

## **Quinn Emanuel Cannabis Litigation Practice Alert**

### **Protecting Cannabis Trademarks in Anticipation of Federal Legalization**

As more states legalize cannabis, companies are dealing with the absence of national trademark uniformity. Currently, there is no legal mechanism to obtain a trademark to sell cannabis across state lines. Instead, companies are limited to state-wide trademarks. These limited marks have created a fractured market, with little clarity for businesses in a cannabis industry that continues to grow despite the lack of federal decriminalization. Although federal lawmakers have signaled that legalization is finally on the horizon, none have tackled the issues that the lack of a uniform trademark system has created. Companies must be ready to fight for their trademark rights once legal cannabis becomes a national reality. This article looks ahead to ways in which those fights may play out, and steps that a cannabis company can take to protect its marks in the meantime.

#### Trademark Rights in Cannabis Are Currently Fractured Along State Lines

Trademark rights are territorial in nature. State-by-state legalization has resulted in limited trademark ownership, with rights in cannabis trademarks being effectively divided along state lines. Without a federal solution, the expansion of state-by-state cannabis legalization has only deepened the fractures in the market.

In trademark law, the first use of a mark within a particular territory usually establishes trademark ownership in that territory. As such, a cannabis company may own a trademark in a given state that (a) is identical to the mark used by a different company in a different state; (b) would be in direct conflict with the other company's rights if the different states became subject to a uniform system; and (c) is nonetheless a valid mark within the company's home state. These issues are particularly significant for cannabis companies that desire to expand into new states, because their expansion plans may be limited or thwarted by a competing claim for trademark ownership in a different territory. For example, established brands with valid marks operating in legal states like California may not be able to claim priority in newly legal states where other entities may seek to use the same marks.

Federal decriminalization or legalization of cannabis would presumably bring an end to this system, but it is unclear what the resulting system would look like or how priority disputes might be resolved. This uncertainty will be especially problematic for large and popular brands whose products are already widely counterfeited and sold by black market players in states where cannabis is still illegal. Given the territorial nature of trademark law, it may even be that counterfeiters in illegal states have a head start as to priority, as compared with the original companies that created the marks but operated strictly in accordance with state law.

#### Congress May Not Provide Additional Clarity but the Experience with Alcohol and Hemp Is Instructive

If and when cannabis is federally legalized, the state-by-state trademark regime will likely collapse into a murky pool of convergent and competing rights. Congress has shown neither an appreciation for these cannabis trademark issues, nor a willingness to solve them. But these issues will certainly affect businesses' bottom lines and result in litigation.

**quinn emanuel urquhart & sullivan, llp** Attorney Advertising. Prior results do not guarantee a similar outcome.

LOS ANGELES | NEW YORK | SAN FRANCISCO | SILICON VALLEY | CHICAGO | WASHINGTON, DC | HOUSTON | SEATTLE | BOSTON | SALT LAKE CITY | LONDON | TOKYO | MANNHEIM | HAMBURG | PARIS | MUNICH | SYDNEY | HONG KONG | BRUSSELS | ZURICH | SHANGHAI | PERTH | STUTTGART | AUSTIN | NEUILLY-LA DEFENSE | ATLANTA | MIAMI

Prior bills that proposed to legalize or decriminalize cannabis explicitly contemplated the use of cannabis “marks” but provided little additional guidance. For example, the 2020 MORE Act—which passed in the House but was rejected by the Senate—contained language that would have required cannabis packaging to “bear the marks” of a company. H.R.3884 - MORE Act of 2020, Section 5932(b), 116th Congress (2019-2020). However, the 2020 MORE Act did not attempt to resolve the trademark issues that are inherent in a fractured state-by-state marketplace. This is not surprising, as it has been hard enough to pass *any* federal law concerning cannabis, much less a law to address issues that will not be ripe until federal legalization occurs.

