

Protecting Cannabis and Hemp-Related Intellectual Property

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Client Advisory

May 9, 2019 by Theodore Y. McDonough and Alexander G. Malyshev

As we noted in a previous advisory, the business of state-legal cannabis is becoming big business.[1] While certain challenges related to the status of cannabis as a Schedule I controlled substance at the Federal level are unique to this industry, others challenges related to market competition likely are familiar across different industries. Because of the Federal prohibition, cannabis is generally grown, processed, and sold in the same state.[2] Thus, more so than other businesses that can rely on a particular origin to set themselves apart (like water bottled at the source), cannabis products rely on trademark and patent protections to establish their brand.

In this article we will consider the tension between Federal prohibition and enforcement of intellectual property rights, and possible protections at the state level.

I. Patent Protection For Cannabis Inventions

A patent is a statutory property right granted to an inventor by the United States Patent and Trademark Office (USPTO) to “exclude others from making, using, offering for sale, or selling” that invention in the U.S.[3] When a patent is infringed, the patent owner bears the burden of enforcing its patent in court, without assistance from the USPTO. Competitors may try to invalidate that patent, either in court or before the USPTO, usually to enable them to sell a competing product. The USPTO grants three types of patents:

- Utility patents have a term of 20 years and may be granted to anyone who invents or discovers any new and useful process, machine, article of manufacture, or composition of matter, or any new and useful improvement thereof.
- Design patents have a term of 15 years[4] and may be granted to anyone who invents a new, original, and ornamental design for an article of manufacture.
- Plant patents have a term of 20 years and may be granted to anyone who invents or discovers and asexually reproduces any distinct and new variety of plant.[5]

The USPTO has been willing to issue cannabis-related patents since at least 1942, when it issued a patent for a process for isolating cannabidiol from red oil obtained from hemp. Thus, notwithstanding the status of cannabis as a Schedule I controlled substance under the Controlled Substances Act of 1970 (CSA), thousands of cannabis-related patent applications have been filed.[6] This makes sense, since a patent does not grant an affirmative right to use the invention, but only the right to exclude others from doing so. Patent applications have covered everything from plants, to products, to consumption and detection devices. In late 2016 as the trend towards state-by-state legalization accelerated, the USPTO reportedly issued “the first-ever patent for a plant containing significant amounts of THC,” for the breeding, production, processing and use of specialty cannabis.[7] The question remained, however, whether courts would be willing to enforce cannabis-related patent rights while cannabis and its derivatives remain a Schedule I controlled substance.

While some uncertainty remains, a recent decision from the U.S. District Court for the District of Colorado in *United Cannabis Corporation v. Pure Hemp Collective Inc.*,^[8] – in what appears to be the first patent case involving cannabis – appears to answer that question in the affirmative. In that case, United Cannabis Corporation (UCANN) sued Pure Hemp claiming the latter’s cannabidiol (CBD) tincture infringed UCANN’s patent on liquid cannabinoid formulations containing 95% CBD, THC, or a combination of the two.^[9] Pure Hemp argued that several of the patent’s claims covered natural phenomena and therefore were invalid, and moved for summary judgment on those allegedly invalid claims. In an April 17, 2019 order denying Pure Hemp’s motion, Judge William Martinez ruled that the highly concentrated liquefied cannabinoids claimed in UCANN’s patent were not naturally-occurring phenomena and allowed UCANN’s patent claims to proceed.^[10]

The case is far from over, and Judge Martinez’s decision is limited to whether UCANN’s patent claims natural phenomena. In his ruling, for example, Judge Martinez questioned whether UCANN’s patent claims anything “novel, useful or nonobvious.”^[11] However, the decision signals that courts are willing to enforce cannabis-related patents provided that a claimed invention is entitled to patent protection applying the usual tests for patentability, and thus that investment in obtaining patent protection could be worthwhile as part of a strategy for protecting a company’s IP rights. The court did not discuss the legality or illegality of cannabis. While neither party raised that argument, many industry observers view the UCANN case as a bellwether that cannabis-related patents are in fact enforceable.

II. Federal Trademark Protection For Ancillary Goods & Services

Industry members often seek trademark protection, which almost always is quicker, easier, and cheaper to get than patent protection.^[12] Generally speaking, trademark rights may be used to prevent others from using a confusingly similar mark, but do not prevent others from making or selling the same goods or services under a clearly different mark.

