. Mr. Palmer declares that since 2010, KBI has used both "KIVA" and "KIVA CONFECTIONS" on its products, and that there has never been a strategic change in how often KBI uses one or the other. Id. ¶ 15. KBI has sold millions of units, including 1,705,000 units in California in 2018. Id. ¶ 18. It has a marketing budget of $6.5 million for the 2019 year. Id. "Over the past several years," KBI registered the KIVA mark on the

[3] KHB points out that Indica still exists as an active California company. KHB Reply (dkt. 69) at 5 n.4. KBI's attorney declares that as a CNMBC, Indica can only be sold to a non-profit. See Chigbu Decl. (dkt. 67-1) ¶ 6.

state level in California and other states. Id. ¶ 20, Ex. H.[4] A California trademark issued on January 20, 2018, for the KIVA mark for "Chocolate and confections, all of the foregoing containing cannabis," and states a first use date of December 1, 2010. Palmer MPI Decl. Ex. H.

C. The Conflict Between the Parties

Mr. Henderson declares that he learned about KBI while at a food industry trade show in California around June 2015. Henderson Decl. ¶ 15. A vendor approached him and asked whether KHB was the same as a company doing business as "Kiva Confections," "a marijuana company in California." Id. After the show, Mr. Henderson researched Kiva Confections on the internet. Id. ¶ 16. Upon reviewing KBI's website and social media, and searching on Google, he "understood that 'Kiva Confections' seemed to be a small company that sold edible products that contained marijuana (for medical use only at that time), exclusively or primarily in the San Francisco Bay Area." Id.

In late 2016 or early 2017, KHB's customers began expressing confusion about KHB and "Kiva Confections." Id. ¶ 17. The number and severity of customers' concerns increased through 2017 and into 2018. Id. In January of 2017, KHB staff began keeping a customer confusion log. Id. ¶ 18; Ex. 9. On May 5, 2018, KHB's counsel sent a cease and desist letter to KBI about the rise in customer confusion, and demanded that KBI cease infringing the KIVA mark. Henderson Decl. ¶ 22; Ex. 13. Counsel for KBI responded on May 22, 2018, seeking to schedule an amicable resolution. Henderson Decl. ¶ 23; id. Ex. 14. KHB responded on June 5, 2018, proposing a mediation. Henderson Decl. ¶ 24; id. Ex. 15. KBI responded on July 24, stating that mediation would be premature. Henderson Decl. ¶ 25; id. Ex. 16.

KHB brought suit in September 2018 for trademark infringement, unfair

[4] In addition, in 2017, KBI filed a USPTO "intent to use" application seeking a registration for the KIVA mark for "a website featuring health, wellness and nutrition information . . . all in the field of herbal remedies, medical benefits of cannabis, medical cannabis strains . . . and effects of medic[al] cannabis." See Amended Counterclaim ¶ 28.

competition in violation of the Lanham Act, declaratory relief, and unfair and deceptive trade practices under state law. See generally Compl. (dkt. 1). It served the Complaint in December 2018, see Waiver of Service Executed (dkt. 4), after the parties held a structured mediation in November and December 2018, see KHB Reply re MPI (dkt. 27) at 4. KBI filed counterclaims. See Counterclaims (dkt. 8); Amended Counterclaims (dkt. 10). KHB then filed a motion for preliminary injunction in March 2019, seeking to enjoin KBI from any further use of the KIVA mark. See KHB MPI (dkt. 12-2). That same filing also includes a motion to dismiss two of KBI's counterclaims. See id. In May 2019, KBI filed a cross-motion for preliminary injunction, seeking to enjoin KHB from using the KIVA mark within California. See KBI MPI (dkt. 25-1) at 1. The parties conducted expedited discovery on the issues raised by the preliminary injunction motions. See Motion to Expedite (dkt. 14); Order on MPI (dkt. 16). That expedited discovery included a deposition of Mr. Henderson in which he answered questions about his knowledge of KBI. See Henderson Decl. Ex. 1 (deposition excerpts).

The case was transferred to this Court in June 2019. See Case Transferred In (dkt. 31). On September 6, 2019, the Court denied the parties' respective preliminary injunction motions, and granted KHB's motion to dismiss KBI's federal Lanham Act claims. See Order re MPIs. Following an unsuccessful settlement conference, see Settlement Conference (dkt. 60), the Court directed the parties to file their summary judgment motions, see Order Vacating CMC.

The Court held a motion hearing on February 7, 2020, as to KHB's motion for partial summary judgment on KBI's affirmative defenses of laches, prior use, acquiescence, waiver, and estoppel, as well as KBI's motion for partial summary judgment on KBI's affirmative defense of laches. Motion Hearing (dkt. 71).

II. LEGAL STANDARD

Summary judgment is appropriate where "the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(a); see also Celotex Corp. v. Catrett, 477 U.S. 317, 322 (1986).

A fact is material if it could affect the outcome of the case under governing law. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248 (1986). A dispute of material fact is genuine if the evidence, viewed in the light most favorable to the nonmoving party, "is such that a reasonable jury could return a verdict for the nonmoving party." Id.

The party moving for summary judgment bears the initial burden of identifying those portions of the pleadings, discovery, and affidavits that demonstrate the absence of a genuine issue of material fact. Celotex Corp. v. Catrett, 477 U.S. 317, 323 (1986). Where the moving party has the burden of proof at trial on an issue, as in KBI's motion, the moving party must affirmatively show that no reasonable jury could find other than in the moving party's favor. Id. at 331 (Brennan, J., dissenting). Where the nonmoving party has the burden of proof at trial, as in KHB's motion, "the moving party may discharge its burden of production by either (1) negating an essential element of the opposing party's claim, or (2) showing that there is an absence of evidence to support the nonmoving party's case." Synoptek, LLC v. Synaptek Corp., No. 16-1838-CJC (JCGx), 2018 WL 3359017, at *4 (C.D. Cal. June 4, 2018) (citing Adickes v. S.H. Kress & Co., 398 U.S. 144, 158–60 (1970) and Celotex, 477 U.S. at 325).

Once the moving party meets its initial burden, the nonmoving party must go beyond the pleadings and show that there is a genuine issue for trial. Anderson, 477 U.S. at 250. It can do this by citing to specific parts of the materials in the record or by showing that the materials cited by the moving party do not compel a judgment in the moving party's favor. Fed. R. Civ. P. 56(c). The opposing party may also object to the movant's evidence. Synoptek, 2018 WL 3359017, at *4 (citing Fed. R. Civ. P. 56(c)(2)).[5]

III. DISCUSSION

Both parties have filed motions for summary judgment about KBI's affirmative defenses. This Order addresses the defenses of (A) laches, (B) prior use, and (C) acquiescence, waiver, and estoppel.

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[5] KBI has done so. See KBI Objections (dkt. 70). This Order does not rely on any of the documents objected to.

A. Laches

KBI's fourth affirmative defense is that KHB's trademark claims are barred by laches. Counterclaims at 5. Both parties have moved for summary judgment on KBI's laches defense. See KBI MSJ; KHB MSJ at 15–24. "'Laches is an equitable limitation on a party's right to bring suit.'" Jarrow Formulas, Inc. v. Nutrition Now, Inc., 304 F.3d 829, 835 (2002) (quoting Boone v. Mech. Specialties Co., 609 F.2d 956, 958 (9th Cir. 1979)). It is a defense to both Lanham Act claims and related state law claims. Id. at 835. The principle behind laches is that "'one who seeks the help of a court of equity must not sleep on his rights.'" Id. (quoting Piper Aircraft, Corp. v. Wag-Aero, Inc., 741 F.2d 925, 939 (7th Cir. 1984) (Posner, J., concurring)). To establish laches, a defendant must show "an unreasonable delay by plaintiff in bringing suit, and . . . prejudice to [it]self." Miller v. Glenn Miller Prods., Inc., 454 F.3d 975, 997 (9th Cir. 2006). Determining whether a plaintiff delayed unreasonably consists of (1) assessing the length of the delay and then (2) determining whether the delay was reasonable. Jarrow Formulas, 304 F.3d at 838. The problem here is in determining the length of the delay.

1. Length of Delay

The Court must establish the length of the delay "measured from the time plaintiff knew, or in the exercise of reasonable diligence, should have known about its potential cause of action." adidas-Am., Inc. v. Payless Shoesource, Inc., 546 F. Supp. 2d 1029, 1069 (D. Or. 2008) (citing Jarrow Formulas, 304 F.3d at 838–39). The Court stops the clock on delay "when the lawsuit in which the defendant seeks to invoke the laches defense is initiated." Eat Right Foods Ltd. v. Whole Foods Mkt., Inc., 880 F.3d 1109, 1116 (9th Cir. 2018).

Tchad Henderson of KHB declares that he first learned about KBI while at a food industry trade show in California around June 2015. Henderson Decl. ¶ 15. KBI had an opportunity to depose Mr. Henderson on the matter, and his deposition testimony is consistent with his declaration. See Henderson Opp'n Decl. (dkt. 66-1) ¶ 4, Ex. 1 (Henderson Tr. 48:9–1, 49:21–25, 64:21–66:18, 66:24–68:2, 68:19–69:18). KHB therefore argues that the earliest the delay period could begin is June 2015. KHB MSJ at 16.

Although KBI's own motion for summary judgment assumes a date of no later than June 2015, see KBI MSJ at 6 ("all occurred in June 2015. . . . KHB filed this lawsuit . . . more than three years later."), KBI argues in opposing KHB's motion that "[a] genuine dispute of material fact exists as to whether KHB had actual knowledge of KBI's use of the KIVA mark prior to June 2015," KBI Opp'n (dkt. 67) at 15 (emphasis added). KBI argues that Mr. Henderson admitted to searching online for other companies using the name KIVA in 2009, 2010, and 2013, that he "[c]onveniently . . . replaced the two computers that he would have used to conduct those searches," and that "it is doubtful that Mr. Henderson did not find at least KBI's website by 2013." Id. at 15–16. It asserts that "[a] reasonable jury could find that Mr. Henderson is not telling the truth and that he did have actual knowledge[6] of KBI's use of the KIVA mark in 2013, if not before." Id. at 16.

Simply asserting that Mr. Henderson might be lying would not be enough to demonstrate "specific facts showing that there is a genuine issue for trial." See Anderson, 477 U.S. at 256; see also Galen v. County of Los Angeles, 477 F.3d 652, 658 (9th Cir. 2007) ("Bald assertions that genuine issues of material facts exist are insufficient); Burrell v. Cty. of Santa Clara, No. 11-cv-4569-LHK, 2013 WL 2156374, at *31 (N.D. Cal. May 17, 2013) (declaration asserting that opponent's "position is false and disputed" does not create triable fact dispute). But there is some possibility that a jury could look at the evidence of early Kiva Confections websites, see Palmer MSJ Decl. Exs. A, B, C, and early Kiva Confections Facebook pages, see Palmer MSJ Decl. Exs. G, H, I—minimalist though they be—and conclude that KHB should have been concerned about the threat of consumer confusion from KBI as early as 2013. The Court is aware of no evidence of consumer confusion until mid-2015, when the trade show participant spoke with Mr. Henderson, and so it is unclear even that the delay period should begin in June 2015. See

[6] KBI cannot argue that Mr. Henderson had constructive knowledge of KBI's use of the mark, because KBI had no federal or state trademark registrations at that time.

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6 McCarthy on Trademarks and Unfair Competition § 31:19 (5th ed) ("Laches is measured from the date when there was an infringing use sufficient to require legal protest and possible lawsuit"; "no obligation to sue until 'the likelihood of confusion looms large'"); Synoptek, 2018 WL 3359017, at *7 ("not required to constantly monitor every nook and cranny of the entire nation and to fire both barrels of its shotgun instantly upon spotting a possible infringer."). Nonetheless, the Court will permit a jury to decide when the delay period should begin.

As for the end of the delay period, KHB's counsel sent a cease and desist letter to KBI on May 5, 2018. Henderson Decl. ¶ 22; Ex. 13. KHB takes the position that its cease and desist letter "stopped the laches period." KHB Opp'n (dkt. 66) at 13 (citing Elvis Presley Enters., Inc. v. Capece, 141 F.3d 188, 205 (5th Cir. 1998)).[7] But the Ninth Circuit does not stop the clock at the filing of a cease and desist letter; it stops the clock "when the lawsuit . . . [was] initiated." Eat Right Foods, 880 F.3d at 1116. That was in September 2018. See Compl. Because the Court does not herein decide the start of the delay period, it cannot calculate the total length of the delay period.

2. Reasonableness of Delay

The next determination is whether the delay was reasonable. Jarrow Formulas, 304 F.3d at 838. That inquiry is based on (1) the analogous statute of limitations, and (2) the factors articulated in E-Systems, Inc. v. Monitek, Inc., 720 F.2d 604 (9th Cir. 1983). See Synoptek, 2018 WL 3359017, at *5–*7. Because the Court has not determined the length of the delay, it cannot conduct a proper E-Systems analysis. See, e.g., E-Systems, 720 F.2d at 607 (requiring consideration of "plaintiff's diligence in enforcing mark" and "extent of harm suffered by junior user because of senior user's delay"). However, the Court makes the following holding as to the limitations period.