In any event, if cannabis is federally decriminalized, nationwide cannabis trademarks *will* follow, no matter how—or if—Congress addresses nationwide cannabis marks. History provides some guidance as to how these national marks will come into being. For example, alcohol companies that survived Prohibition were able to register once again for nationwide trademark rights once alcohol was de-prohibited. *James Burrough Ltd. v. Sign of Beefeater, Inc.*, 540 F.2d 266, 269 (7th Cir. 1976) (federal mark for “Beefeater” gin, registered on May 12, 1959, had priority date based on first use in November 11, 1909); *see also Anheuser-Busch, Inc. v. Budweiser Malt Products Corp.*, 295 F. 306 (2d Cir. 1923) (holding that the term “Budweiser” had acquired a secondary meaning in the United States denoting a beer sold only by Anheuser-Busch, which continues to own the “Budweiser” mark to this day). The same is true of marks where priority was based on post-Prohibition activity. *Wurzbürger Hofbrau Aktiengesellschaft v. Schoenling Brewing Co.*, 331 F. Supp. 497 (S.D. Ohio 1971), *aff’d* 1972 WL 17719 (6th Cir. July 12, 1972) (holding that the term “Wurzbürger” had acquired secondary meaning in the United States as beer product of plaintiff).

Further, after the end of Prohibition in 1933, courts based priority on the first use in commerce within a particular territory, in accordance with basic principles of trademark law. *Century Distilling Co. v. Cont'l Distilling Corp.*, 205 F.2d 140, 141–42 (3d Cir. 1953) (party who established first use in commerce in late 1933 won trademark priority dispute over gin trademark); *Se. Brewing Co. v. W. P. Blackwell et al.*, 1935 WL 24957, at \*10 (E.D.S.C. Apr. 11, 1935), *aff’d sub nom.* 80 F.2d 607 (4th Cir. 1935) (beer trademark ownership depended on territories where mark was first used in commerce) (“Irrespective of the extent of the trade area to which the defendant is entitled, it is very clear that the defendant is entitled to the exclusive use of its trade mark in the State of North Carolina.”).

The treatment of hemp trademarks is also instructive. After certain hemp products were legalized by the late-2018 Farm Bill, the USPTO clarified in May 2019 that applicants could apply for federal marks related to those newly legal hemp products, such as CBD. *See* USPTO, Examination Guide 1-19 (May 2, 2019), <https://www.uspto.gov/sites/default/files/documents/Exam%20Guide%201-19.pdf>. Indeed, in the aftermath of CBD trademarks becoming legal nationwide, CBD companies that have used similar marks in different states have already begun to litigate trademark disputes in federal court. *E.g., CBD Industries, LLC v. Majik Medicine, LLC*, No. 3:21-cv-00069-RJC-DCK (W.D.N.C., filed Feb. 12, 2021) (North Carolina-based plaintiff sues Louisiana-based defendant over use of “CBD MD” trademark).

There is no reason to believe that cannabis marks will be subject to different standards than post-Prohibition alcohol marks, CBD marks, or any other marks that are subject to the basic principles of trademark law.

There are some differences, however, between the end of Prohibition and the potential federal decriminalization of cannabis. Alcohol was prohibited with the Eighteenth Amendment in 1920, and then legalized uniformly nationwide with the Twenty-First Amendment in 1933. With

cannabis, different states have taken varied steps to legalize cannabis at different times. All this has resulted in a current market that lacks uniformity or coherence, and which is also poised to effectively collapse and reform in the coming years.

In theory, trademark law should serve two purposes: (1) to protect the investments of businesses that establish goodwill based on use of their marks; and (2) to protect consumers by allowing them to identify goods, the source of those goods, and their quality—all of which is designed to minimize confusion and maximize efficiency in the marketplace. Under such a system, a consumer from Missouri can travel to California and buy Budweiser beer that tastes the same, and is produced by the same Anheuser Busch company, as their favorite beer in St. Louis. In turn—with a valid nationwide trademark—Anheuser Busch can establish operations in California without having to risk its goodwill being undermined by a new “Budweiser” that costs slightly less or tastes a little better.

These purposes, however, assume uniform application. Unless Congress offers a coherent solution, cannabis companies can expect a race to file for trademark registration; numerous ownership disputes over names and marks; and resulting litigation.

### The Zone of Expansion Doctrine and Cannabis Trademarks

The federal legalization of cannabis will bring unprecedented trademark issues to the forefront. What can cannabis companies do in the interim to best position themselves for nationwide trademark ownership? One option may be to offer trademarked cannabis-adjacent products and services in states where cannabis is still illegal. This strategy would draw on trademark law’s “zone of expansion” doctrine.

