

THE VALUE OF TRADEMARKS AND THE CHALLENGES OF ACQUIRING AND PROTECTING TRADEMARK RIGHTS IN THE MARIJUANA INDUSTRY

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I. INTRODUCTION

The marijuana industry is growing like a weed. While recreational marijuana usage remains illegal under federal law, the recent trend towards legalization of the drug at the state level has enticed entrepreneurs and investors to enter the emerging marijuana market.¹ In 2016, Privateer Holdings announced that it was the first company in the space to raise \$100 million dollars,² and, according to recent estimates, the legal marijuana market in the United States is expected to reach \$20.6 billion in annual revenue by 2020, increasing the amount by 300 percent from 2015.³

Pioneers in the marijuana industry face many of the same business challenges posed by any other market, including securing financing and protecting assets, such as intellectual property.⁴ However, marijuana start-ups must overcome the additional hurdle of the drug's classification as an illegal substance under federal law.⁵

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1. Jack Healy & Kirk Johnson, *Next Gold Rush: Legal Marijuana Feeds Entrepreneurs' Dreams*, N.Y. TIMES (July 28, 2014), <https://www.nytimes.com/2014/07/19/us/new-gold-rush-legal-marijuana-feeds-entrepreneurs-dreams.html>.

2. Its holdings include the Marley Natural cannabis brand using the licensed name of musician Bob Marley and Leafly, an online service described as the Yelp for marijuana. Tom Huddleston, *Private Equity Fund Raises \$100 Million for Cannabis Startups*, FORTUNE (Nov. 4, 2016), <http://fortune.com/2016/11/04/privateer-cannabis-marijuana/>.

3. Melia Robinson, *The Legal Marijuana Industry Could Explode by 2020*, BUS. INSIDER (Sept. 23, 2016, 2:31 PM), <http://www.businessinsider.com/legal-marijuana-market-revenue-2016-9>.

4. Gretchen L. Temeles et al., *IP Protection and the Cannabis Industry: Strategies and Trends*, LAW.COM: THE LEGAL INTELLIGENCER (Apr. 2, 2018, 2:10 PM), <https://www.law.com/thelegalintelligencer/2018/04/02/ip-protection-and-the-cannabis-industry-strategies-and-trends/>.

5. Kieran G. Doyle, Commentary, *Trademark Strategies for Emerging Marijuana Businesses*, 21 WESTLAW J. INTELL. PROP. 1, 4 (2014).

II. THE VALUE OF TRADEMARKS IN THE EMERGING MARIJUANA MARKET

Trademark law protects source identifiers, which help consumers differentiate between products, and prevents unfair competition by barring competitors from palming off on another's goodwill.⁶ While the United States has historically recognized common law trademark rights,⁷ the Lanham Act, passed in 1946, is the modern basis for federal trademark protection.⁸ Unlike other forms of intellectual property, whose legislation was passed pursuant to the "intellectual property" clause in Article I, Section 8, Clause 8 of the Constitution, Congress passed the Lanham Act pursuant to the Commerce Clause of that same section.⁹ Accordingly, trademark rights are not bound by the restrictions of the intellectual property clause, which permits Congress to grant individuals an "exclusive right" for only "limited times."¹⁰ Because the Lanham Act theoretically allows for owners' rights to remain exclusive forever,¹¹ trademark rights are a highly valuable type of intellectual property in any industry.¹²

The Lanham Act's primary method for trademark protection is registration.¹³ While not every mark will satisfy the Act's criteria for registration, those who want full protection should seek registration.¹⁴ For example, the Act requires that a registered mark be distinctive or have acquired distinctiveness.¹⁵ The United States Patent and Trademark Office ("USPTO") assesses a mark's acquired distinctiveness by considering the mark's use in commerce.¹⁶ Therefore, the more crowded that a given market is, the more important that a mark be distinctive enough to be registrable and valuable (and vice versa).

6. *Qualitex Co. v. Jacobson Products Co., Inc.*, 514 U.S. 159, 163–164 (1995).