Courts are to decide whether a delay is reasonable "in reference to the limitations

[7] KHB correctly notes that, in the Ninth Circuit, delays attributable to parties' negotiations before filing suit are not unreasonable. See KHB Opp'n at 13 (citing Toyota Motor Sales, U.S.A., Inc. v. Tabari, 610 F.3d 1171, 1183 (9th Cir. 2010)). But that goes to reasonableness (the next prong), not when the clock stops.

period for the analogous action at law." Jarrow Formulas, 304 F.3d at 835. If a plaintiff has brought suit within the analogous limitations period, then there is a "strong presumption" that laches does not apply. Id. at 835–36. If a plaintiff has brought suit outside of the analogous limitations period, the presumption is reversed. Id. at 836, 838. It "is extremely rare for laches to be effectively invoked when a plaintiff has filed his action before limitations in an analogous action at law has run." Shouse v. Pierce Cty., 559 F.2d 1142, 1147 (9th Cir. 1977). The Lanham Act has no statute of limitations, and so courts are to "'borrow' the limitations period from the most closely analogous action under state law." Jarrow Formulas, 304 F.3d at 836. But there is some uncertainty in the Ninth Circuit about what the appropriate state law action, and therefore statute of limitations, is. KHB argues for a four-year statute of limitations, see KHB Opp'n at 10, while KBI argues for a two-or-three-year statute of limitations, see KBI MSJ at 7.

There is good reason to use the California trademark infringement law's four-year statute of limitations. The 2002 case of Jarrow Formulas involved claims of "false and deceptive advertising" under the Lanham Act. 304 F.3d at 834–35. The parties in that case agreed that the analogous limitations period was California's three-year period for fraud. Id. at 838. Since then, however, the Circuit has largely employed a four-year period—particularly where, as here, the claims do not involve fraud. In Miller v. Glenn Miller Prods., Inc., 454 F.3d 975, 997 (9th Cir. 2006), the parties agreed on a four-year statute of limitations. The Circuit explained that California's "statute of limitations for . . . state trademark infringement and/or dilution claims . . . is four years," and that the "analogous state statute of limitations . . . are state trademark infringement and dilution claims under Cal. Bus. & Prof. Code § § 14330 and 14335." Id. (citing Jarrow Formulas, 304 F.3d at 836–37). In 2009, the Ninth Circuit stated in Internet Specialties West v. Milon-Digiorgio Enters., Inc., 559 F.3d 985, 990 n.2 (9th Cir. 2009), that the parties had agreed on a "four-year limitations period from California trademark infringement law," although—notably—the court added: "we agree that this was the correct period to use."

True enough, the following year, in Au-Tomotive Gold Inc. v. Volkswagen of

America, Inc., the Ninth Circuit applied a three-year limitations period, but it did so because the court was tasked with finding the analogous state law in Arizona, and "'Arizona's directly analogous law is its state trademark law, which does not contain a statute of limitations.'" 603 F.3d 1133, 1140 (9th Cir. 2010) (quoting Ranch Realty, Inc. v. DC Ranch Realty, LLC, 614 F. Supp. 2d 983, 989 (D. Ariz. 2007). The court therefore used a three-year statute of limitations based on Arizona's fraud statute. Id. A court in this district noted in 2015 that "For years, the Ninth Circuit and district courts in California have almost universally assumed the answer is the four-year limitations periods contained in California Code of Civil Procedure Sections 337 or 343," but it found "meritorious" the argument that "none of [those] cases actually analyze the question in depth." Fitbug Ltd. v. Fitbit, Inc., 78 F. Supp. 3d 1180, 1189–90 (N.D. Cal. 2015). Notwithstanding that court's criticism, the Circuit recently reiterated that "[t]he most analogous state statute of limitations in this case is California's four-year statute of limitations for trademark infringement actions." Pinkette Clothing, Inc. v. Cosmetic Warriors Ltd, 894 F.3d 1015, 1025 (9th Cir. 2018) (citing Internet Specialties, 559 F.3d at 990 n.2). KBI's counsel conceded at the motion hearing that Pinkette was the last word on the subject.

Accordingly, the Court will follow the weight of the authority in the Circuit and hold that the most analogous California law for KHB's Lanham Act claims is California's trademark infringement statute, which carries with it a four-year limitations period. If KHB brought suit within the four-year statute of limitations, there is a strong presumption that laches would not apply. See Jarrow Formulas, 304 F.3d at 835–36. But the Court does not determine if the presumption applies, nor does it reach the E-Systems factors to determine if such a presumption should hold, nor does it reach the issue of prejudice. A dispute of material fact as to the length of the delay prevents the Court from conducing the necessary analysis on laches. Accordingly, KBI's motion for summary judgment is DENIED in its entirety and KHB's motion for summary judgment is DENIED as to laches.

B. Prior Use

KBI's third affirmative defense is that KHB's trademark claims are barred because "KBI is the senior user of the KIVA and KIVA CONFECTIONS trademarks in the relevant markets." Counterclaims at 5. KHB moves for summary judgment on this "prior use" counterclaim, arguing that KBI has no cognizable claim of senior use because KBI's products are illegal under federal law and that KBI, which was not formed until 2014, cannot demonstrate that it continuously used the KIVA mark before KHB filed its 2013 federal trademark application. KHB MSJ at 9.

The Court addressed similar arguments at the motion for preliminary injunction stage. See Order re MPIs at 8. The Court concluded as to continuous use—i.e., whether KBI can connect its current use of the KIVA mark to Indica's earlier use—that "[g]iven Palmer's uncontested testimony that the main business of Indica and KBI has always been to sell KIVA confections, that he and Knoblich maintained full control over Indica, KBI, and their affiliates, and that they were the 'majority and controlling owners/members since the entities' inception,' . . . there is probably a sufficient basis to conclude that there was an implied assignment" of the KIVA mark from Mr. Palmer and Ms. Knoblich to Indica. Id. at 10–11. The Court found more persuasive KHB's argument about unlawful first use, concluding that "the illegality of KBI's products under federal law renders KBI unable to challenge KHB's federal trademark." Id. at 16–17.

The Court again will focus on unlawful first use, as there appear to be genuine disputes of material fact as to whether KBI can trace a chain of title to the KIVA mark from Indica. Although unlawful first use presents a relatively novel legal question, it is at least a purely legal question. The Court will address (1) the issue of KBI's prior use of the mark on federally-illegal products, and (2) KBI's argument that 15 U.S.C. § 1065 requires a different result than the Court reached earlier.

1. Lawful First Use

As the Court held in connection with the MPIs, while KBI's product is legal under

California law, its illegality under federal law means that KBI cannot have trademark priority. Order re MPIs at 12–17. The Court held:

> To register a trademark, an applicant must show that the mark "is in use in commerce" or that the applicant has a "bona fide intention to use the mark in commerce[.]" 15 U.S.C. § 1051(a)(3)(C); 15 U.S.C. § 1051(b)(3)(B). "[P]riority ordinarily comes with earlier use of a mark in commerce." Grupo Gigante SA De CV v. Dallo & Co., Inc., 391 F.3d 1088, 1093 (9th Cir. 2004). Importantly, though, the USPTO and the Ninth Circuit have held that the "use in commerce" must be a lawful use. See, e.g., S. Cal. Darts Ass'n v. Zaffina, 762 F.3d 921, 931 (9th Cir. 2014) ("only lawful use in commerce can give rise to trademark priority"); CreAgri, Inc. v. USANA Health Scis., Inc., 474 F.3d 626, 630 (9th Cir. 2007) (agreeing with "the PTO's policy . . . that only lawful use in commerce can give rise to trademark priority"); In re Morgan Brown, 119 U.S.P.Q. 2d 1350 (T.T.A.B. July 14, 2016) ("We have consistently held that, to qualify for a federal service mark registration, the use of a mark in commerce must be 'lawful'. . . . Thus, any goods or services for which the mark is used must not be illegal under federal law."). The Ninth Circuit explained that "to hold otherwise would be to put the government in the 'anomalous position' of extending the benefits of trademark protection to a seller based upon actions the seller took in violation of that government's own laws." CreAgri, 474 F.3d at 630 (quoting In re Stellar Int'l, 159 U.S.P.Q. 48, at *3 (T.T.A.B. July 30, 1968)).[] The lawful use requirement is applicable to senior user claims. See id. at 634. It is also applicable to a claim for cancellation of a registered mark. See GoClear LLC v. Target Corp., No. C 08-2134 MMC, 2009 WL 160624, at *3 (N.D. Cal. Jan. 22, 2009).
>
> KHB asserts that the KBI and Indica products bearing the KIVA mark were "all infused with cannabis." KHB MPI at 13 (quoting Amended Counterclaim ¶ 5). And it asserts that, whatever its status under state law, "marijuana remains illegal for all purposes under federal law." See id. (citing Trademark Laundering, Useless Patents, and Other IP Challenges for the Marijuana Industry, 73 Wash. & Lee L. Rev. 217, 219 (Winter, 2016); Trademark Manual of Examining Procedure § 907 (2018) ("Use of a mark in commerce must be lawful use to be the basis for federal registration of the mark. . . . [the Controlled Substances Act] makes it unlawful to manufacture, distribute, or dispense a controlled substance [or] possess a Schedule I controlled substance. . . . regardless of state law, marijuana [and] marijuana extracts . . . remain Schedule I controlled substances under federal law and are subject to the CSA's prohibitions"); 21 U.S.C. § 812(c)(10) (listing "[m]arihuana" in Schedule I)).

> KHB is correct. See, e.g., Trademark Laundering, 73 Wash. & Lee L. Rev. at 245–46 ("The illegality doctrine thus poses great, possibly insurmountable, problems for the marijuana industry. So long as marijuana remains illegal under federal law, marijuana businesses cannot demonstrate that they are engaged in lawful commerce, and their applications for trademarks are now routinely denied. . . ."). In re Morgan Brown, 119 U.S.P.Q. 2d [1350] at *2–3, involved an attempt to register the mark "HERBAL ACCESS" for "retail store services featuring herbs" where the store's services included the provision of marijuana, "an illegal substance . . . in violation of the [CSA]." The Trademark Trial and Appeal Board explained that "[r]egardless of individual state laws that may provide for legal activities involving marijuana, marijuana . . . remain[s a] Schedule I controlled substance[] under federal law[.]" Id. at *3. Because a store selling a good that is illegal under federal law is "a use that is unlawful," the Board affirmed the refusal to register the mark. Id. at *5. In a similar case, the Board also affirmed the refusal to register the marks "POWERED BY JUJU" and "JUJU JOINTS" for smokeless marijuana or cannabis vaporizing apparatuses, "based upon lack of lawful use of the mark in commerce[.]" In re JJ206, LLC, DBA Juju Joints, 120 U.S.P.Q. 2d 1568, at *1 (T.T.A.B. Oct. 27, 2016). The Board explained that "where the identified goods are illegal under the federal [CSA], the applicant cannot use its mark in lawful commerce[.]" Id. at *2. It reiterated that even if the goods are lawful under state law, that is "irrelevant to the question of federal registration when it is unlawful under federal law." Id. at *3 (quoting In re Morgan Brown, 119 U.S.P.Q. 2d 1350, at *1). Though the applicant argued that a series of policy ills would follow the refusal to grant trademark protection to marijuana-related goods and services, including that such businesses would suffer infringement, the Board responded that it "cannot simply disregard the requirement of lawful use[.]" Id. at *4.

Id. at 12–14.

The Court considered and rejected KBI's argument that "KHB's trademark does not trump the valid rights KBI acquired under state law," summarizing as follows:

> While KBI is only asserting California common law rights to the KIVA mark, see KBI MPI at 7, it is doing so as a defense to a federal trademark claim, see Compl. ¶¶ 24–33 (trademark infringement claim); KHB MPI at 6 (asserting likelihood of success on trademark infringement claim). That defense relies on KBI's prior use of the mark. See Sengoku Works, 96 F.3d at 1219 ("To acquire ownership of a trademark . . . the party claiming ownership must have been the first to actually use the mark in the sale of goods or services."); CreAgri, 474 F.3d at 630 ("only lawful use in commerce can give rise to trademark priority"). KBI's prior use was illegal under federal law. See Palmer Decl. ¶ 4 (all KBI products contain cannabis); In re Morgan Brown, 119 U.S.P.Q. 2d [1350] at *3 ("Regardless of

> individual state laws that may provide for legal activities involving marijuana, marijuana . . . remain[s a] Schedule I controlled substance[] under federal law . . . ."). KBI therefore did not make lawful prior use of the mark. See S. Cal. Darts Ass'n, 762 F.3d at 931. To hold that KBI's prior use of the KIVA mark on a product that is illegal under federal law is a legitimate defense to KHB's federal trademark would "put the government in the anomalous position of extending the benefits of trademark protection to a seller based upon actions the seller took in violation of that government's own laws." See CreAgri, 474 F.3d at 630 (internal quotation marks omitted).

Id. at 16.

2. Section 1065 and Section 1115(b)(5)

KBI acknowledges the Court's previous ruling on this issue, but insists that it is making a different argument here. See KBI Opp'n at 5. KBI argues that "there are two separate, but similar, 'prior use' defenses available under the Lanham Act – 15 U.S.C. § 1065 . . . and 15 U.S.C. § 1115(b)(5)." Id. at 4 (citing Newmark Realty Capital, Inc. v. BGC Partners, Inc., No. 16-cv-1702-BLF, 2017 WL 8294175, at *7 (N.D. Cal. Nov. 16, 2017)). It accuses KHB of "ignor[ing] Section 1065," which "expressly states that it applies where 'the use of a mark registered on the principal register infringes a valid right acquired under the law of any State[.]'" Id. (citing 15 U.S.C. § 1065). KBI relies entirely on Section 1065. See, e.g., id. at 4 ("Numerous cases have confirmed that the prior use defense under Section 1065 focuses on the defendant's trademark rights under state law"); id. at 5–6 ("Since the Court was not previously asked to consider Section 1065, KHB's reliance on the Court's previous suggestion that 'KBI's prior use of the KIVA mark on a product that is illegal under federal law is [not] a legitimate defense to KHB's federal trademark' is misplaced.").[8]

But Section 1065 pertains only to incontestable marks. See 15 U.S.C. § 1065 (title of section is "Incontestability of right to use mark under certain conditions"); id. ("except to the extent . . . to which the use of a mark . . . infringes a valid right acquired under the

[8] KBI's prior use Counterclaim itself does not cite to a specific section: it states only that "KBI is the senior user" of the mark. Counterclaims at 5.