Pursuant to the “zone of expansion” doctrine, the first to receive trademark protection in *any* product line may have priority over an intervening user in a *new* product line so long as expansion between the two product lines is considered “natural.” See *Brookfield Commc’ns, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 1051 (9th Cir. 1999). This is because trademark protection extends not only to a particular product or product line, but also to products into which customers might reasonably expect the owner of the senior mark to expand—which is often known as “bridging the gap” or the “natural zone of expansion.” See, e.g., *id.* at 1047; *CAE, Inc. v. Clean Air Eng’g, Inc.*, 267 F.3d 660, 680–81 (7th Cir. 2001); *Cadbury Beverages, Inc. v. Cott Corp.*, 73 F.3d 474, 482 (2d Cir. 1996).

The “natural” zone of expansion is judged from the viewpoint of consumers—*i.e.*, whether “customers would have been confused as to source or affiliation at the time of the intervening user’s appearance” in the market for the new product. *Brookfield Commc’ns*, 174 F.3d at 1051. (quoting 2 J. Thomas McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 16:5 (5th ed.)). Although the resolution of such consumer-facing issues is notoriously hard to predict, the doctrine seems to require a realistic proximity of products in the marketplace. See, e.g., *Eli Lilly & Co. v. Nat. Answers, Inc.*, 233 F.3d 456, 463 (7th Cir. 2000) (consumers could reasonably expect prescription drug-maker to expand into dietary supplements); *Carnival Brand Seafood Co. v. Carnival Brands, Inc.*, 187 F.3d 1307, 1315-16 (11th Cir. 1999) (a seller of packaged gumbo could rely on “zone of expansion” argument as to frozen seafood); *Cadbury*, 73 F.3d at 482 (seller of branded soft drinks could expand into private-label soft drinks).

Some cannabis companies have adopted this strategy by selling CBD products, clothing, air fresheners and smoking accessories, and by using their marks at trade shows and business conferences. A similar strategy was employed after Prohibition by alcohol companies. They used

alcohol-adjacent products to preserve exclusive use of their marks and avoid insolvency during the 1920s and beyond. See e.g., *White Rock Min. Springs Co. v. Akron Beverage & Cold Storage Co.*, 299 F. 775, 777–78 (6th Cir. 1924) (company was able to preserve use of mark to sell beer by establishing non-alcoholic beer operations during Prohibition); John Kell, *Prohibition turns 100: How brands like Bacardi, Jim Beam, and Budweiser survived*, FORTUNE MAGAZINE (January 17, 2020), available at <https://fortune.com/longform/prohibition-anniversary-history-bacardi-jim-beam-budweiser/> (explaining how alcohol companies sold products like malted milk, cereal beer, and ginger ale to survive during Prohibition).

Nevertheless, courts have been reticent to enlarge the “zone of expansion” doctrine. For example, the Southern District of New York recently declined to take on the issue in a dispute concerning cannabis trademarks. *Woodstock Ventures LC v. Woodstock Roots, LLC*, 387 F. Supp. 3d 306, 318–19 (S.D.N.Y. 2019). In the *Woodstock* case, the Plaintiffs “Woodstock Ventures” were the producers of the 1969 Woodstock music festival, and have used the federally-registered “Woodstock” mark in connection with concerts, movies, TV, and related merchandise for decades. *Id.* at 310. The Defendants, including Woodstock Roots, LLC, operate a company that sells rolling papers, vaporizers, and other “smokers’ articles,” and registered for a federal trademark to use “Woodstock” in connection with such smokers’ articles in 2014. *Id.* at 310, 319. Both parties alleged that the sale of cannabis was within their “natural zone of expansion,” and thus sought to exclude each other from being able to use the Woodstock mark in connection with cannabis. *Id.* at 310-311. On this basis, the Defendants (but not the Plaintiffs) moved for a preliminary injunction. *Id.* at 318-19. The *Woodstock* court declined to issue an injunction, explaining that “this Court cannot give weight to Defendants’ alleged intent to expand into the area of selling recreational marijuana, because the sale of recreational marijuana is illegal under federal law.” *Id.* Although the Defendants initially appealed this decision, the parties have since settled their dispute and the appeal was dismissed voluntarily. See Joint Stipulation, *Woodstock Ventures*, 1:18-cv-01840-PGG, ECF No. 138 (April 14, 2021).