7. Blake W. Jackson, Note, *Notorious: The Treatment of Famous Trademarks in America and How Protection Can Be Ensured*, 3 J. BUS. ENTREPRENEURSHIP & L. 61, 79 (2009).

8. *Id.* at 80.

9. *Id.* at 79.

10. U.S. CONST. art. I, § 8, cl. 8; *Trademark, Patent, or Copyright?*, U.S. PATENT & TRADEMARK OFFICE, <https://www.uspto.gov/trademarks-getting-started/trademark-basics/trademark-patent-or-copyright>.

11. The Act, however, requires renewal of registered marks every ten years. 15 U.S.C. § 1058(a) (2012). *See also* U.S. PATENT & TRADEMARK OFFICE, *supra* note 10.

12. Doyle, *supra* note 5, at 3.

13. *Id.*

14. Sean K. Clancy, *Branded Bud or Generic Ganja? Trademarks for Marijuana in Washington*, 18 LEWIS & CLARK L. REV. 1063, 1085 (2015).

15. *Id.*

16. 15 U.S.C. § 1052(f) (2012).

While still in its early stages, the marijuana market is already highly competitive.¹⁷ Like the beer and liquor market, the products being sold in the marijuana market are essentially the same.¹⁸ Therefore, marijuana brands may want to focus advertising on a lifestyle or attitude instead of a product's unique benefits, a strategy used by beer and liquor brands.¹⁹ In terms of product differentiation, a strong, distinctive trademark will be incredibly important for the success of a marijuana brand. However, a mark that cannot be protected loses much of its value.²⁰ Because the marijuana market, which has been compared to the "Wild West,"²¹ remains in flux with significant open legal questions,²² emerging marijuana entrepreneurs should seek the strongest trademark protection possible.

III. AUTHORITY FOR TRADEMARK PROTECTION

Trademark rights are protectable under common law, state statutory law, and federal law via the Lanham Act. Accordingly, marijuana brands have a variety of legal sources through which to acquire and protect their trademark rights. However, federal protection via the Lanham Act is the most powerful source of trademark protection.²³ Unlike state and common law protection, which is limited in its geographic reach, federal protection encompasses the entire United States. Federal protection also enables registered mark holders to pursue a wider variety of remedies if their trademark rights are infringed, such as the ability to pursue a counterfeiting claim.²⁴ As a result, federal registration of a trademark will likely deter challengers to a mark from engaging in costly litigation.²⁵ Similarly, federal protection through mark registration lends a higher level of legal heft to demand letters, thus likely making them more effective.²⁶ Therefore, ideally, marijuana

17. Sean Williams, *Legal Marijuana Prices Are Plunging in Colorado, but Not for the Reason You'd Expect*, MOTLEY FOOL (Sept. 11, 2016, 9:07 AM), <https://www.fool.com/investing/2016/09/11/legal-marijuana-prices-are-plunging-in-colorado-bu.aspx>.

18. *Beer Marketing and Differentiation*, STEALING SHARE, <https://www.stealingshare.com/pages/beer-marketing/> (last visited Dec. 1, 2017).

19. Vauhini Vara, *The Art of Marketing Marijuana*, THE ATLANTIC (Apr. 2016), <https://www.theatlantic.com/magazine/archive/2016/04/the-art-of-marketing-marijuana/471507/>.

20. *See In re Tam*, 808 F.3d 1321, 1340 (Fed. Cir. 2015) ("And while it is true that a trademark owner may use its mark in commerce even without federal registration, it has been widely recognized that federal trademark registration bestows truly significant and financially valuable benefits upon markholders.").

21. Olga Khazan, *Laid-Back Hawaii's Strict Approach to Marijuana*, THE ATLANTIC (Nov. 3, 2017) <https://www.theatlantic.com/health/archive/2017/11/hawaii-marijuana/544880/>.

22. Doyle, *supra* note 5, at 3.

23. *Id.*

24. *Id.*

25. *Id.*

26. *Id.*

entrepreneurs would want to obtain federal protection through trademark registration if possible.