United States District Court
Northern District of California

law of any State . . . the right of the owner to use such registered mark . . . shall be incontestable.”).[9] KHB has not obtained and is not asserting incontestable status. See KHB Reply at 1. Accordingly, the prior use defense that KBI asserts here comes from Section 1115, which describes defenses to both incontestable and (as here) ordinary federally registered trademarks, and which does not include the language KBI relies on from Section 1065 about state law. See 15 U.S.C. § 1115. KBI’s authority and arguments about incontestable marks are therefore inapposite.

KHB argues, moreover, that whether Section 1065 or Section 1115 applies, it is not the law that a federally illegal use—even if legal under state law—could support a prior use defense to a federal trademark. See KHB Reply at 2. The Court agrees. KBI is correct that “‘The Lanham Act does not have a broad preemptive impact.’” See KBI Opp’n at 6 (quoting Morton & Bassett, LLV v. Organic Spices, Inc., No. 15-cv-1849-HSG, 2017 WL 1425908, at *9 (N.D. Cal. Apr. 21, 2017)). It is true that since Golden Door, Inc. v. Odisho, 646 F.2d 347, 352 (9th Cir. 1980), it has been the law in the Ninth Circuit that the Lanham Act does not preempt the field of trademark law. Indeed, “[i]n general, federal and state trademark and unfair competition law can coexist and cooperate without conflict.” McCarthy § 22:2.

But Golden Door also explained that the Lanham Act can preempt state law in certain circumstances. The Circuit agreed that “‘the Lanham Act expresses a Congressional design to legislate so that the public can buy with confidence,’” and that “‘[i]f state law would permit confusing or deceptive trademarks to operate, infringing on the guarantee of exclusive use to federal trademark holders, then the state law would, under the Supremacy Clause, be invalid.’” Golden Door, 646 F.2d at 352 (quoting

[9] In Casual Corner Assocs., Inc. v. Casual Stores of Nevada, Inc., 493 F.2d 709, 713 (9th Cir. 1974), which KBI cited at the motion hearing, the court explained that the appellant was “precluded from claiming any rights arising out of the exception to section 1065” because it had not demonstrated five years of continuous use in order to gain incontestable status; accordingly, it could “raise only those defenses specifically enumerated in section 1115.”

Mariniello v. Shell Oil, 511 F.2d 853, 858 (3d Cir. 1975)). The court wrote in Morton & Bassett that "Golden Door has been understood to mean that '[t]he Lanham Act . . . only preempts state laws which would provide less protection than the Lanham Act, and thus would permit federal trademarks to be infringed.'" 2017 WL 1425908, at *9 (quoting Kerzner Int'l Ltd. v. Monarch Casino & Resort, Inc., 675 F. Supp. 2d 1029, 1049 (D. Nev. 2009)). In International Franchise Association, Inc. v. City of Seattle, 803 F.3d 389, 409 (9th Cir. 2015) cert. denied sub nom. Int'l Franchise Ass'n, Inc. v. City of Seattle, Wash., 136 S. Ct. 1838 (2016), the Ninth Circuit reaffirmed that a City's ordinance could "only be preempted if it conflicts with the Lanham Act." If the ordinance "interfere[s] with . . . [the] ability to maintain quality, compromise[s] the public's confidence in trademarks, allow[s] misappropriation, or directly interfere[s] with or regulate[s] marks," the Lanham Act would preempt it. Id. at 410; see also McCarthy § 22:2 ("when state rules conflict with federal law, the federal trademark law preempts state rules.") (citing as an example Minuteman Press Int'l, Inc. v. Minute-Men Press, Inc., 219 U.S.P.Q. 426 (N.D. Cal. 1983) (holding that state law cannot narrow the rights of a junior federal registrant)).

Cannabis is illegal under federal law. In re Morgan Brown, 119 U.S.P.Q. 2d 1350, at *3 ("marijuana . . . remain[s a] Schedule I controlled substance[] under federal law . . . ."). When a mark is used for cannabis products, the Lanham Act does not recognize the user's trademark priority. See id., 119 U.S.P.Q. 2d 1350, at *5; In re JJ206, 120 U.S.P.Q. 2d 1568, at *2–*3; CreAgri, 474 F.3d at 630. California law, however, does not prevent a user from securing common law rights to a mark when the mark is used for cannabis products. Because the state law that allows KBI a common law right in the KIVA mark would encroach on KHB's federal trademark rights (thereby permitting a confusing trademark to operate and "infringing on the guarantee of exclusive use" to the federal trademark holder), the Lanham Act preempts the state law. See Golden Door, 646 F.2d at 352. KBI cannot be the senior user of the KIVA mark.

Accordingly, the Court GRANTS KHB's motion for summary judgment on KBI's prior use defense.

C. Acquiescence, Waiver, and Estoppel

KBI's fifth affirmative defense is that KHB's claims are barred by waiver; its sixth affirmative defense is that KHB's claims are barred by estoppel; and its seventh affirmative defense is that KHB's claims are barred by acquiescence. Counterclaims at 5. KHB moves for summary judgment on all three, arguing that all require the "expression or conduct by a trademark plaintiff demonstrating that the plaintiff either explicitly or implicitly permitted a defendant to engage in a use of the plaintiff's mark." KHB MSJ at 24. KHB argues that "[b]ecause there is no evidence that [KHB], either by act or omission, engaged in any conduct allowing KBI to use 'KIVA' in connection with its products, all these equitable defenses fail." Id. at 25.

But KBI asserts that "[t]here has been no discovery at all with respect to these defenses," because the expedited discovery only addressed issues at the preliminary injunction stage, which did not include acquiescence, waiver or estoppel. KBI Opp'n at 23 (citing Schuman Decl. (dkt. 67-3) ¶ 6). While the Court is aware of no evidence supporting the acquiescence, waiver, and estoppel defenses, it would be premature to grant summary judgment before KBI has been allowed discovery on them.

Accordingly, the Court DENIES the KHB motion for summary judgment on these defenses.

IV. CONCLUSION

For the foregoing reasons, the Court DENIES KBI's motion for summary judgment on its laches defense, and GRANTS IN PART AND DENIES IN PART KHB's motion for summary judgment (granting as to the prior use defense; denying as to the laches, acquiescence, waiver and estoppel defenses).

IT IS SO ORDERED.

Dated: February 14, 2020

CHARLES R. BREYER
United States District Judge

The Intellectual Property Law Section presents

THE CANNABIS IP LAW CONFERENCE

High Stakes IP: Navigating the USPTO, TTAB, and PTAB

Dale Hunt PhD, JD, Founder & Senior Attorney, Plant & Planet Law Firm
Alison Malsbury, Partner, Ragghianti Freitas LLP
Moderator: Amanda R. Conley, Founder, Conley Law, P.C.

April 19, 2023

Overview

- Federal Trademark Protection: “Lawful Use in Commerce”
- Marijuana Under Federal Law
- Hemp Under Federal Law
- The FDA and CBD
- State Trademarks, Ancillary Goods, and Brand Protection Strategies
- Federal Trademark Protection for Hemp and CBD Products
- Examples

Lawful Use Requirement

- A mark, to qualify for registration, must be in lawful use in commerce (or the applicant must have a bona fide intent to use the mark lawfully in commerce)

- *Gray v. Daffy Dan's Bargaintown*

- Lawful use under *federal law*

INTELLECTUAL PROPERTY LAW
CALIFORNIA LAWYERS ASSOCIATION

What is Cannabis?

MARIJUANA

EXEMPT PLANT MATERIAL

(INDUSTRIAL) HEMP

Marijuana Under Federal Law

- Marijuana is a Schedule I controlled substance under the Federal Controlled Substances Act (CSA). 21 U.S.C. 812(c).
- A Schedule I substance is defined to have a high potential for abuse, no currently accepted medical use, and no accepted safety standard for its use under medical supervision.
- It is a federal crime to possess, cultivate, or distribute marijuana, regardless of state law.
- Many states have legalized medicinal and/or adult use marijuana, despite federal law

Marijuana the CSA

(A) Subject to subparagraph (B), the term “marihuana” means all parts of the plant Cannabis sativa L., whether growing or not; the seeds thereof; the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds or resin.

(B) The term “marihuana” does not include—

(i) hemp, as defined in [the 2018 Farm Bill]; or
(ii) the mature stalks of such plant, fiber produced from such stalks, oil or cake made from the seeds of such plant, any other compound, manufacture, salt, derivative, mixture, or preparation of such mature stalks (except the resin extracted therefrom), fiber, oil, or cake, or the sterilized seed of such plant which is incapable of germination.

21 U.S.C. § 802 (16)

Marijuana Trademark Refusals

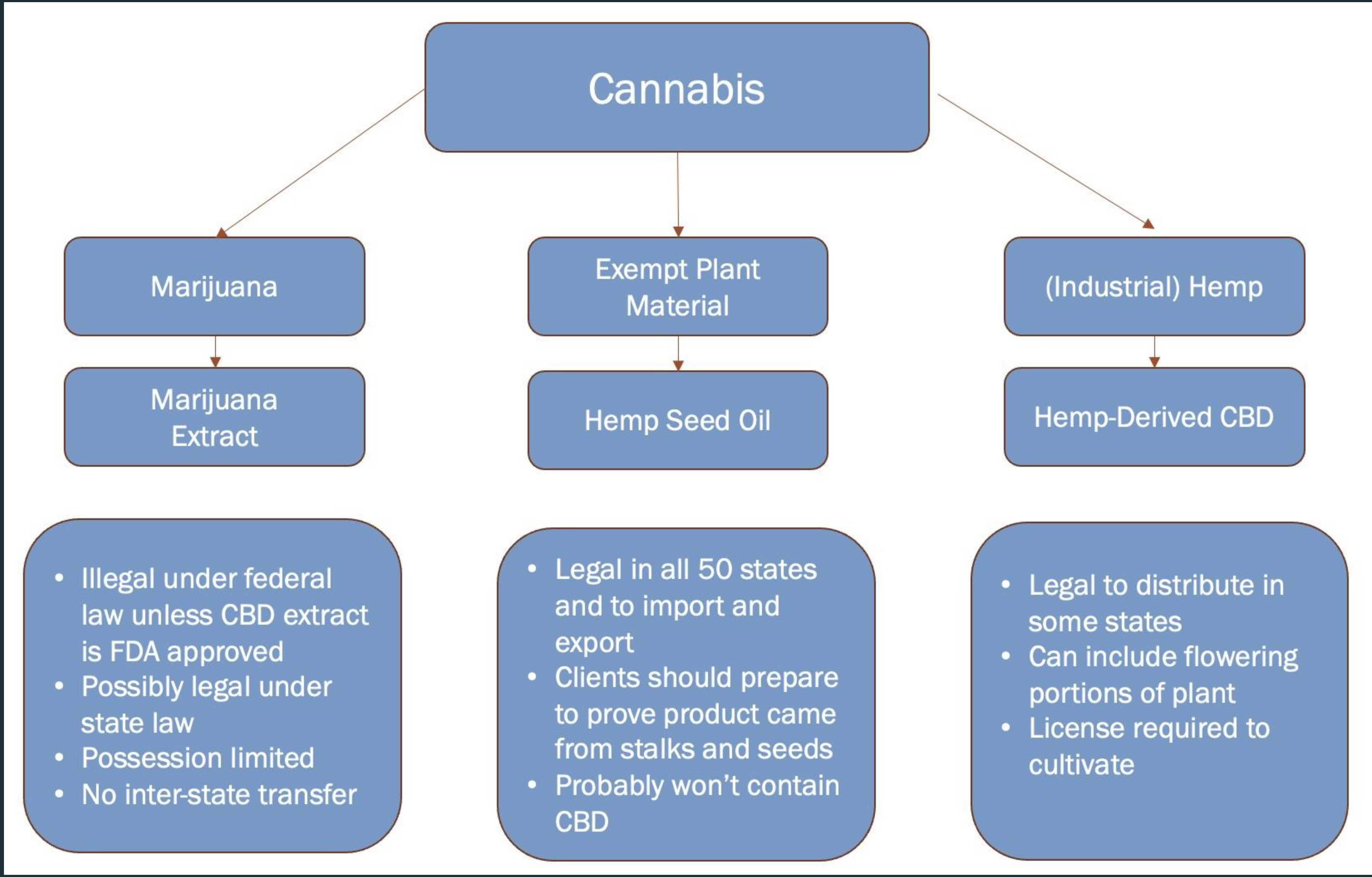
- First, the CSA makes it unlawful to sell, offer for sale, or use any facility of interstate commerce to transport “drug paraphernalia,” which is defined as “any equipment, product, or material of any kind which is primarily intended or designed for use in manufacturing, compounding, converting, concealing, producing, processing, preparing, injecting, ingesting, inhaling, or otherwise introducing in the human body a controlled substance.” 21 U.S.C. § 863. Under the CSA, marijuana is a controlled substance. 21 U.S.C. §§ 812(a), (c), 841, 844.
- In determining whether an item is drug paraphernalia or a prohibited substance, relevant evidence may include instructions or descriptive materials provided with the item concerning its use; advertising concerning its use; and the manner in which the item is displayed for sale. *See* 21 U.S.C. §863(e); *In re Brown,* 119 USPQ2d 1350, 1351-52 (TTAB 2016) (relying on applicant’s specimen and website to establish that its retail store services included the sale of marijuana).