### Steps Cannabis Companies Can Take Now to Protect Their Trademarks

Companies can consider implementing some of the following strategies to protect their trademark rights and best position themselves for the advent of federal legalization:

- 1. Carefully Track First Use in Commerce:** As discussed above, the first use of a mark in a particular territory typically establishes trademark ownership in that territory. One step that all companies should take—whether or not they have plans to expand nationwide—is to carefully track their first use of a mark in a particular territory. This would involve collecting and retaining evidence that might be useful in a priority dispute against other entities who later begin to use the mark. Helpful evidence would include: (a) exemplars of containers and labels in which the cannabis was packaged (*i.e.*, “trademark specimens”), including a continuous history of any revisions to the marks, labels, and containers over time; (b) marketing materials, design records, internet posts, and other materials showing a continued use of a mark over time, including records showing the evolution of a mark’s design; (c) accounting records showing first sales to dispensaries; and (d) records of efforts to protect trademark rights and combat potential infringers.
- 2. Expand into Multiple States:** Another potential strategy to anticipate federal legalization is expansion into multiple states. The Lanham Act ultimately stems from Congress’s authority under the Constitution’s commerce clause, which requires a nexus to interstate commerce. As of December 2021, over 20 states and federal territories have passed laws to legalize recreational cannabis, and even more have legalized medical use. See NORML,

*State Laws - Legalization* (last accessed Dec. 14, 2021), available at <https://norml.org/laws/legalization/>. If cannabis becomes federally legal, companies that have set up operations in multiple states might be in a better position to prevail in the event that federal trademark disputes arise. See e.g., *Dawn Donut Co. v. Hart's Food Stores*, 267 F.2d 358, 364 (2d Cir. 1959) (providing seminal rule under Lanham Act that, “if the use of the marks by the registrant and the unauthorized user are confined to two sufficiently distinct and geographically separate markets . . . so that no public confusion is possible, then the registrant is not entitled to enjoin the junior user’s use of the mark.”). Companies adopting this strategy should also be ready to quickly move into new states that legalize cannabis—which would include being prepared to file for state trademark registration and establish commercial operations once legalization goes into effect state-wide.

- 3. Establish a Brand Presence through Cannabis-Adjacent Products:** As noted above, many alcohol companies during Prohibition used alcohol-adjacent products to preserve exclusive use of their marks. Trademark law’s “zone of expansion” doctrine provides a potential means for companies to “bridge the gap” into closely related markets while preserving exclusive use of their marks. One strategy companies could employ on this front is to use their marks in connection with cannabis-adjacent products. Employing this strategy, companies can establish a brand presence nationwide by selling products that are entirely legal nationwide but are nonetheless related to cannabis—like hemp products, CBD, rolling papers, smoking accessories, and perhaps even clothing and artwork. Although application of the “zone of expansion” doctrine to cannabis may not yet be ripe under federal law, companies may well behoove themselves to anticipate its application. Indeed, many of the world’s leading cannabis brands have already done so.

\*\*\*

If you have any questions about the issues addressed in this Client Alert, or if you would like a copy of any of the materials we reference, please do not hesitate to contact us:

**Michael T. Zeller**

Email: [michaelzeller@quinnemanuel.com](mailto:michaelzeller@quinnemanuel.com)

Phone: 213-443-3180

**Robert Becher**

Email: [robertbecher@quinnemanuel.com](mailto:robertbecher@quinnemanuel.com)

Phone: 213-443-3182

**Marshall M. Searcy III**

Email: [marshallsearcy@quinnemanuel.com](mailto:marshallsearcy@quinnemanuel.com)

Phone: 213-443-3152

**Jomaire A. Crawford**

Email: [jomairecrawford@quinnemanuel.com](mailto:jomairecrawford@quinnemanuel.com)

Phone: 212-849-7581

**Leonidas Angelakos**

Email: [leonidasangelakos@quinnemanuel.com](mailto:leonidasangelakos@quinnemanuel.com)

Phone: 650-801-5073