Trademarks used in interstate or foreign commerce may be registered with the USPTO, and trademark protection is also available at the state level to protect marks used within that state, as discussed below. Generally, the Lanham Act (the Federal statute that governs trademarks, service marks, and unfair competition) extends Federal trademark protection only to goods and services that can be lawfully used in commerce.^[13] As the Trademark Manual of Examining Procedure (TMEP) used by the USPTO explains, an application cannot relate to the shipment or production of an illegal drug. Specifically, TMEP Section 907 provides that the use of a mark in commerce must be lawful to be the basis of a Federal mark.^[14] Thus, so long as cannabis remains a Schedule I controlled substance (or unless the USPTO changes its rules), primary trademark protection is not available at the Federal level for marks relating to the production, sale, or distribution of cannabis.

That is not the case, however, for brands related to hemp (which is now legal) or ancillary services or products (like paraphernalia). With respect to hemp – which looks and smells like any other kind of cannabis, but contains virtually no THC (0.3 percent or less) – its declassification as a controlled substance should result in a rapid increase in applications for Federal trademark registrations.^[15] The same is true of CBD derived from hemp.^[16] Some recent registrations for hemp or CBD products very clearly show a marijuana plant in the trademark.^[17]

As a result of the removal of hemp from the CSA’s definition of marijuana, the USPTO recently issued guidelines clarifying the examination procedure for marks for cannabis and cannabis-related goods and services.^[18] The guidelines state that applications filed before December 20, 2018 (the date on which hemp was removed from the CSA’s definition of marijuana), which identify goods or services including cannabis products will be refused due to unlawful use or lack of bona fide intent to use in lawful commerce under the CSA. In response, an applicant may (1) respond on the merits to the refusal; (2) abandon the application and file a new application; or (3) amend the filing date of the application to December 20, 2018. An applicant who amends the application date must also amend the basis of the application from actual use to intent to use, and amend the identification of goods and services to specify that the CBD or cannabis products offered or involved contain less than 0.3 percent THC. Applications filed on or after December 20, 2018 also must specify that the products offered or involved contain less than 0.3 percent THC.

The Lanham Act also does not prohibit Federal trademark registration for brands that are not for cannabis itself, but instead cover ancillary products and services. One example is the mark TÖKR, which was awarded a registration for “software as a service (SAAS) featuring computer software platforms which enables medical and recreational marijuana dispensaries owned by others to advertise and market pricing information.”[19] Thus, while the CSA poses a hurdle for some cannabis-related trademarks, marks for ancillary goods or services that are not a product or byproduct of the “flower” could be registrable, and can be enforced in Federal court. For example, Sream Inc., the maker of “RooR” bong, has been actively pursuing infringers of its mark in Federal courts, filing nearly 500 cases in the last three years.[20]

Therefore, if available, a Federal trademark registration may be an invaluable component of a legal branding strategy.

III. State Level Trademark Protection

Relatively few mark owners utilize state trademark protection because it provides little additional protection over Federal trademark law. However, since Federal trademark protection for certain types of cannabis or cannabis-related goods or services remains out of reach for now, businesses that offer those goods or services should consider registering their marks at the state level. Doing so is advisable, but there are limitations.

Registration of cannabis-related trademarks is permitted in most states where medical use is legal, and in all states where recreational use is legal. Some states such as Nevada have enacted laws regulating the type of cannabis-related marks that may be registered.[21] State registration can be an effective way to protect a brand within a state, but it will not provide protection from out-of-state use of a confusingly similar mark. In several states (Florida, Massachusetts, Texas, and Virginia), registration provides statewide protection, but in other states the geographic scope of protection is limited to those areas in which the mark actually is used. Actual use also is necessary for state trademark protection – intent-to-use applications are not available on the state level. Nor may the holder of a state registered cannabis mark use the Federal registered trademark symbol (®), although use of the superscript “™” is allowed.

Until Federal registration of marks for “plant touching” brands (cultivators, processors, or dispensers) is permitted, state registration can provide important, although limited, protection. To obtain the greatest protection possible under state law, “plant touching” brands should sell their goods as geographically broadly as possible within states that have legalized recreational or medical use.

IV. Trade Secret Protection

Another way to protect certain forms of intellectual property – such as customer or supplier lists, or business methods or processes – is through trade secrets. Unlike trademark or patent rights, which require an affirmative application to either the USPTO or a state agency, trade secrets are property rights that are granted to valuable business information through the company’s own actions.