2018 Farm Bill and Hemp

- Hemp “means the plant species Cannabis sativa L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis.”

- Hemp is now excluded from the definitions of “marijuana” in the CSA

- The Farm Bill explicitly maintained the FDA’s ability to regulate hemp and its derivatives, including THC and CBD


Cannabis
Marijuana
Exempt Plant Material
(Industrial) Hemp
Marijuana Extract
Hemp Seed Oil
Hemp-Derived CBD
• Illegal under federal law unless CBD extract is FDA approved
• Possibly legal under state law
• Possession limited
• No inter-state transfer
• Legal in all 50 states and to import and export
• Clients should prepare to prove product came from stalks and seeds
• Probably won’t contain CBD
• Legal to distribute in some states
• Can include flowering portions of plant
• License required to cultivate

Cannabis Trademark Protection and the USPTO

- Federal protection not generally available where an applicant cannot show “lawful use in commerce.”
- Are your cannabis client’s goods or services lawful under federal law?
  - The federal CSA?
  - The 2018 Farm Bill (effective December 20, 2018)?
  - The federal Food Drug and Cosmetic Act (FDCA)?
- The FDA still has regulatory authority over food, drug, and cosmetic products, and non-compliant goods are not eligible for federal trademark protection.

What About CBD in Dietary Supplements?

- Rather than statute, we must rely on FDA guidance
- The FDA excludes THC and CBD from the ”dietary supplement” definition of the Food Drug and Cosmetic Act (FDCA)
- The FDCA states that if a substance is an active ingredient in a drug product that has been approved pursuant to the FDCA, or has been authorized for investigation as a new drug for which substantial clinical investigations have been instituted and for which the existence of such investigations has been made public, then products containing that substance are outside the definition of a dietary supplement
- FDA-approved drugs:
  - Epidiolex (contains a purified drug substance cannabidiol – CBD)
  - Marinol and Syndros (include active ingredient dronabinol, a synthetic delta-9-tetrahydrocannabinol – THC)
  - Cesamet (contains nabilone, which has a chemical structure similar to THC and is synthetically derived)
- In summary, the FDA’s position is that THC and CBD cannot be included in dietary supplements.

What About CBD in Food?

- Under section 301(II) of the FDCA, it is prohibited to introduce or deliver for introduction into interstate commerce any food (including any animal food or feed) to which has been added a substance which is an active ingredient in a drug product that has been approved under 21 U.S.C. § 355) or a drug for which substantial clinical investigations have been instituted and for which the existence of such investigations has been made public
- It is therefore a prohibited act to introduce any food (including animal food or feed) to which THC or CBD has been added
- NOTE that nothing in the 2018 Farm Bill amended or limited the FDCA

What About CBD in Cosmetic and Vapor Products?

- Cosmetics are not subject to premarket approval
- Cosmetics can be deemed drugs, depending on how they are marketed
- FDA regulates tobacco products, which include e-liquid containing tobacco or nicotine that would be used in an electronic cigarette of vaping device
- Unclear whether the FDA has jurisdiction over CBD e-liquid that does not contain tobacco or nicotine
- FDA’s focus has been on preventing CBD from use in drugs, food and dietary supplements
- Cosmetics and CBD e-liquids appear to present less risk of FDA enforcement, though that could change

USPTO Examination Guide 1-19

- “For applications filed on or after December 20, 2018 that identify goods encompassing cannabis or CBD, the 2018 Farm Bill potentially removes the CSA as a ground for refusal of registration, but *only* if the goods are derived from ‘hemp.’”
- “Applicants should be aware that even if the identified goods are legal under the CSA, not all goods for CBD or hemp-derived products are lawful following the 2018 Farm Bill. Such goods may also raise lawful-use issues under the Federal Food Drug and Cosmetic Act (FDCA). The use in foods or dietary supplements of a drug or substance undergoing clinical investigations without approval of the U.S. Food and Drug Administration (FDA) violates the FDCA. 21 U.S.C. §331(ll); *see also* 21 U.S.C. §321(ff) (indicating that a dietary supplement is deemed to be a food within the meaning of the FDCA).”

Cannabis Trademark Strategies

- Evaluate products that comply with the CSA and the FDCA, and file to protect them;
- File to protect other ancillary goods and services (smokers' articles, online content, etc.);
- File for state trademark protection where possible (keeping in mind state law and regulations as well).

Examples

1. In re the application of Charlotte’s Web, Inc. to register CHARLOTTE’S WEB (U.S. Application Serial No. 88329062)

2. In re Canopy Growth Corporation by assignment from JJ206, LLC (U.S. Application Serial Nos. 86475885 & 86475899)

INTELLECTUAL PROPERTY LAW

CALIFORNIA LAWYERS ASSOCIATION

Patents Differ From Trademarks with the USPTO

The USPTO Is **NOT** hostile to Cannabis Patents!

Remember that the USPTO is a single administrative agency with two sides.

- Patent statute and TM statute are very different
- TM statute requires legal use between states
- Patent requirements: no requirements for use, legality, or safety – these are for other agencies to oversee.

What is Patentable & Types of Patents

Utility Patents

- Products (*e.g.*, Animal Food Compositions Comprising Cannabis - US11497199B2)
- Devices (*e.g.*, Leak-Resistant Vaporizer Device – US11369755B2)
- Methods (*e.g.*, Extraction and Purification of Cannabinoid Compounds - US11498018B2)
- Plants (*e.g.*, Cannabis Plant Named BAGZXCD6-PA#2 - USPP034829P3)

Design Patents

- Ornamental (non-functional) features of a product

Plant Patents

- Plant Patents
- Variety Specific Utility Patents

Utility Patent

- “Standard” kind of patent people are familiar with
- Protects an invention defined by “claims”
- Process, machine, manufacture, composition of matter
- *Not* abstract ideas, natural phenomena, or products of nature
- Infringed by making, using, selling, or importing without permission
- Most expensive and time-consuming option – broadest protection

Design Patent

- Somewhat analogous to a copyright
- Protects ornamental (non-functional) features of an object
- Infringed by direct copying or confusingly similar replication
- Relatively quick and inexpensive
- Not common in cannabis industry

Plants - 3 Kinds of IP

United States Patent & Trademark Office (USPTO)
- Plant Patent – only protects clones (and their parts)
- Utility Patent – protects seeds, clones, flower, cells, extracts, breeding, etc.

United States Department of Agriculture (USDA)
- Plant Variety Protection (PVP) Certificate

International Union for the Protection of New Varieties of Plants (UPOV)

Plant Patent

- Only available for asexually propagated plants (clones)
- Only protects direct clonal copies of the plant
- *Not* infringed by breeding or by seed propagation
- Requires exceedingly thorough botanical description and photos
- Does not require a biological deposit or a DNA sequence
- Relatively quick and inexpensive, 100% success rate so far

Variety-Specific Utility Patent

- Not really a separate category
  - Made-up term used for convenience
  - Distinguish from typical utility patents
- Requires a biological deposit
  - Scope of protection limited by what is deposited
  - Relatives? Yes … Similars? No
- Examination typically much less complex and unpredictable than standard utility patent, less expensive

USDA PVP / International UPOV

- Most foreign patent offices don’t patent plant varieties

- International convention for protection of plant varieties – UPOV
  - >75 member countries
  - US implementation is USDA Plant Variety Protection Act
  - Requires a seed deposit or living plants for examination
  - Not infringed by breeding or saving seeds
  - Available for hemp, *not* for marijuana

Comparisons for Each Plant IP Option

Plant IP	THC Level	Seed Deposit	Doesn’t Cover
USDA PVP	Below 0.3% THC	Yes	Breeding Saving seed for replanting
USPTO Plant Patent	N/A	No	Seeds Breeding Non-clonal similars
USPTO Utility Patent	N/A	Yes (or other bio deposit)	(Flexible coverage)

Interplay of Patents and Trademarks

- Whatever strain name is used in a patent application is, by definition, generic and not available for TM.

- Avoid the “rookie mistake” of using a valuable trade name as a generic strain name.

- Many strains are not worth patenting or not new enough for patentability, but are still very protectable with TM, unless usage of strain name has treated the name as a generic term.

Interplay of Patents and Trademarks

- Where TM is the only available IP, augment the protection of the strain itself with good agreements.

- Materials transfer agreements restricting use of living material.

- Agreements connecting royalty obligations with rights to access and use.

- Much like trade secrets; once limited access fails, there’s little or no recourse against those not in privity of contract.

Freedom to Operate (FTO)

Patent Rights are Exclusionary

- Patents DO NOT give unfettered rights to use your patented technology.
- Use of your technology can be blocked by the patent rights of others.
- Patents are fences to keep others out.
- But patents do not indicate what you can do inside that fence!

Freedom to Operate Example

Alan invents and patents a chemical: Alanex
- useful for sealing paint on cars
- not available for sale to the public

Meanwhile Bonnie discovers that Alanex cures cancer
- gets a patent on curing cancer using Alanex

Who can use Alanex?
- Bonnie can't make or use Alanex
- Alan can't use Alanex to cure cancer
- Either would need a license for the other

“

The Intellectual Property Law Section presents

THE CANNABIS IP LAW CONFERENCE

THANK YOU

FOR JOINING US!

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO

Civil Action No. 20-cv-02017-RM-MEH

CARRICK-HARVEST, LLC d/b/a VERITAS FINE CANNABIS,

Plaintiff,

v.

VERITAS FARMS, INC., and
271 LAKE DAVIS HOLDINGS, LLC d/b/a VERITAS FARMS,

Defendants.

RECOMMENDATION OF UNITED STATES MAGISTRATE JUDGE

Michael E. Hegarty, United States Magistrate Judge.

Plaintiff Carrick-Harvest, LLC d/b/a Veritas Fine Cannabis ("Plaintiff") brings claims for trademark infringement, false designation of origin, unfair competition, cybersquatting, and declaratory relief against Defendants Veritas Farms, Inc. and 271 Lake Davis Holdings, LLC d/b/a Veritas Farms (together, "Defendants") in its First Amended Complaint ("FAC"). ECF 25. Defendants have filed the present motion to dismiss ("Motion") pursuant to Fed. R. Civ. P. 12(b)(6). ECF 37. The Motion is fully briefed and has been referred by District Judge Raymond P. Moore for a recommendation. ECF 65. As set forth below, this Court respectfully recommends granting Defendants' Motion.

BACKGROUND

The following are factual allegations (as opposed to legal conclusions, bare assertions, or conclusory allegations) made by Plaintiff in its FAC, which are taken as true for analysis under Fed. R. Civ. P. 12(b)(6) pursuant to *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009).

Plaintiff alleges that it is the owner of the VERITAS trademark "in connection with providing information about cannabis and cannabis products, including, without limitation, through its website at <veritascannabis.com>." FAC at ¶ 9. Plaintiff also "operates a blog under its VERITAS trademark at <veritascannabis.com/weed-words>." *Id.* Further, Plaintiff "sells hats, t-shirts, sweatshirts, lighters, ash trays, stickers and other similar items incorporating its VERITAS trademark." *Id.* In connection with these, Plaintiff uses the "V" below as a design mark ("V Design Mark"):[1]

Id. at ¶ 10.

In addition, Plaintiff uses the V Design Mark in conjunction with its VERITAS Mark below (the Court will refer to the V Design Mark and VERITAS Mark together as the "Veritas Marks"):

[1] The Court uses the terminology used by Plaintiff in its FAC and Response for the sake of ease. This should not be construed as an endorsement of any argument.

VERITAS

Id. at ¶ 11.

Plaintiff has five trademark applications pending with the United States Patent and Trademark Office ("USPTO") for the Veritas Marks, including for "providing agricultural information about cannabis and cannabis strains[,]" "providing a website containing current events[,] news[,] and information about cannabis, cannabis infused products and smoker's articles[,]" and "providing consumer information in the field of marijuana, cannabis and cannabis-infused products." *Id.* at ¶ 12(a)–(f). Plaintiff claims to have been providing these types of informational services using its Veritas Marks since September 2016. *Id.* at ¶ 13. In so doing, Plaintiff "has invested significant monies in promoting, marketing and advertising its goods and services under its Veritas Marks." *Id.* at ¶ 15.

Plaintiff alleges that Defendants "use the mark VERITAS FARMS in connection with cannabis-related goods and services, including to provide information about cannabis and cannabis products." *Id.* at ¶ 16. Defendants do so on their websites located at <theveritasfarms.com> and <theveritaswellness.com>. *Id.* These two websites were created in March 16, 2018 and October 10, 2018, respectively. *Id.* at ¶ 17. On October 29, 2019, Defendants created another website, <myveritasfarms.com>, although there is currently no content on it. *Id.* at ¶ 18. All three websites are referred to as the "Infringing Domains." *Id.* at ¶ 19.