IV. CHALLENGES ASSOCIATED WITH TRADEMARKS IN THE MARIJUANA MARKET

Marijuana brands seeking federal trademark registration face several challenges, the most obvious of which is that marijuana remains illegal under federal law.²⁷ Despite the trend towards legalization of marijuana at the state level, for federal trademark purposes, the trend has been moving in the opposite direction.²⁸ Marijuana-related trademarks generally come in three varieties: those for use in distribution with marijuana, those for products that have a use that may be related to marijuana, and those that may simply have a tangential or symbolic tie to marijuana and not a physical connection with actual use (for example, t-shirts featuring marijuana leaves).²⁹

According to long-standing rule, a mark can be registered under the Lanham Act only for lawful purposes.³⁰ The United States Patent and Trademark Office's test for lawful use for marijuana trademarks is whether the goods comply with the Controlled Substances Act ("CSA").³¹ Currently, any connection to distribution of the drug is an absolute bar to registration.³²

In keeping with the lawful use rule, the goods for which an applicant seeks to register a mark must have a lawful use under federal law.³³ The lawful use rule derives from two statutory provisions: sections 1051 and 1052 of the Lanham Act.³⁴ Section 1051(a)(1) provides that "[t]he owner of a trademark used in commerce may request registration of its trademark on the principal register."³⁵ Section 1051(b) allows applicants to seek registration for marks for which they have a "bona fide intention to use the mark in commerce."³⁶ The other relevant provision, section 1052(d), bars a mark from federal registration when it is likely to cause confusion with another mark that would have "concurrent lawful use in commerce."³⁷ Section 1127 defines the word "commerce" as "all

27. *Id.*

28. CHRISTOPHER R. MCELWAIN, HIGH STAKES: MARIJUANA AND THE USPTO'S "[LAWFUL] USE" REGISTRATION CRITERION 8 (2016), <http://www.inta.org/Academics/Documents/2016/McElwain.pdf>.

29. *Id.* at 3–7.

30. Doyle, *supra* note 5, at 3.

31. *Id.* at 1.

32. See MCELWAIN, *supra* note 28, at 14; see also *In re Morgan Brown*, 119 U.S.P.Q.2d 1350 (T.T.A.B. 2016) ("We have consistently held that, to qualify for a federal service mark registration, the use of a mark in commerce must be 'lawful.'").

33. MCELWAIN, *supra* note 28, at 2.

34. *See id.*

35. 15 U.S.C. § 1051(a)(1) (2012).

36. *Id.* § 1051(b).

37. *Id.* § 1052(d).

commerce which may lawfully be regulated by Congress.”³⁸ In 1965, 37 C.F.R. section 2.69 was promulgated on the basis of section 1127.³⁹ The rule says that “[w]hen the sale or transportation of any product for which registration of a trademark is sought is regulated under an Act of Congress, the [USPTO] may make appropriate inquiry as to compliance with such Act for the sole purpose of determining lawfulness of the commerce recited in the application.”⁴⁰

A. *The TTAB’s View of Lawful Use*

Following the rule’s promulgation, a line of Trademark Trial and Appeal Board (“TTAB”) decisions interpreted the Lanham Act to mean that “use in commerce” in section 1051 is only “*lawful* use in commerce,” meaning that the item’s use must not be unlawful under controlling federal law.⁴¹ In *In re Stellar* in 1968, the TTAB upheld the USPTO’s refusal to register a mark for a breath freshener on the basis that the application failed to list the product’s net contents, a requirement of the Federal Food, Drug and Cosmetic Act.⁴² Since the statutory provision at issue was section 1051 and not section 1052, this was arguably inferring an additional word, “lawful,” into the statute.⁴³