The Federal Defend Trade Secrets Act of 2016 (DTSA), which generally tracks trade secret law as it has developed at the state level, defines a trade secret as information that “derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information,” for which the owner has taken “reasonable measures to keep such information secret.”[22] If a trade secret is misappropriated by a competitor (a type of unfair competition), a plaintiff will need to prove (1) that the information was secret, (2) that it was reasonably protected, and (3) that it derives its value from secrecy.

With respect to the cannabis industry, courts have recognized that the identities and needs of key customers and decision makers, as well as lists of suppliers, can constitute a trade secret.[23] In addition to implementing adequate controls to preserve the secrecy of such information – by, for instance, requiring key employees to sign non-disclosure agreements – those business that must disclose such information to state

authorities as part of their application for a license should be diligent in requesting confidential treatment by state authorities. That is because such applications (and the information they contain) are a matter of public record, and disclosure may destroy the trade secret.

While law on the issue is sparse, Federal courts (at least in certain Circuits) appear to be willing to entertain such claims, notwithstanding federal prohibition of cannabis. Their reasoning is rather straightforward: one violation of federal law does not excuse another.^[24] This is obviously not an issue for hemp.

V. Conclusion

The intellectual property associated with cannabis (and cannabis-related) products is a valuable part of a business operating in the field. Nevertheless, the plant's classification as a Schedule I drug (except hemp) adds an additional level of complexity both for business owners and for potential investors. As a result, when considering an investment or strategy for developing a business in the field, it is important to work with an experienced advisor familiar with these issues. This article should not be considered legal advice with respect to any specific intellectual property portfolio, but it should hopefully serve as a good place to start a discussion about these topics.

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[1] See "Despite the Trend Towards Legalization, Challenges Remain for Investors Considering Investment in State-Legal Cannabis Industries," *Client Advisory* (March 26, 2019), noting that some projections peg the industry at growing to more than \$20 Billion by 2021. Available at <https://www.clm.com/publication.cfm?ID=5647&Att=172>.

[2] Going forward, this will not be the case for industrial hemp, a strain of cannabis with very low levels of THC that has been legalized at the Federal level in December 2018. You can read more about that in a previous advisory. See "Things to Consider If You Decide to Invest in the Hemp and CBD Industries," *Client Advisory* (April 18, 2019). Available at <https://www.clm.com/publication.cfm?ID=5651&Att=172>.

[3] See "What Are Patents, Trademarks, Servicemarks, and Copyrights?" USPTO General Information Concerning Patents. Available at <https://www.uspto.gov/patents-getting-started/general-information-concerning-patents#heading-1>.

[4] Design patents issued from an application filed on or after May 13, 2015, have a term of 15 years. Design patents issued from an application filed before May 13, 2015, have a period of 14 years.

[5] See "What Are Patents, Trademarks, Servicemarks, and Copyrights?", *supra* note 3.

[6] See USPTO Patent Full-Text and Image Database (search run May 6, 2019). Available at <http://appft.uspto.gov/netahhtml/PTO/search-bool.html>.

[7] See "The First-Ever Patent for a Plant Containing Significant Amount of THC," *U.S. Marijuana Party* (January 19, 2017), available at <https://usmarijuanaparty.net/2017/01/19/the-first-ever-patent-for-a-plant-containing-significant-amounts-of-thc/>; Patent No.

9,095,554 available at <http://appft.uspto.gov/netacgi/nph-Parser?Sect1=PTO2&Sect2=HITOFF&p=1&u=%2Fnetacgi%2FPTO%2Fsearch-bool.html&r=7&f=G&l=50&co1=AND&d=PG01&s1=%229,095,554%22&OS=%229,095,554%22&RS=%229,095,554%22>.

[8] 1:18-cv-01922 (Dist. Colo. Jul. 30, 2018).

[9] CBD and THC are the two main compounds derived from cannabis. CBD is non-intoxicating, and can be derived from all strains of cannabis, including the now legal hemp. Tetrahydrocannabinol, or THC, is the intoxicating component of cannabis (e.g. the part that makes you high). Industrial hemp, which was legalized by the 2018 Farm Bill, contains virtually no THC (less than 0.3%). See, generally, "Things to Consider If You Decide to Invest in the Hemp and CBD Industries," *supra* note 2.

[10] 1:18-cv-01922 (Dist. Colo. July 30, 2018), Doc. 56 at 13.