Defendants have filed a least four trademark applications with the USPTO in connection with their VERITAS FARMS mark, including for "herbal extracts for medicinal purposes, namely, tinctures, salves, and lotions[,]" "nutraceuticals for use as a dietary supplemental containing hemp extract[,]" and "dietary supplements for pets containing hemp extract." *Id.* at ¶ 20(a)–(d). Beginning around October 2018, Defendants started using the following stylized "V" mark on product packaging:

Id. at ¶ 21. Defendants began using this "V" in connection with informational services in late 2018. *Id.* Plaintiff alleges that the VERITAS FARMS and the "V" marks (together, "Infringing Marks") are similar in appearance and commercial impression to its Veritas Marks. *Id.* at ¶¶ 22–24. In fact, Plaintiff believes that "consumers on social media websites and other information service channels have mistakenly tagged Plaintiff as Defendants, that is, such consumers have included the hashtag "#veritasfarms" when referring to Plaintiff." *Id.* at ¶ 25.

Plaintiff makes clear that it "owns common law trademark rights in the Veritas Marks[,] and the marks are protectable under 15 U.S.C. § 1125(a) and under common law for *providing information* about cannabis on its website and in its blog." FAC at ¶ 37 (emphasis added). To protect that right, Plaintiff has brought this suit alleging claims for trademark infringement, false designation of origin and unfair competition, cybersquatting, and declaratory judgment.

LEGAL STANDARDS

The purpose of a motion to dismiss under Fed. R. Civ. P. 12(b)(6) is to test the sufficiency of the plaintiff's complaint. *Sutton v. Utah State Sch. For the Deaf & Blind*, 173 F.3d 1226, 1236 (10th Cir. 2008). "To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to 'state a claim to relief that is plausible on its face.'" *Iqbal*, 556 U.S. at 678 (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007)). Plausibility, in the context of a motion to dismiss, means that the plaintiff pled facts which allow "the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Id. Twombly* requires a two-prong analysis. First, a court must identify "the allegations in the complaint that are not entitled to the assumption of truth," that is, those allegations which are legal conclusions, bare assertions, or merely conclusory. *Id.* at 680. Second, the Court must consider the factual allegations "to determine if they plausibly suggest an entitlement to relief." *Id.* at 681. If the allegations state a plausible claim for relief, such claim survives the motion to dismiss. *Id.* at 679.

Plausibility refers "'to the scope of the allegations in a complaint: if they are so general that they encompass a wide swath of conduct, much of it innocent, then the plaintiffs 'have not nudged their claims across the line from conceivable to plausible.'" *Khalik v. United Air Lines*, 671 F.3d 1188, 1191 (10th Cir. 2012) (quoting *Robbins v. Oklahoma*, 519 F.3d 1242, 1247 (10th Cir. 2008)). "The nature and specificity of the allegations required to state a plausible claim will vary based on context." *Kansas Penn Gaming, LLC v. Collins*, 656 F.3d 1210, 1215 (10th Cir. 2011). Thus, while the Rule 12(b)(6) standard does not require that a plaintiff establish a prima facie case in a complaint, the elements of each alleged cause of action may help to determine whether the plaintiff has set forth a plausible claim. *Khalik*, 671 F.3d at 1192. However, "[t]hreadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice." *Iqbal*, 556 U.S. at 678. The complaint must provide "more than labels and conclusions" or merely "a formulaic recitation of the elements of a cause of action," so that "courts 'are not bound to accept as true a legal conclusion couched as a factual allegation.'" *Twombly*, 550 U.S. at 555 (quoting *Papasan v. Allain*, 478 U.S. 265, 286 (1986)). "Determining whether a complaint states a plausible claim for relief will . . . be a context-specific task that requires the reviewing court to draw on its judicial experience and common sense." *Iqbal*, 556 U.S. at 679. "[W]here the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct," the complaint has made an allegation, "but it has not shown that the pleader is entitled to relief." *Id.* (quotation marks and citation omitted).

ANALYSIS

Plaintiff's FAC asserts five claims against Defendants for alleged use of the Infringing Marks on the Infringing Domains. Defendants seek dismissal of all claims. For the reasons set forth below, the Court respectfully recommends granting Defendants' Motion.

I. Trademark Infringement (First Claim for Relief)

A plaintiff bringing a claim for trademark infringement under the Lanham Act, 15 U.S.C. § 1125(a), must allege "(1) that the plaintiff has a protectable interest in the mark; (2) that the defendant has used 'an identical or similar mark' in commerce; and (3) that the defendant's use is likely to confuse consumers.'" *1-800 Contacts, Inc. v. Lens.com*, 722 F.3d 1229, 1238 (10th Cir. 2013) (quotation omitted). Defendants challenge Plaintiff's allegations on all three factors. Additionally, Defendants raise a preliminary argument concerning whether Plaintiff's marks are eligible for trademark protection as its business and products concern illegal substances under federal law. Mot. at 6. The Court will consider that initial argument first and then proceed to the three elements.

A. Legality

Defendants argue that any common law trademark protection enjoyed by Plaintiff (if any) is limited only to the use in providing information relating to cannabis. Mot. at 6. In so arguing, Defendants contend that Plaintiff's business and products are illegal under federal law under the Controlled Substances Act ("CSA"), 21 U.S.C. §§ 802 *et seq*., and thus not eligible for trademark protection. *Id.* Plaintiff responds that the provision of informational services about cannabis is not illegal and thus eligible for trademark protection. Resp. at 5.

"A trademark qualifies for registration and its associated benefits if the trademark owner has 'used [the mark] in commerce' or has a bona fide intent to do so, 15 U.S.C. § 105, and courts have long held that the commerce must be 'lawful' for it to satisfy the "use in commerce' requirement." *Kenney v. Helix TCS, Inc.*, 939 F.3d 1106, 1112 n.3 (10th Cir. 2019). In the Fair Labor Standards Act context, the Tenth Circuit has held that "[r]eading 'lawful' into the threshold commerce requirement here would not further the statute's purposes by denying illegal businesses a benefit, *as in the trademark context*, but would thwart the FLSA's goals by exempting illicit markets from costs imposed on lawful employers." *Id.* (emphasis added). "[I]t is not the law that a federally illegal use—even if legal under state law—could support a prior use defense to a federal trademark." *Kiva Health Brands LLC v. Kiva Brands Inc.*, 439 F. Supp. 3d 1185, 1198 (N.D. Cal. 2020).

On December 20, 2018, the Agriculture Improvement Act of 2018 ("2018 Farm Bill") was signed into law. Prior to the 2018 Farm Bill, it was unlikely that the USPTO would approve registration of an application that identified goods and/or services encompassing CBD or other marijuana-related extracts. *See* United States Patent and Trademark Office, Examination Guide 1–19 2–3 (May 2, 2019) ("For applications filed *before* December 20, 2018 that identify goods encompassing CBD or other cannabis products, registration will be refused due to the unlawful use or lack of bona fide intent to use in lawful commerce.").[2]

Considering the above, the Court agrees with Defendants that federal trademark law can only protect marks that are in substance legal under federal law. Protection of marijuana-related goods is therefore prohibited. Even after passage of the 2018 Farm Bill, "the USPTO [would] continue to refuse registration when the identified services in an application involve cannabis that meets the definition of marijuana and encompass activities prohibited under the CSA." *Id.* The CSA defines marijuana as "all parts of the plant Cannabis sativa L., whether growing or not; the seeds therefor; the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds or resin." 21 U.S.C. § 802(16)(A). Using this definition, all should agree that the attempt to trademark goods or services in connection with the plant Cannabis sativa L., its parts, or any of its uses would not be permitted under federal law. However, this definition does not help for the attempt to trademark the provision of information regarding such items.

To help, the Court looks to a case not cited by the parties. In *Sanchez v. Ghost Management Grp., LLC*, the District Court for the Central District of California faced a case in which a business called WeedMenu sought federal trademark protection of its mark on a website that provided "information about marijuana dispensaries, delivery services, doctors, brands, and labs in states that have legalized marijuana." No. SACV 19-00442 AG (KESx), 2019 WL 4385762, at *1 (C.D. Cal. July 8, 2019). That court dismissed the plaintiff's complaint for failure to specify its mark.

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[2] Available at https://www.uspto.gov/sites/default/files/documents/Exam%20Guide%201-19.pdf.

Id. at *2–3. In its order, the court does not mention the possibility that the plaintiff's sought trademark protection is illegal under federal law. Presumably, that court would have included that analysis, if true, in its dismissal of the complaint. The lack of such analysis is instructive.

The similarities to this case cannot be ignored. In both, the plaintiff is attempting to trademark not cannabis-related goods and products but rather the provision of information regarding cannabis and cannabis products. The Court recognizes that this is a gray area of law. Based on the parties' arguments and the limited case law and other authorities on the matter, the Court does not find that the provision of information, in this context, is prohibited. In other words, the provision of information regarding cannabis is not illegal under federal law, so it is eligible for trademark protection.

B. Protectable Interest

Defendants argue against finding a well-pleaded protectable interest on three grounds. First, Plaintiff's website is a service that is not eligible for common law trademark protection. Second, Plaintiff's provision of information is not a "use in commerce." Third, Plaintiff's websites are a form of advertising that cannot establish common law trademark rights. The Court will address the service issue first and then jointly evaluate the "use in commerce" and advertising issues second.

1. Service

A service may be a protectable interest if three basic criteria are met: "(1) a Service is the performance of some activity; (2) the activity must be for the benefit of someone other than the applicant; and (3) the activity must be recognizable as a separate activity, that is, it cannot be merely incidental or necessary to applicant's larger business." *In re Betz Paperchem, Inc.*, 222 U.S.P.Q. 89, 1984 WL 63026, at *2 (TTAB Mar. 6, 1984) (citing Trademark Manual of Examining

Procedure); *see, e.g.*, *In re Florists' Transworld Delivery, Inc.*, 119 U.S.P.Q.2d 1056, 2016 WL 3997062, at *6 (TTAB May 11, 2016) (finding that providing information regarding flowers or conducting promotional events to sell flowers are "merely incidental to the production or sale of goods").

Plaintiff alleges that the "information services" provided through its websites and blog "are permitted under federal law and are offered separately and independently from any products offered for sale by Plaintiff." FAC at ¶ 9. Defendants argue that the provision of information is merely "incidental" to the sale of Plaintiff's products. Mot. at 10. The Court reads the cases cited by Plaintiff on pages seven and eight of its response as demonstrating that when an alleged service is expected in conjunction with the sale of the product, it is not a protectable separate service mark. *See In re Heavenly Creations*, 168 U.S.P.Q. 317, 1971 WL 16427, at *2 (TTAB Jan. 8, 1971) ("This does not mean that the promotion and advertising of one's goods and/or instruction in the use of one's goods, which is required by the very nature and character of the goods, is necessarily a service within the meaning of the statute."); *In re Betz*, 222 U.S.P.Q. 89, 1984 WL 63026, at *2 (TTAB Mar. 6, 1984) ("'[W]e should first ascertain what is an applicant's principal activity under the mark in question . . . and then determine whether the activity embraced by the description of services or goods in the application is in any material way a different kind of economic activity than what any purveyor of the principal service or tangible product necessarily provides.'" (citation omitted); *in re Congoleum Corp.*, 222 U.S.P.Q 452, 1984 WL 63046, at *2 (TTAB May 29, 1984) ("[An] activity that is clearly separate from or over and above that normally expected from one engaged in the manufacture, sale, or distribution of products or services in a particular field is a service in connection with which a service mark can be registered.").

Based on the well-pleaded allegations in the FAC which must be taken as true at this stage, the Court cannot conclude that Plaintiff's marks are merely incidental to its sale of cannabis products. Plaintiff asserts that it has submitted trademark applications for its marks in, among other things, "providing agricultural information about cannabis and cannabis strains," (FAC at ¶ 12(b)), "providing a website containing current events news and information about cannabis, cannabis infused products and smoker's articles," (*id.* at ¶ 12(c)), and "providing consumer information in the field of marijuana, cannabis and cannabis-infused products," (*id.* at ¶ 12(e)). Certainly, these services relate to Plaintiff's sale of cannabis, but they stand as separate activities. The Court recognizes this is a close call. Perhaps when the Court may consider evidence beyond the pleadings such as on summary judgment, Plaintiff's provision of information may be shown to solely benefit itself and as merely incidental to its sale of cannabis. At this stage, though, the Court finds that Plaintiff's allegations establish a separate service.

2. Use in Commerce and Advertising

The parties dispute whether Plaintiff's mark in providing information constitutes use "on or in connection with any goods or services . . . in commerce." 15 U.S.C. § 1125(a). The Tenth Circuit has held that while the Internet is an instrumentality of interstate commerce, use on the Internet is not dispositive of use in commerce:

> However, this does not mean that any use of the Internet is necessarily commercial for the purposes of the Lanham Act . . . . Moreover, conflating these two "commerce" requirements would greatly expand the scope of the Lanham Act to encompass objectively noncommercial speech. We therefore decline to adopt [the] proposed rule that any use of a trademark on the Internet is a use "in connection with goods or services."

Utah Lighthouse Ministry v. Found. for Apologetic Info. and Research, 527 F.3d 1045, 1054 (10th Cir. 2008). Rather, a service qualifies as being used in commerce "'when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services.'" *Dalkita, Inc. v. Distilling Craft, LLC*, 356 F. Supp. 3d 1125, 1137 (D. Colo. 2018) (quoting 15 U.S.C. § 1127).

