

## **The Polyjuice Potion Is the Worst Prescription When Branding Marijuana Businesses: Lessons Learned From *In re Morgan Brown***

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The recent Trademark Trial and Appeal Board (TTAB) decision, *In re Morgan Brown*, (*Herbal Access*)<sup>1</sup> denied registration for the Herbal Access mark for a retail store legally selling marijuana products in Washington state. The decision reveals the widespread need for the marijuana industry to transition from the bootleg mindset to a mainstream mindset.

Operating under a bootleg mindset, the applicant tried to conceal a licensed marijuana store/dispensary as an herb store. The TTAB emphatically rejected this polyjuice potion approach. To make matters worse, the business threw away good money, first by pursuing the application and later by appealing the adverse decision, when it should have pursued other strategies to protect and grow the business instead (i.e., the whole package of intellectual property).

The primary lesson learned is — don't blow smoke if you're operating a legal business. You should:

- Be candid, not cagey.
- Be realistic about the federal protections available to you — don't pursue a federal registration for a retail marijuana store or medical marijuana dispensary.
- Pursue a state trademark registration for a retail marijuana store or medical marijuana dispensary.
- Pursue a federal trademark registration only for goods and services that are legal under federal law.

### **The Discredited Polyjuice Potion Strategy for the Herbal Access Federal Trademark Registration**

The *Herbal Access* case reveals the widespread need for the marijuana industry to transition from a bootleg to a mainstream mindset. The applicant apparently had forgotten the Abraham Lincoln story about dog legs. Calling a licensed marijuana business an herb store does not make it an herb store, except in Lincoln's story or in a Humpty Dumpty world.

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<sup>1</sup>*In re Morgan Brown*, Serial No. 86362968 (TTAB 2016) (involving the Herbal Access trademark, the *Herbal Access* decision).

In August 2014, an individual in Washington applied for the federal registration of Herbal Access trademark. The application selectively attached a *portion* of the Facebook page for cannac.copia. The page refers to the street address for Therapeutic Solutions LLC, a company that had registered the Herbal Access trade name with the state eight months earlier in December 2013.

The attorney examiner refused the registration of the trademark for the use of the mark in connection with unlawful marijuana services. The examiner attached the *full* Facebook page, where the holistic health center's window featured the green cross (a recognized symbol for medical marijuana).

Challenging the refusal, the applicant argued there was merely evidence of a retail store featuring herbs (not marijuana), and he claimed the green cross was not part of the application. But the examiner shot down these confabulations — the Facebook page listed the store's "herbalaccess.com" website, which depicted marijuana leaves, featured a map with the slogan "Marijuana for the Mass" and invited visitors to come inside for some "sweet tasting ganja." The examiner concluded that the slogan left "no doubt but that what applicant's 'herbs' consist of is nothing but marijuana." Consequently, the reasonable inference was the green cross in the window signaled a store featuring marijuana.

The applicant foolishly appealed the decision. The applicant argued that there was no evidence of actual use of the trademark in connection with the sale of marijuana. But the website provided an ample record that the store's primary activity was selling marijuana.

The board found the applicant was engaging in the retail sale of marijuana at the store and advertised on the website. In turn there was a *per se* violation of the Controlled Substances Act and the use of the mark included unlawful activity.<sup>2</sup>

### **Key Legal, Public Policy and Equitable Questions Were Never Reached in the *Herbal Access* Decision**

While the decision might sound ominous to some, it expressly sidestepped the issue of "whether or not use lawful under federal law, but not prosecuted by federal authorities, is thereby sufficiently lawful to avoid the unlawful use refusal."<sup>3</sup> In other words, the note acknowledges that the applicant did not raise the effect of the Cole memorandum, other statements by federal authorities, and the Congressional budgetary restrictions on prosecuting specific categories of state-licensed marijuana businesses. Furthermore, the applicant did not raise the issue of what happens when the similar marks are used on lawful services or goods, or if the balancing test that the courts use should be employed, as explained below.

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<sup>2</sup> *Id.* 5-6, 9.

<sup>3</sup> *Id.* at 2 n. 3.

## A Balancing Test Is a Better Fit Than the Per Se Rule for Rejecting Trademarks on Unlawfulness and Scandalous Grounds

The Controlled Substances Act imposes obstacles to enforcing the agreements and rights of marijuana businesses in federal court and possibly state court. In turn, federal law prohibits trademarking unlawful uses and scandalous and immoral marks,<sup>4</sup> although these vague restrictions must be tempered by the First Amendment and nuanced with the policies expressed in other laws.

Regarding the unlawful use ground for rejecting a mark, the U.S. Patent and Trademark Office (PTO) briefly allowed a new classification for “process plant matter for medicinal purposes, namely medical marijuana” for three and a half months but later retracted the classification as a mistake in 2012.<sup>5</sup> More generally, regarding the unlawful use ground, the Ninth and Tenth Circuits recognize the unlawful use as a defense, but unlawful conduct does not preclude trademark protection under test balancing if the unlawful conduct is immaterial (weighing the gravity and significance of the unlawful use) or collateral (lacking sufficient nexus between unlawful conduct and the use of the mark in commerce).<sup>6</sup> The duration and extent of the unlawful use are relevant.<sup>7</sup> Yet, the applicant in the *Herbal Access* case did not raise the balancing test that is well-established in other contexts such as the material breach test under contract law. Nor did the applicant take the time to reply to the per se rule argument raised in the examiner’s response and later adopted in the decision.

A per se rule is sometimes a short-hand for an easy decision on a bad record, consistent with the aphorism that bad facts make bad law. Multiple public policy factors are embedded in per se tests in other areas of law; a prime example is the evolution from overly-broad per se tests to the modified rule-of-reason and quick-look tests applied in antitrust law.