The Board offered two arguably slim justifications for its decision.⁴⁴ First, the Board reasoned that “no trademark rights can accrue” from “unlawful shipments,” thus requiring a showing of use “which may lawfully be regulated by Congress.”⁴⁵ This oddly seems to imply that there exists some unlawful behavior which Congress cannot lawfully regulate.⁴⁶ Second, the Board stated that to hold otherwise was to put the “Patent Office in the anomalous position of accepting” federal registration on the basis of a use against which a statute specifically regulates.⁴⁷ In 1981, the TTAB seemed tempted to reverse course, acknowledging a “very persuasive argument” that there is no statutory basis for refusing registration because of “unlawful use.”⁴⁸ Regardless, *Stellar* is still controlling.⁴⁹

B. *The Federal Court’s View of Lawful Use*

Federal courts, too, have embraced the TTAB view of lawful use. In *Gray v. Daffy Dan’s Bargaintown* in 1987, the Federal Circuit broadly stated that “[a] valid application cannot be filed at all for

38. *Id.* § 1127.

39. MCELWAIN, *supra* note 28, at 8–9.

40. 37 C.F.R. § 2.69.

41. MCELWAIN, *supra* note 28, at 9.

42. *Stellar Int’l, Inc.*, 159 U.S.P.Q. (BNA) 48, 52 (T.T.A.B. 1968).

43. MCELWAIN, *supra* note 28, at 9–10.

44. *Id.* at 10.

45. *Stellar*, 159 U.S.P.Q. (BNA) at 50.

46. MCELWAIN, *supra* note 28, at 10.

47. *Stellar*, 159 U.S.P.Q. (BNA) at 51.

48. MCELWAIN, *supra* note 28, at 21 n.151.

49. *Id.* at 10.

registration of a mark without ‘lawful use in commerce.’”⁵⁰ This would seem to apply to both sections 1051 and 1052.⁵¹ However, the matter directly before the court was use in commerce under section 1052(d) for concurrent use purposes.⁵² Some scholars have argued that “lawful use” in section 1052 should mean “good faith use.”⁵³ Further, principles of statutory construction suggest that the requirement was intended for section 1052 but not section 1051, given that section 1052 contains the word “lawful” and section 1051 does not.⁵⁴

In 2000, the U.S. Court of Appeals for the Tenth Circuit cited *Daffy Dan’s* for the rule that the unlawful shipping of goods cannot establish use in commerce for trademark protections.⁵⁵ The court did not apply the rule, however, since unlawful use was not alleged.⁵⁶ In *CreAgri v. USANA Health Services* in 2007, the Ninth Circuit also adopted the *Daffy Dan’s* rule for two reasons.⁵⁷ First, the court reasoned, Congress would likely not have intended to extend benefits to a party who violated other federal laws.⁵⁸ Second, holding otherwise would incentivize people to rush to market without due concern for complying with relevant federal law.⁵⁹ Aside from the Ninth and Tenth Circuits, only a few federal courts have ruled on the lawful use requirement.⁶⁰

C. *The USPTO’s View of Lawful Use*

Prior to 2009, the USPTO’s view of marijuana with respect to lawful use was arguably more liberal, but certainly not the absolute bar it currently represents.⁶¹ It was not until 2009 that the office received a significant number of marijuana mark applications.⁶² In a temporary step toward liberalization, in April of 2010, the USPTO announced a new category of trademarks for medical marijuana.⁶³

50. *Gray v. Daffy Dan’s Bargaintown*, 823 F.2d 522, 526 (Fed. Cir. 1987).

51. *See* MCELWAIN, *supra* note 28, at 10–11.

52. *Id.* at 11.

53. *Id.*

54. *Id.*

55. *See* *United Phosphorus, Ltd. v. Midland Fumigant, Inc.*, 205 F.3d 1219, 1225 (10th Cir. 2000).

56. MCELWAIN, *supra* note 28, at 11.

57. *See id.*

58. *CreAgri, Inc. v. USANA Health Scis., Inc.*, 474 F.3d 626, 630 (9th Cir. 2007).

59. *Id.*

60. *See* MCELWAIN, *supra* note 28, at 12.