The Court reads the caselaw cited by Defendants to hold that use in commerce requires some commercial transaction that results in a benefit such as profit. *Radiance Found., Inc. v. N.A.A.C.P.*, 786 F.3d 316, 326 (4th Cir. 2015) ("The provision of mere 'information services' without any commercial or transactional component is speech—nothing more."); *Aviva USA Corp. v. Vazirani*, 902 F. Supp. 2d 1246, 1259 (D. Ariz. 2012) ("Limiting the Lanham Act to cases where a defendant is trying to profit from a plaintiff's trademark is consistent with the Supreme Court's view that [a trademark's] function is simply to designate the goods as the products of a particular trader and to protect his good will against the sale of another's product as his.") (internal quotation marks omitted); *Specht v. Google, Inc.*, 758 F. Supp. 2d 570, 593 (N.D. Ill. 2010) ("Allowing a mark owner to preserve trademark rights by posting the mark on a functional yet almost purposeless website, at such nominal expense, is the type of token and residual use of a mark that the Lanham Act does not consider a bona fide use in commerce.") (quotation omitted); *Davis v. Avvo, Inc.*, 345 F. Supp. 3d 534, 540 (S.D.N.Y. 2018) (finding that a website of informational directory of attorneys simply provides information and is not "a commercial transaction").[3]

Although not cited by any party, the Court has found countervailing case law. *See Cable News Network L.P., L.L.L.P. v. CNNews.com*, 177 F. Supp. 2d 506, 517–18 (E.D. Va. 2001), *aff'd in part, vacated in part on other grounds sub nom. Cable News Network, LP, LLLP v.*

[3] The Court recognizes that Plaintiff attempts to distinguish some of these cases on factual grounds; for example, that cases like *Aviva* and *Radiance* concerned nominative use of a trademark which is not at issue here. However, Plaintiff does not seem to dispute the legal reasoning in these cases; that is, that some commercial transaction is necessary.

CNNews.com, 56 F. App'x 599 (4th Cir. 2003) (finding that a website which neither sold or offered to sell goods outside of China but offered "news and information (i.e., 'commerce') to persons with Chinese language skills in" the United States affected commerce); *Eurotech, Inc. v. Cosmos European Travels Aktiengesellschaft*, 213 F. Supp. 2d 612, 619 (E.D. Va. 2002) ("Indeed, maintaining a website that provides commercial information originally supplied by third-party companies clearly satisfies the 'use in commerce' requirement").

The Court finds that the better application of law comes from the cases cited by Defendants. That is, in order to be a use in commerce, there must be some commercial or transactional component. It is helpful to think of this concept in terms of advertising.

> [A] web page that merely provides information about the goods, but does not provide a means of ordering them, is viewed as promotional material, which is not acceptable to show trademark use on goods. . . . Merely providing a link to the websites of online distributors is not sufficient. There must be a means of ordering the goods directly from the applicant's web page, such as a telephone number for placing orders or an online ordering process.

Trademark Manual of Examining Procedure, October 2018 § 904.03(i) (citations omitted). Purely promotional or informational material is generally not a use in commerce for trademark purposes. *See In re Florists' Transworld Delivery*, 2016 WL 3997062, at *4 ("[Marks] consisting of advertising, promotional or informational material, . . . normally are acceptable when they show the mark in advertising the service(s) . . . and create the required direct association by containing a reference to the specified service(s)").

Following the weight of authority, the Court finds that Plaintiff has not adequately pleaded that its Veritas Marks constitute a use in commerce. The provision of information is a purely promotional activity. There are no well-pleaded allegations in the FAC to demonstrate that Plaintiff's websites provide any commercial benefit to Plaintiff. To be fair, Plaintiff does allege that "[i]ts extensive use of the Veritas Marks has created a strong, distinctive and identifiable brand that carries substantial goodwill in the marketplace." FAC at ¶ 15. Without supporting allegations, though, the Court finds this sole allegation to be a bare assertion that does not need to be taken as true at this stage. Therefore, the Court respectfully recommends granting the Motion on this ground. [4]

C. Identical or Similar Mark in Commerce

Defendants contend that Plaintiff has not adequately pleaded that they have used an identical or similar mark in commerce. Specifically, Defendants argue that the FAC "fails to allege any facts as to how [their] alleged 'Infringing Domains' provide informational services about cannabis and cannabis products. Mot. at 13. In response, Plaintiff focuses on the similarity between "VERITAS" and "VERITAS FARMS" and the similarities in the appearance of the marks. Resp. at 13. In its FAC, Plaintiff alleges that "Defendants use the mark VERITAS FARMS in connection with cannabis-related goods and services, including to provide information about cannabis and cannabis products at their websites." FAC at ¶ 16. The Court finds that this allegation is conclusory since it is unsupported by any other well-pleaded allegations. For instance, Plaintiff describes four trademark applications submitted by Defendants, none of which concern the provision of information regarding cannabis. *E.g.*, FAC at ¶ 20(b) (trademark application for "dietary supplements for pets"). Indeed, Plaintiff states that one of the alleged

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[4] The Court notes that Plaintiff argues that it can extend the protection of its mark through the natural zone of expansion doctrine. FAC at ¶ 31. This doctrine provides "that a senior user of a mark has rights not only for the service it actually provides but also for those into which it might reasonably expand in the future." *Newmark Realty Capital, Inc. v. BGC Partners, Inc.*, No. 16-cv-01702-BLF, 2018 WL 2573183, at *16 (N.D. Cal. Mar. 30, 2018). In the FAC, Plaintiff alleges, as an example, that "Plaintiff has provided information about cannabis on its website for many years, and it is well within Plaintiff's zone of natural expansion to expand to the sale of smokable hemp." FAC at ¶ 31. Because the Court finds that the underlying trademark is not eligible for protection for lack of the use in commerce element, the Court does not consider this zone of expansion argument.

Infringing Domains has no content. *Id.* at ¶ 18 (<myveritasfarms.com>). The Court finds no basis in the FAC to conclude that Defendants have used an identical or similar mark in commerce with regard to the provision of cannabis-related information. Accordingly, the Court respectfully recommends granting the Motion for failure to adequately plead this element of a trademark infringement claim.

D. Likely to Confuse Consumers

The Tenth Circuit has identified six, non-exhaustive factors for determining whether a likelihood of confusion exists: (1) degree of similarity between the marks, (2) intent of the alleged infringer in adopting the mark, (3) evidence of actual confusion, (4) relation in use and the manner of marketing between the goods or services marketed by the competing parties, (5) the degree of care likely to be exercised by purchasers, and (6) the strength or weakness of the marks. *1-800 Contacts, Inc.*, 722 F.3d at 1239 (citing *King of the Mountain Sports, Inc. v. Chrysler Corp.*, 185 F.3d 1084, 1089–90 (10th Cir. 1999)). "Likelihood of confusion is a question of fact." *Hornady Mfg. Co., Inc. v. Doubletap, Inc.*, 746 F.3d 995, 1001 (10th Cir. 2014). Defendants assert that Plaintiff has not sufficiently pleaded as to any of the factors. Mot. at 14. Plaintiff responds that it has adequately pleaded the likelihood of confusion to consumers and does not need to conclusively prove such factors at this stage. Resp. at 14.

The Court agrees with Plaintiff here. Plaintiff has alleged that "[t]he combination of using VERITAS FARMS in conjunction with the stylized V Mark has created, and continues to create, consumer confusion in the marketplace." FAC at ¶ 24. Moreover, "consumers on social media websites and other information service channels have mistakenly tagged Plaintiff as Defendants." *Id.* at ¶ 25. Assuming that a similar or identical mark has been used in commerce, the Court finds that Plaintiff's allegations demonstrate that the six factors identified above weigh in favor of finding likelihood of confusion, especially given that this is a question of fact. Thus, the Court does not recommend granting the Motion on this ground.

II. False Designation of Origin and Unfair Competition (Second Claim for Relief) and Common Law Unfair Competition (Fourth Claim for Relief) Claims

In this case, the elements for Lanham Act and common law unfair competition claims are the same as for the trademark infringement claim. *Cleary Bldg. Corp. v. David A. Dame, Inc.*, 674 F. Supp. 2d 1257, 1269–70 (D. Colo. 2009). As a result, the Court's rulings above apply to these claims. Hence, the Court respectfully recommends granting the Motion as described in this Recommendation for the trademark infringement claim.

III. Violation of the Anti-Cybersquatting Consumer Protection Act (Third Claim for Relief)

To adequately state a claim under 15 U.S.C. § 1125(d), a plaintiff must establish (1) that the marks are distinctive at the time of registration of the domain name, (2) that the domain name registered by the defendant is identical or confusingly similar to the trademarks, and (3) that the defendant used or registered the domain names with a bad faith intent to profit. *Cleary Bldg. Corp.*, 674 F. Supp. 2d at 1263 (citing *Utah Lighthouse Ministry*, 527 F.3d at 1057). While Defendants seek dismissal based on all elements, they emphasize that Plaintiff has failed to properly allege bad faith. Mot. at 18–19. The Court agrees.

Plaintiff's allegations of bad faith are found in paragraphs fifty-two and fifty-three of the FAC. Plaintiff asserts that "Defendants registered the Infringing Domains in bad faith based on their prior knowledge of Plaintiff's trademark rights and deliberate selection of the Infringing Domains in order to cause initial interest confusion for commercial gain." FAC at ¶ 52. Further, Plaintiff contends that "Defendants' use of the Infringing Domains at all times has been an intentional and willful attempt to profit in bad faith from Plaintiff's mark." *Id.* at ¶ 53.

The Court agrees with Defendants that these allegations are conclusory. There are no well-pleaded allegations in the FAC to support them. They do nothing more than recite the element of the claim. Under current pleading standards, that is not allowed. *Iqbal*, 556 U.S. at 678 ("Threadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice."). In failing to adequately plead this element of the claim, Plaintiff has failed to state a claim.[5] Therefore, the Court respectfully recommends granting the Motion as to this claim.

IV. Declaratory Judgment (Fifth Claim for Relief)

As described in this Recommendation, the Court is recommending dismissal of the FAC as to all claims. The parties agree that if there is no claim for trademark infringement then there is no justiciable dispute before the Court. Accordingly, if Judge Moore agrees in dismissing that claim, the Court also respectfully recommends granting the Motion as to the declaratory judgment claim.

V. Leave to Amend

Having found Plaintiff failed to sufficiently plead its claims, the Court now turns to the issue of whether dismissal of the claims should be with or without prejudice. "In dismissing a complaint for failure to state a claim, the court should grant leave to amend freely 'if it appears at all possible that the plaintiff can correct the defect.'" *Triplett v. LeFlore Cty., Oklahoma*, 712 F.2d 444, 446 (10th Cir. 1983) (quoting 3 Moore's Federal Practice, ⁋ 15.10 & n. 2 (1983)). Here, the Court recognizes that Plaintiff has already amended its Complaint once. As described in this Recommendation, the Court recommends dismissing the trademark infringement and unfair competition claims, in part, as a matter of law for failure to show a mark that is used in commerce.

[5] In so finding, the Court does not address Defendants' other arguments.

Amendment as to those claims is likely to prove futile. Thus, the Court respectfully recommends dismissing those claims with prejudice; consequently, the declaratory judgment claim should also be dismissed with prejudice. *See E.Spire Commc'ns, Inc.*, 392 F.3d 1204, 1211 (10th Cir. 2004) ("A court may deny a motion for leave to amend as futile when the proposed amended complaint would be subject to dismissal for any reason.") (citation omitted). However, the Court cannot say, despite Defendants arguing otherwise, that amendment of the cybersquatting claim would be futile. Therefore, the Court respectfully recommends dismissing the cybersquatting claim without prejudice.

CONCLUSION

For the reasons described herein, the Court respectfully recommends **GRANTING** the Defendants' Motion [filed October 14, 2020; ECF 37] as follows: dismiss with prejudice the trademark infringement claim (First Claim for Relief), the false designation of origin and unfair competition claim (Second Claim for Relief), the common law unfair competition claim (Fourth Claim for Relief), and the declaratory judgment claim of superior trademark rights (Fifth Claim for Relief) and dismiss without prejudice the cybersquatting claim (Third Claim for Relief) pursuant to Fed. R. Civ. P. 12(b)(6).[6]

[6] Be advised that all parties shall have fourteen (14) days after service hereof to serve and file any written objections in order to obtain reconsideration by the District Judge to whom this case is assigned. Fed. R. Civ. P. 72. The party filing objections must specifically identify those findings or recommendations to which the objections are being made. The District Court need not consider frivolous, conclusive or general objections. A party's failure to file such written objections to proposed findings and recommendations contained in this report may bar the party from a *de novo* determination by the District Judge of the proposed findings and recommendations. *United States v. Raddatz*, 447 U.S. 667, 676–83 (1980); 28 U.S.C. § 636(b)(1). Additionally, the failure to file written objections to the proposed findings and recommendations within fourteen (14) days after being served with a copy may bar the aggrieved party from appealing the factual findings and legal conclusions of the Magistrate Judge that are accepted or adopted by the District Court. *Duffield v. Jackson*, 545 F.3d 1234, 1237 (10th Cir. 2008) (quoting *Moore v. United States*, 950 F.2d 656, 659 (10th Cir. 1991)).

Respectfully submitted this 25th day of January, 2021, at Denver, Colorado.

BY THE COURT:

Michael E. Hegarty

Michael E. Hegarty
United States Magistrate Judge

This Opinion is a
Precedent of the TTAB

Mailed: June 16, 2020

UNITED STATES PATENT AND TRADEMARK OFFICE
Trademark Trial and Appeal Board

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In re Stanley Brothers Social Enterprises, LLC

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Serial No. 86568478

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Timothy C. Matson of Fox Rothschild LLP
for Stanley Brothers Social Enterprises, LLC.

Jeffrey J. Look, Trademark Examining Attorney, Law Office 108,
Kathy Coward, Managing Attorney.