[11] *Id.*

[12] A trademark is a word, name, symbol, or device that is used in trade with goods to indicate the source of the goods and to distinguish them from the goods of others. A service mark is the same as a trademark except that it identifies and distinguishes the source of a service rather than a product. The terms "trademark" and "mark" are commonly used to refer to both trademarks and service marks. See "What Are Patents, Trademarks, Servicemarks, and Copyrights?," *supra* note 3.

[13] See 15 U.S.C. § 1051; 15 U.S.C. § 1127.

[14] See *Gray v. Daffy Dan's Bargaintown*, 823 F.2d 522, 526, 3 USPQ2d 1306, 1308 (Fed. Cir. 1987); see 15 U.S.C. §§1051, 1127; 37 C.F.R. §2.69; *In re Midwest Tennis & Track Co.*, 29 USPQ2d 1386, 1386 n.2 (TTAB 1993); *In re Stellar Int'l, Inc.*, 159 USPQ 48, 50-51 (TTAB 1968). Thus, the goods or services to which the mark is applied, and the mark itself, must comply with all applicable Federal laws. See *In re Pepcom Indus., Inc.*, 192 USPQ 400, 401 (TTAB 1976) ("In order for [an] application to have a valid basis that could properly result in a registration, the use of the mark [has] to be lawful, i.e., the sale or shipment of the product under the mark [has] to comply with all applicable laws and regulations. If this test is not met, the use of the mark fails to create any rights that can be recognized by a Federal registration."). In addition, "the fact that the provision of a product or service may be lawful within a state is irrelevant to the question of federal registration when it is unlawful under federal law." *In re Brown*, 119 USPQ2d 1350, 1351 (TTAB 2016)). Available at <https://tmep.uspto.gov/RDMS/TMEP/current#/current/TMEP-900d1e1.html>.

[15] A recent search on the USPTO's Trademark Electronic Search System (TESS) for the term "Hemp" results in over 1,000 "live" applications.

[16] A recent search on TESS for the term "CBD" results in over 800 "live" applications.

[17] See, e.g., Registration No. 88297262 for "Peace. Love. CBD" describing the mark as including "a cannabis leaf above the term 'cbd.'"

[18] 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, available at https://www.uspto.gov/sites/default/files/documents/Exam%20Guide%201-19.pdf?utm_campaign=subscriptioncenter&utm_content=&utm_medium=email&utm_name=&utm_source=govdelivery&utm_term=.

[19] Registration No. 2387695.

[20] See "Bong Blitz: Pipe Maker Goes On TM Rampage," *Law360* (April 19, 2019) available at <https://www.law360.com/articles/1151285/bong-blitz-pipe-maker-goes-on-tm-rampage>.

[21] Nevada Administrative Code § 543A.402, for example, requires that names, logos, signs and advertisements for medical marijuana establishments be approved by Nevada's Administrator of the Division of Public and Behavioral Health.

[22] 18 U.S.C. § 1839(3)(A)-(B)

[23] *Surterra Fla., LLC. v. Fla. Dep't of Health*, 223 So. 3d 376, 380 (Fla. Dist. Ct. App. 2017) (A "list of suppliers" can qualify as a trade secret according to section 812.081(1)(c)); *Siva Enters. v. Ott*, No. 2:18-cv-06881-CAS(GJSx), 2018 U.S. Dist. LEXIS 223854, at *14 (C.D. Cal. Nov. 5, 2018) (declining to dismiss a theft of trade secrets case where the allegations "predominantly focused on defendants' alleged theft of plaintiffs' client lists and client information").

[24] See *Siva Enters.*, 2018 U.S. Dist. LEXIS 223854, at *13 (Denying defendant's argument that plaintiffs lack standing because the business facilitated the "trafficking" of recreational marijuana, which is proscribed under the CSA, because "plaintiffs have indeed alleged a legally cognizable injury for purposes of Article III standing: that defendants misappropriated plaintiffs' proprietary business information and misused plaintiffs' identity and reputation.") citing *Greenwood v. Green Leaf Lab LLC*, No. 3:17-CV-00415PK, 2017 U.S. Dist. LEXIS 125143, 2017 WL 3391671, at *2-3 (D. Or. July 13, 2017) (which examined a similar challenge by a defendant who argued that the Fair Labor Standards Act did not apply to his marijuana business due to the Controlled Substances Act. There, the court found that there is "no inherent conflict between the FLSA's requirements and the [CSA's] prohibition of marijuana" and explained that "just because an employer is violating one federal law, does not give it license to violate another.").

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