61. The oldest registration for marijuana in the USPTO’s Trademark Status & Document Retrieval System was for a drug in the form of cannabis extract registered in 1931. With two marijuana applications from the early 2000s, the USPTO sought more information instead of outright refusing registration. *Id.* at 4, 7–8.

62. *Id.* at 5.

63. *Id.*

However, after criticism, the USPTO withdrew the category and called its announcement a “mistake.”⁶⁴

In October of 2011, the USPTO explicitly instituted its own restrictive marijuana policy when it revised section 907 of the Trademark Manual of Examining Procedure to explicitly address marijuana.⁶⁵ Effectively adopting section 2.69 as the USPTO’s test, the revision reads:

[E]vidence indicating that the identified goods or services involve the sale or transportation of a controlled substance or drug paraphernalia in violation of the Controlled Substances Act (“CSA”), 21 U.S.C. §§801-971, would be a basis for issuing an inquiry or refusal. Subject to certain limited statutory exceptions, the CSA makes it unlawful to manufacture, distribute, or dispense a controlled substance; possess a Schedule I controlled substance; or sell, offer for sale, or use any facility of interstate commerce to transport drug paraphernalia. Note that, regardless of state law, marijuana and its psychoactive component, THC, remain Schedule I controlled substances under federal law and are subject to the CSA’s prohibitions.⁶⁶

The revision led the office to reject numerous marijuana applications that had previously been pending (and thus were not poised for immediate rejection).⁶⁷ Since 2011, connections to distribution of marijuana have remained an absolute bar.⁶⁸

D. *The Spectrum of Lawful Use*

Despite this “absolute bar,” though, marijuana-related trademarks appear to exist on a spectrum of lawful use where the outer bounds are clearly defined but the middle ground is not. While any connection to the distribution of marijuana is an absolute bar,⁶⁹ marks with only symbolic connections to the drug and no connection to its actual use or distribution are registrable.⁷⁰ The success of applications for marks falling somewhere in the middle of this spectrum, such as an item that may be used to consume marijuana and may be evocative of the drug (such as a vaporizer that can be used for other legal products, like tobacco), depends on how the applicant crafts the registration application.⁷¹ The application, however, must

64. *Id.*

65. *Id.* at 8.

66. U.S. Patent & Trademark Office, 8-900 Trademark Manual of Examining Procedure (TMEP) 907 (2017).

67. MCELWAIN, *supra* note 28, at 8.

68. *Id.*

69. *Id.*

70. *See id.* at 6.

71. *See generally* Christiane Schuman Campbell, *USA: Mark-ijuana: Trademarks and Branding Cannabis Products*, LEXOLOGY (Apr. 18, 2017), <https://www.lexology.com/library/detail.aspx?g=f7045fa0-0527-47b8-82a0-3ad4d3f8e57a>.

comport with the applicant's honest knowledge of and intent for the product's use.⁷²

The USPTO takes a broad view of distribution, barring marks for products that contain cannabis, as well as those for marketplaces where cannabis-containing products are sold.⁷³ In 2016, the USPTO rejected the mark "Herbal Access" for use with a retail store when the application did not mention marijuana, but the applicant was a Washington state marijuana dispensary.⁷⁴ In 2014, the USPTO rejected the mark "KUSH EXPO" for use with "seminars, exhibitions and trade shows in the field of medical marijuana," because the application identified the mark as being used in connection with a place where marijuana would be consumed or traded.⁷⁵ Therefore, if a mark owner wants federal protection for anything marijuana-related, it should not be involved in retail distribution at all.