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Before Wolfson, Adlin and Larkin,
Administrative Trademark Judges.

Opinion by Adlin, Administrative Trademark Judge:

Applicant Stanley Brothers Social Enterprises, LLC seeks registration of the mark CW, in standard characters, for "hemp oil extracts sold as an integral component of dietary and nutritional supplements."[1] The record shows that Applicant's goods contain cannabidiol ("CBD"), an extract of the cannabis plant, that is regulated under the Food, Drug & Cosmetics Act ("FDCA") as a drug. The Examining Attorney finally refused registration of Applicant's mark under Sections 1 and 45 of the Trademark Act on the ground that its use in commerce for Applicant's goods is per se unlawful because the goods are illegal under: (1) the federal FDCA, 21

[1] Application Serial No. 86568478, filed March 18, 2015 under Section 1(a) of the Trademark Act, alleging first use dates of March 14, 2015.

U.S.C. §§ 321(ff) and 331(ll); and (2) the federal Controlled Substances Act ("CSA"), 21 U.S.C. §§ 812(c) and 841(a)(1).

The Examining Attorney's refusal based on the FDCA became final first. After Applicant appealed from that refusal and its appeal was fully briefed, the Examining Attorney requested and was granted a remand to also refuse registration based on the CSA. Applicant was then given time to file a supplemental brief addressing the CSA ground for refusal, 13 TTABVUE, but it declined to do so.

I. Applicant and Its Goods

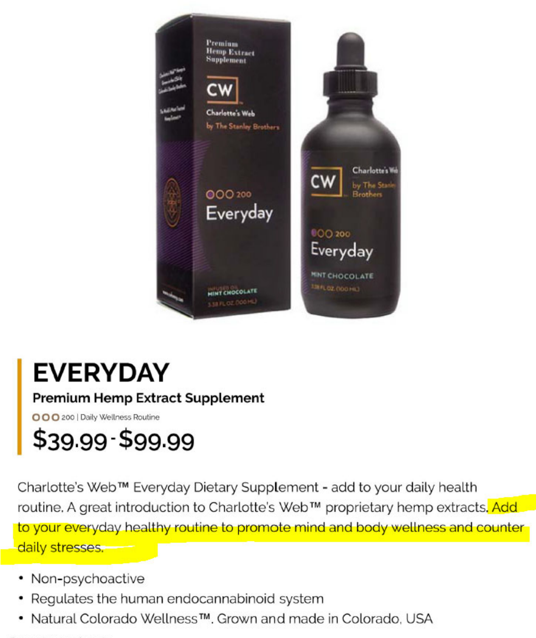
This appeal turns on whether Applicant's goods are legal under federal law, in particular the FDCA and CSA. That in turn depends on the nature and intended uses of Applicant's goods.

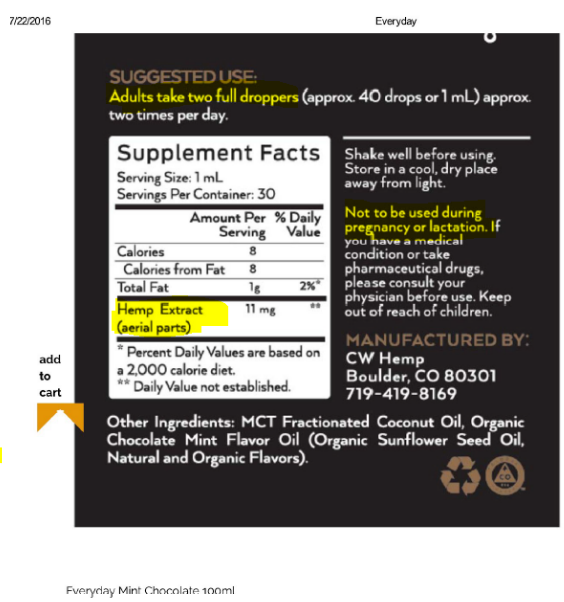
Applicant is a Colorado marijuana grower owned and operated by the six Stanley brothers. It developed, through crossbreeding, a strain of cannabis which is high in CBD content, and at the same time low in tetrahydrocannabinol ("THC") content.[2] June 25, 2015 Office Action TSDR 13-24, 32-41. THC is the most psychoactive component of marijuana, and is responsible for the "high" that its users experience, whereas CBD is apparently not psychoactive, and may counteract some of THC's effects. *See* September 8, 2017 Office Action TSDR 37-41; August 27, 2016 Office Action TSDR 7-33, 137-139; January 27, 2016 Office Action TSDR 9-41.

[2] While statutes and other legal materials are not entirely consistent, they tend to use "marijuana" to identify the federally illegal drug produced from the Cannabis sativa L. plant, whereas "hemp" typically refers to the less (or non-) psychoactive and more industrially useful parts of the same plant. We use the terms similarly in this opinion where appropriate given the context, but generally refer to "cannabis" instead.

Oil derived from Applicant's high CBD/low THC cannabis was found to help Charlotte Figi, a young girl with Dravet Syndrome, a severe form of childhood epilepsy. Specifically, Charlotte's parents attributed a significant reduction in her seizures to Applicant's strain of high CBD cannabis. June 25, 2015 Office Action TSDR 13-24, 32-41. Applicant eventually named this strain "Charlotte's Web," after Charlotte and the novel of the same name. *Id.* Applicant and its Charlotte's Web strain were featured in a Sanjay Gupta documentary on CNN, and in related articles. *Id.*

Applicant does not market its CW "hemp extract" as a treatment for childhood epilepsy only, however, but instead claims that it can be used "to promote mind and body wellness" generally:





July 22, 2016 Office Action response TSDR 30-36; September 8, 2017 Office Action TSDR 77-79 ("The Stanley brothers are now targeting a much broader market, the health and wellness market, and have rebranded as CW Hemp.").

II. Industrial Hemp, CBD's Legal Status, and Applicant's Authorization from the Colorado Department of Agriculture

Under the CSA, marijuana is a Schedule I controlled substance, and is thus illegal to "manufacture, distribute, or dispense." 21 U.S.C. § 841(a)(1). "Marijuana" is defined in the CSA as:

> all parts of the plant Cannabis sativa L., whether growing or not; the seeds thereof; the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds or resin.

21 U.S.C. § 802(16)(A).[3]

Applicant's responses to the Examining Attorney's information requests under Trademark Rule 2.61(b), 37 C.F.R. § 2.61(b), establish that Applicant's CW hemp oil extract falls within this definition of "marijuana." March 8, 2018 Office Action response TSDR 15 (Applicant's hemp oil is "obtained from resins extracted from … the *Cannabis sativa L.* plant, including … the … leaves, flowering tops, buds or seeds" thereof); *see also* September 8, 2017 Office Action TSDR 77-79. Moreover, the information provided on the CW product's packaging, reproduced above, indicates that Applicant's "hemp extract" comes from "aerial parts" of the plant.

In the Agricultural Act of 2014 (the "2014 Farm Bill"), however, Congress excepted "industrial hemp" from some of the CSA's prohibitions, under certain circumstances:

> **Legitimacy of industrial hemp research**
>
> **(a) In general**

[3] As discussed below, an exception to the definition of "marijuana" was added to the CSA in 2018. 21 U.S.C. § 802(16)(B).

Notwithstanding the Controlled Substances Act (21 U.S.C. 801 et seq.), chapter 81 of title 41, or any other Federal law, an institution of higher education (as defined in section 1001 of title 20) or a State department of agriculture may grow or cultivate industrial hemp if—

(1) the industrial hemp is grown or cultivated for purposes of research conducted under an agricultural pilot program or other agricultural or academic research; and

(2) the growing or cultivating of industrial hemp is allowed under the laws of the State in which such institution of higher education or State department of agriculture is located and such research occurs.

(b) Definitions In this section:

(1) **Agricultural pilot program** The term "agricultural pilot program" means a pilot program to study the growth, cultivation, or marketing of industrial hemp—

(A) in States that permit the growth or cultivation of industrial hemp under the laws of the State; and

(B) in a manner that (i) ensures that only institutions of higher education and State departments of agriculture are used to grow or cultivate industrial hemp; (ii) requires that sites used for growing or cultivating industrial hemp in a State be certified by, and registered with, the State department of agriculture; and (iii) authorizes State departments of agriculture to promulgate regulations to carry out the pilot program in the States in accordance with the purposes of this section.

(2) **Industrial hemp** The term "industrial hemp" means the plant Cannabis sativa L. and any part of such plant, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis.

(3) **State department of agriculture** The term "State department of agriculture" means the agency, commission, or department of a State government responsible for

agriculture within the State.

7 U.S.C. § 5940 (the "Industrial Hemp Provision").

Applicant indicated in responses to information requests that its CW hemp oil extract has a THC concentration of not more than 0.3 percent. March 8, 2018 Office Action response TSDR 15 ("Applicant's hemp oil meets the qualification for being lawful under the CSA and the 2014 Farm Bill."); July 21, 2016 Office Action response TSDR 13 (the industrial hemp from which Applicant's goods are manufactured has a THC "concentration of less than 0.3 percent on a dry weight basis"). Accordingly, Applicant's goods appear to include CBD derived from cannabis which falls within the Industrial Hemp Provision's definition of "industrial hemp." 7 U.S.C. § 5940(b)(2) (defining "industrial hemp" as "the plant Cannabis sativa L. and any part of such plant, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis").

Moreover, Applicant introduced official records showing that the Colorado Department of Agriculture authorized Applicant to grow industrial hemp in several locations:

COLORADO
Department of Agriculture

305 Interlocken Parkway, Broomfield, CO 80021
P 303.869.9050 F 303.466.2860
www.colorado.gov/ag

THIS DOCUMENT IS NOT TRANSFERABLE

CWB Holdings, Inc.
CW Botanicals *
30034 Hwy 34
Wray , CO 80758

	Issued	Expires
INDUSTRIAL HEMP REGISTRATION - # 66731	April 14, 2016	April 13, 2017

Pursuant to § 35-61-102, C.R.S., the above-named person / business is authorized to act as:

Indoor Commercial Industrial Hemp Registration
16,000 sq ft

Don Brown — Commissioner of Agriculture
April 14, 2016 — Print Date

COLORADO
Department of Agriculture

305 Interlocken Parkway, Broomfield, CO 80021
P 303.869.9050 F 303.466.2860
www.colorado.gov/ag

THIS DOCUMENT IS NOT TRANSFERABLE

CWB Holdings, Inc
CW Botanicals
30430 CR 32
Wray , CO 80758

	Issued	Expires
INDUSTRIAL HEMP REGISTRATION - # 66785	April 22, 2016	April 21, 2017

Pursuant to § 35-61-102, C.R.S., the above-named person / business is authorized to act as:

Outdoor Commercial Industrial Hemp Registration
30 Acres

Don Brown — Commissioner of Agriculture
April 22, 2016 — Print Date

COLORADO
Department of Agriculture

305 Interlocken Parkway, Broomfield, CO 80021
P 303.869.9050 F 303.466.2860
www.colorado.gov/ag

THIS DOCUMENT IS NOT TRANSFERABLE

CWB Holdings, Inc.
CW Botanicals
18100 CR KK
Wray, CO 80758

	Issued	Expires
INDUSTRIAL HEMP REGISTRATION - # 66783	April 22, 2016	April 21, 2017

Pursuant to § 35-61-102, C.R.S., the above-named person / business is authorized to act as:

Outdoor Commercial Industrial Hemp Registration
36 Acres

Don Brown — Commissioner of Agriculture
April 22, 2016 — Print Date

July 21, 2016 Office Action response TSDR 18-20. Applicant confirmed, in response to information requests, that its cannabis is "grown or cultivated … for purposes of research conducted under the agricultural academic research program from a university or state department of agriculture." *Id.* at 13. Applicant also submitted an e-mail from the Colorado Department of Agriculture's Director, Division of Plant Industry, stating that under Colo. Rev. Stat. § 35-61-108(2), Applicant may "process, sell or distribute hemp … and can also sell hemp products …." According to the Director, the state statute "seems to cover all of the areas the Stanley's [sic] would need for their hemp oil market study." *Id.* at 21.

The Industrial Hemp Provision was subject to competing interpretations by government agencies, the cannabis and hemp industries, and others. *See, e.g.,* January 27, 2016 Office Action TSDR 9-41. Apparently as a result, Congress included related provisions in subsequent appropriations bills. One typical version is as follows:

> SEC. 729. None of the funds made available by this Act or any other Act may be used—

> (1) in contravention of section 7606 of the Agricultural Act of 2014 (7 U.S.C. 5940) [i.e., the Industrial Hemp Provision]; or
>
> (2) to prohibit the transportation, processing, sale, or use of industrial hemp, or seeds of such plant, that is grown or cultivated in accordance with subsection section 7606 of the Agricultural Act of 2014, within or outside the State in which the industrial hemp is grown or cultivated.[4]

Consolidated Appropriations Act of 2018, Pub. L. No. 115-141, 132 Stat. 348 § 729.[5]

Later, on December 20, 2018, after Applicant's appeal was fully briefed and ready for decision, the 2018 Farm Bill – which expands on the Industrial Hemp Provision – became law. Under the 2018 Farm Bill, "hemp" is now defined as "the plant Cannabis sativa L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of **not more than 0.3 percent on a dry weight basis**." 7 U.S.C. § 1639o (emphasis added). Perhaps more

[4] This statute is in many ways analogous to the appropriations riders discussed in *In re PharmaCann LLC*, 123 USPQ2d 1122, 1123 (TTAB 2017). As we pointed out in *PharmaCann*, this type of appropriations rider does not make marijuana or any particular industrial hemp-related goods legal.