In *In re JuJu Joints*, the TTAB took a hard line against registering any mark that has any explicitly stated connection to actual consumption of marijuana on the grounds that it does not constitute lawful use in commerce.⁷⁶ Applicant JuJu Joints had acknowledged that the vaporizing device for which it sought to register a mark was "marijuana-related" and "optimized" for such use.⁷⁷ The TTAB upheld the refusal to register the mark on the basis that the device was "primarily intended or designed for use in ingesting, inhaling, or otherwise introducing cannabis or marijuana into the human body."⁷⁸ As such, the board concluded, that the vaporizing device "constitutes unlawful drug paraphernalia under the CSA."⁷⁹ The applicant made numerous arguments in its favor, including the following: (1) that its device should be treated like those intended for tobacco products, (2) that the company marketed its device in states where marijuana is legal, (3) that its goods should be considered lawful under the Cole Memo⁸⁰ and (4) because marijuana has "accepted medical uses."⁸¹ The court rejected the latter three of

72. Lying to the USPTO could invalidate the applicant's mark and constitute fraud. Danielle Scott Grant-Keane, *The Unattainable High of the Marijuana Industry*, 90 WIS. LAW. 14, 18 (2017).

73. See MCELWAIN, *supra* note 28, at 7, 14.

74. *In re Morgan Brown*, 119 U.S.P.Q.2d 1350 (BNA) (T.T.A.B. 2016).

75. MCELWAIN, *supra* note 28, at 14.

76. *In re JJ206, LLC, DBA JuJu Joints*, 120 U.S.P.Q.2d 1568, 1569 (T.T.A.B. 2016).

77. *Id.*

78. *Id.*

79. *Id.*

80. The Justice Department issued two memos, in 2009 and 2013 (the Cole Memo), that directed federal prosecutors to deemphasize enforcement of marijuana use. Brady Dennis, *Obama Administration Will Not Block State Marijuana Laws if Distribution is Regulated*, WASH. POST (Aug. 29, 2013), https://www.washingtonpost.com/national/health-science/obama-administration-will-not-preempt-state-marijuana-laws—for-now/2013/08/29/b725bfd8-10bd-11e3-8cdd-bcdc09410972_story.html.

81. *In re JJ206, LLC*, 120 U.S.P.Q.2d (BNA) at 1569.

these arguments on the basis that they were irrelevant to marijuana's continued status as a Schedule 1 drug under the CSA.⁸²

The board also rejected the idea that JuJu Joints' vaporizer should be evaluated like an e-cigarette because "each application must be considered on its own record to determine eligibility to register."⁸³ This is crucial because the examining attorney will typically presume an applicant's goods have a lawful use in commerce.⁸⁴ The board cited the Federal Circuit in *In re Nett Designs, Inc.* for the proposition that even if prior registrations had similar characteristics, the USPTO's registration of those marks does not bind the TTAB.⁸⁵ Therefore, even if JuJu Joints had achieved registration, it would offer little certainty to future applicants on its own.

After the TTAB's decision in *JuJu Joints*, an applicant has three potential choices for marks that may be related to marijuana usage. First, it may try the same route as JuJu Joints, expressing an explicit connection to the drug, and face almost certain rejection. Second, it may avoid connections to marijuana, but only if it can do this honestly and knowingly. Ideally, the applicant would want to expressly disavow connections to marijuana.⁸⁶ Third, it may back away from federal registration, either abandoning any pending application or choose not to register a trademark with the USPTO in the first place.⁸⁷

V. CONCLUSION

The marijuana industry is a rapidly expanding business. Accordingly, brands looking to protect their trademark rights in marijuana products need to adhere to the current legal framework, while also anticipating how the legal landscape will change as the marijuana market continues to grow.

82. *Id.*

83. *Id.*

84. Grant-Keane, *supra* note 72, at 18.

85. *In re JJ206, LLC*, 120 U.S.P.Q.2d (BNA) at 1569.

86. See Campbell, *supra* note 71 (discussing Humboldt Apothecary, a class 5 registration for "herbs and ingredients that are lawful pursuant to the CSA . . . none of which are cannabis . . . [or] comprise[] of marijuana").

87. This may be the strategy at play with Firefly Vapor, which has been called the "iPhone of vaporizers" and does not appear to have a registration or a pending application. Melia Robinson, *A Former Apple Designer Has Created the iPhone of Vaporizers*, BUS. INSIDER (May 25, 2016, 11:47 AM), <http://www.businessinsider.com/firefly-2-vape-design-2016-5>.