[5] In his request for remand, the Examining Attorney indicated that he withdrew the original CSA refusal based on Applicant's "representation that the goods were in compliance with the 2014 Farm Bill, 7 USC Section 5940." After the DEA added "marijuana extract" to the list of substances covered by the CSA, the Examining Attorney sought to reinstate the CSA refusal. According to the "Clarification of the New Drug Code (7350) for Marijuana Extract" page from the DEA's website cited by the Examining Attorney, however, the Final Rule adding the new drug code 7350 for marijuana extract "did not add any substance to the schedules that was not already controlled, and did not change the schedule of any substance. It was not a scheduling action under 21 U.S.C. §§ 811 and 812." 10 TTABVUE 6. In other words, according to the DEA, "marijuana extract" was already a controlled substance under the CSA.

importantly, the CSA was amended to specifically exclude “hemp, as defined in section 1639o of title 7” from the definition of “marijuana.” 21 U.S.C. § 802(16)(B)(i).[6]

III. Analysis

Before considering the Industrial Hemp Provision’s (and 2018 Farm Bill’s) impact, if any, on the refusal, we first consider the standards governing unlawful use refusals generally.

A. Refusals Based on Unlawful Use

“[U]se of a mark in connection with unlawful shipments in interstate commerce is not use of a mark in commerce which the Patent [and Trademark] Office may recognize.” *Coahama Chem. Co., Inc. v. Smith*, 113 USPQ 413, 418 (Comm’r. Pat. 1957), *aff’d on other grounds,* 264 F.2d 916, 121 USPQ 215 (CCPA 1959). Accordingly, “[w]e have consistently held that, to qualify for a federal … registration, the use of a mark in commerce must be ‘lawful.’” *PharmaCann*, 123 USPQ2d at 1123 (quoting *In re JJ206, LLC*, 120 USPQ 1568, 1569 (TTAB 2016) and *In re Brown*, 119 USPQ2d 1350, 1351 (TTAB 2016)). In *PharmaCann*, *JJ206* and *Brown* we affirmed unlawful use refusals to register marks used for marijuana-related products or services. As specifically held in *JJ206*, “where the identified goods are illegal under the federal Controlled Substances Act (CSA), the applicant cannot use its mark in lawful commerce ….” 120 USPQ2d at 1569.

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[6] As explained in the USPTO’s recent Examination Guide entitled “Examination of Marks for Cannabis and Cannabis-Related Goods and Services after Enactment of the 2018 Farm Bill” (Exam Guide 1-19), “[f]or applications filed on or after December 20, 2018 that identify goods encompassing cannabis or CBD, the 2018 Farm Bill potentially removes the CSA as a ground for refusal of registration, but **only** if the goods are derived from ‘hemp.’”

However, the USPTO's longstanding practice has been to presume a mark's use in commerce is lawful unless the application record indicates a violation of federal law. *See, e.g., In re Brown*, 119 USPQ2d 1350, 1351 (TTAB 2016).

> Due to a proliferation of federal regulatory acts in recent years, there is now an almost endless number of such acts which the Board might in the future be compelled to interpret in order to determine whether a particular use in commerce is lawful. Inasmuch as we have little or no familiarity with most of these acts, there is a serious question as to the advisability of our attempting to adjudicate whether a party's use in commerce is in compliance with the particular regulatory act or acts which may be applicable thereto. Rather, **it seems that the better practice would be to hold that a use in commerce is unlawful only when the issue of compliance has previously been determined (with a finding of noncompliance) by an entity, such as a court or government agency, having competent jurisdiction under the statute in question, or when there has been a per se violation of a statute regulating the sale of a party's goods, or the rendering of his services, in commerce**, as, for example, when a regulatory statute requires that a party's labels must be registered with or approved by the regulatory agency charged with administering the statute before his goods may lawfully enter the stream of commerce, and the party has failed to obtain such registration or approval (as happened in the Coahoma case).

Satinine Societa v. P.A.B. Produits, 209 USPQ 958, 964 (TTAB 1981) (emphasis added); *In re Stellar Int'l, Inc.,* 159 USPQ 48, 51 (TTAB 1968) ("This does not mean that the Patent Office should undertake to police all the different regulatory statutes to ensure compliance therewith for that is manifestly not its function nor is it properly equipped to do so."); *see also Gen. Mills Inc. v. Health Valley Foods*, 24 USPQ2d 1270 (TTAB 1992); *Kellogg Co. v. New Generation Foods Inc.*, 6 USPQ2d 2045, 2047 (TTAB

1988). We recently summarized the applicable standard:

> [R]egistration generally will not be refused based on unlawful use in commerce unless either (1) a violation of federal law is indicated by the application record or other evidence, such as when a court or a federal agency responsible for overseeing activity in which the applicant is involved, and which activity is relevant to its application, has issued a finding of noncompliance under the relevant statute or regulation, or (2) when the applicant's application-relevant activities involve a per se violation of a federal law.

Brown, 119 USPQ2d at 1351 (citing *Kellogg Co.* and *Satinine*).

B. The FDCA Refusal

The FDCA prohibits "[t]he introduction or delivery for introduction into interstate commerce of any food to which has been added … a drug or biological product for which substantial clinical investigations have been instituted and for which the existence of such investigations has been made public …." 21 U.S.C. § 331(ll). The Examining Attorney contends that Applicant's "hemp oil extracts" are food to which CBD has been added, and that CBD was the subject of clinical investigations during prosecution of the involved application.

Applicant makes three counterarguments. First, Applicant asserts that the 2014 Farm Bill's Industrial Hemp Provision exempts it from this portion of the FDCA. Second, Applicant argues that its goods do not fall within the cited prohibition because they are "dietary supplements" rather than food. Finally, Applicant argues that CBD falls within an FDCA exception for drugs or biological products "marketed in food … before any substantial clinical investigations involving the drug or the biological product have been instituted." 21 U.S.C. § 331(ll)(1). Applicant's arguments are not well taken.

Applicant's argument that the Industrial Hemp Provision exempts it from this portion of the FDCA is misplaced. The Industrial Hemp Provision permits authorized entities to "grow or cultivate industrial hemp" under certain circumstances, but it does not permit the distribution or sale of CBD in food when CBD is the subject of clinical investigation, **even if** the CBD is derived from industrial hemp which falls outside the CSA. As the Examining Attorney points out,

> the FDCA does not prohibit or interfere with applicant's growing or cultivation of industrial hemp. Applicant is free under the cited FDCA provisions to grow as much industrial hemp as it wants to and is otherwise permitted under the laws of Colorado. What the FDCA does prohibit is the selling in interstate commerce of a food or dietary supplement product to which has been added a botanical compound that is under clinical investigation as a new drug … In other words, it is not the industrial hemp to which the FDCA applies, but the CBD cannabinoid oil extracted from the hemp.[7]

6 TTABVUE 12. Thus, while the Industrial Hemp Provision is a limitation on the CSA under certain circumstances, it does not override the FDCA's prohibition on offering "food to which has been added … a drug or biological product for which substantial clinical investigations have been instituted and for which the existence of such investigations has been made public."[8] The same logic would apply under the

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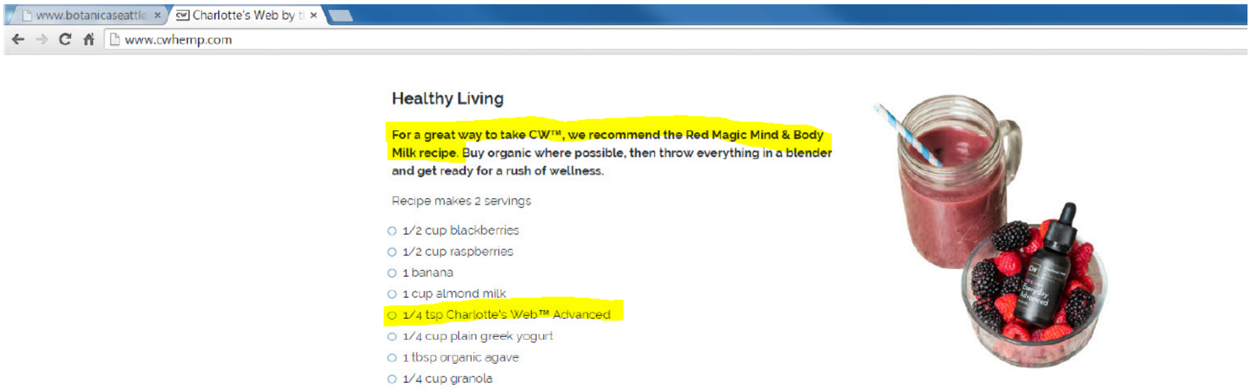
[7] Under 21 U.S.C. § 321(ff) "a dietary supplement shall be deemed to be a food within the meaning of this chapter."

[8] Because there is no conflict between the Industrial Hemp Provision and the FDCA, Applicant's argument based on the Consolidated Appropriations Act of 2018 and its predecessors is not well taken. The prohibition on spending funds to enforce laws "in contravention of" the Industrial Hemp Provision is inapplicable to the FDA's enforcement of the FDCA. Similarly, the 2018 Farm Bill does not restrict the FDA's enforcement of the

2018 Farm Bill, which as indicated became law after this appeal was briefed.

Turning to the substantive question under 21 U.S.C. § 331(ll), Applicant's goods fall within the FDCA's definition of "food." Under 21 U.S.C. § 321(f), "[t]he term 'food' means (1) articles used for food or drink for man or other animals … and (3) articles used for components of any such article." Applicant's goods are intended to be "food or drink for man," or "articles used for components" of "food or drink for man," as they are recommended to be used in recipes for beverages, offered in "multiple flavors" (including mint chocolate) and promoted as "dietary supplements":

FDCA.



June 25, 2015 Office Action TSDR 5; August 27, 2016 Office Action TSDR 49; July 22, 2016 Office Action response TSDR 44; Substitute Specimen submitted July 22, 2016. Moreover, because Applicant identifies its goods as "an integral component of dietary and nutritional supplements," they are "deemed to be a food within the meaning of this chapter." 21 U.S.C. § 321(ff) ("a dietary supplement shall be deemed to be food within the meaning of this chapter").

The CBD in Applicant's goods qualifies as a "drug or biological product for which substantial clinical investigations have been instituted and for which the existence of such investigations has been made public" under 21 U.S.C. § 331(ll). Indeed, the FDA specifically cites "GW Pharmaceuticals' investigations regarding Sativex and Epidolex" in support of its position that CBD, found in Applicant's "hemp oil extracts," is under "substantial clinical investigations." August 27, 2016 Office Action TSDR 52-

57; July 22, 2016 Office Action response TSDR 37-40. According to the FDA, "[t]he general rule is that an article that has been authorized for investigation as a new drug or as a biologic before being marketed as a food or as a dietary supplement cannot be marketed as a dietary supplement if substantial clinical investigations of the article have begun and the existence of such investigations has been made public." August 27, 2016 Office Action TSDR 60-114. Therefore, Applicant's goods fall within 21 U.S.C. § 331(ll) and are unlawful under the FDCA.

Applicant's third counterargument, that its goods fall within the FDCA's exception for drugs or biological products "marketed in food … before any substantial clinical investigations involving the drug or the biological product have been instituted," under 21 U.S.C. § 331(ll)(1), is unsupported by any probative evidence. Indeed, the only purported evidence Applicant cites in support of this argument is the following statement from the Hemp Industries Association ("HIA") in a press release:

> It is the position of the HIA that legal hemp products containing CBD were marketed as foods and dietary supplements long before cannabidiol formulations were submitted to the FDA for testing as a "new drug." As such, CBD products are exempt from laws that preclude CBDs from product status as dietary supplements pending "new drug" approval by the FDA.

July 22, 2016 Office Action response TSDR 41. The record contains no evidence supporting this self-styled "position," and the FDA disputes it. August 27, 2016 Office Action TSDR 52-59.

We do not find the HIA press release persuasive here. It references a letter which

HIA sent to the FDA, but Applicant failed to introduce the letter itself into the record, or, more to the point, any underlying evidence supporting the letter or HIA's position. A trade group's unadorned statement of a "position" (as opposed to fact), unsupported by any evidence, is an insufficient basis upon which to make a finding of fact, especially where the FDA disputes the stated position. That is especially true in this case, where the ingredient in question, CBD, is primarily derived from cannabis, which was illegal under federal law in all or almost all forms for decades prior to 2014, and remains illegal under federal law in many if not all forms today.[9] Therefore, Applicant's goods are per se unlawful under 21 U.S.C. § 331(ll).

IV. Conclusion

The Examining Attorney has established a per se violation of the FDCA, because: Applicant's goods are food to which has been added a drug (CBD); substantial clinical investigations of CBD have been instituted, and the existence of these investigations has been made public; and there is no evidence of record that CBD was marketed in food before the substantial clinical investigations of CBD were instituted. We need not reach the unlawful use refusal based on the CSA. *In re Mueller Sports Med., Inc.*, 126 USPQ2d 1584, 1590 (TTAB 2018).

Decision: The unlawful use refusal based on the FDCA is affirmed.

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[9] To the extent Applicant argues that its goods are "dietary supplements" and therefore not subject to the FDCA provisions cited by the Examining Attorney, it is incorrect. 21 U.S.C. § 321(ff)(3)(B)(ii) (dietary supplements do not include "an article authorized for investigation as a new drug … for which substantial clinical investigations have been instituted and for which the existence of such investigations has been made public, which was not before such approval … marketed as a dietary supplement or as a food.").