Even if the TTAB were to thoughtfully adopt a per se test for unlawfulness in a later decision (and it shouldn’t), the courts can overrule the agency — as reflected in the recent appellate court decision overturning the refusal to register the Slants mark for a band on the grounds the mark was disparaging.<sup>8</sup> But sometimes, the courts agree with the agency. An example is the cancellation of the Mr. Nice Guy name and logo for incense containing synthetic cannabis,

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<sup>4</sup> 37C.F.R. § 2.69 (permitting PTO to inquire into lawfulness of commerce for federally regulated products); 15 U.S.C. § 1052 (barring trademarks consisting of immoral, deceptive or scandalous matter).

<sup>5</sup> Justin Scheck, *Patent Office Raises High Hopes, Then Snuffs Them Out*, WALL ST. J., July 19, 2010, <http://www.wsj.com/articles/SB10001424052748704682604575368783687129>. See generally Sean K. Clancy, *Branded Bud or Generic Ganja? Trademarks for Marijuana in Washington*, 18 Lewis & Clark L. Rev. 1063, 1078 (2014).

<sup>6</sup> See *CreAgri, Inc. v. USANA Health Sciences, Inc.*, 474 F.3d 626, 630 (9th Cir. 2007) (denying dietary supplement trademark “Olivenol” because of federal labeling law violations); *United Phosphorus, Ltd. v. Midland Fumigant, Inc.*, 205 F.3d 1219, 1225 (10th Cir. 2000); *Gray v. Daffy Dan’s Bargaintown*, 823 F.2d 522, 526 (Fed. Cir. 1987).

<sup>7</sup> *Vosk Int’l Co. v. Zao Gruppya Predpriyatij Ost*, No. C11-1488RSL, 2013 WL 5588296, at \*6 (W.D. Wash. Oct. 9, 2013) (ruling there was insufficient admissible evidence to create a genuine issue of fact regarding prior unlawful use in commerce, where record indicated one shipment of beverage containing color additive prohibited by FDA).

<sup>8</sup> *In re Tam*, 808 F.3d 1321 (Fed. Cir. 2015), as corrected (Feb. 11, 2016) (vacating Trademark Trial and Appeal Board’s holding that the Slants mark was unregistrable and remanding for further proceedings; holding disparagement provisions of 1052(a) is unconstitutional because it violates the First Amendment), *petition for cert. filed* (Apr. 20, 2016).

where the agency found that the registrant subjectively intended to misrepresent the product as “not for human consumption.”<sup>9</sup> In a similar fashion, the applicant in the *Herbal Access* case appeared to have the subjective intention to misrepresent the legal marijuana retail store as an herb store. And, that alone was good cause for a per se outcome in the case.

### **Successful Strategy: Federal Trademark Registration for Ancillary Legal Products**

While the per se test may appear to be clear and inexpensive to administer, it is a blunt instrument conflicting with the maxim: the law abhors a forfeiture. It would be bad public policy to extend the per se unlawful test beyond the *Herbal Access* decision — it would cause economic waste through the forfeiture of substantial investments in branded ancillary products in the legal marijuana space by honest entrepreneurs in an emerging industry.

The PTO regularly approves trademark applications for products and services ancillary to the state-licensed marijuana businesses while rejecting applications for cannabis-product marks. It is ironic that a TeaHC mark for tea-based beverages containing “tea, honey, and care” was rejected as deceptively misdescriptive,<sup>10</sup> while Acapulco Gold, a commonly understood term for marijuana, was registered as a suntan lotion.<sup>11</sup> The PTO’s acceptance of Acapulco Gold for suntan lotion illustrates how lawful use of marks associated with marijuana on collateral products avoids unlawfulness.<sup>12</sup> The *Herbal Access* decision also differs from a decision last year where the TTAB merely found a triable factual issue regarding the unlawful use of cigar wraps as marijuana wraps in the opposition to register a “Straight Up” mark.<sup>13</sup>

The kind of ancillary product may drive the outcome in some instances. For example, federal courts have granted stipulated permanent injunctions in favor of the owner of “High Times,” a marijuana culture magazine, regarding the use of Cannabis Cup® in Washington.<sup>14</sup> One injunction prohibits a marijuana dispensary — previously operating under the name High Times Station — from using Cannabis Cup® and High Times®.<sup>15</sup> The court also dismissed a counterclaim to cancel the registered marks as unlawful: the court observed the Controlled Substances Act expressly excludes from its scope mere advertisement or promotion for controlled substances and drug paraphernalia.<sup>16</sup> These and other decisions reveal that applicants for federal registration of trademarks on ancillary products in the cannabis space should be able to avoid the outcome in the *Herbal Access* case if they make strategic branding decisions, invest

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<sup>9</sup> *Kratom Lab, Inc. v. Mancini*, No. 11-80987-CIV-MARRA 2013 WL 3927838 (S.D. Fla. July 29, 2013).

<sup>10</sup> *In Re Hinton*, 85663019, 2015 WL 6166641, at \*4 (Sept. 28, 2015).

<sup>11</sup> *In Re Hepperle*, 175 U.S.P.Q. (BNA) ¶ 512 (P.T.O. July 12, 1972).

<sup>12</sup> *See, e.g., Purple Heart Patient Ctr., Inc. v. Military Order of the Purple Heart of the U.S. of Am., Inc.*, No. C 13-00902 WHA, 2014 WL 572366, at \*3-\*4 (N.D. Cal. Feb. 11, 2014) (declining to grant judgment on the pleadings under Rule 12(c) in a declaratory judgment action for alleging trademark infringement brought by city-permitted medical marijuana dispensary seeking cancellation of mark as descriptive and on other grounds, and noting dispensary sold apparel and other goods beyond the sale of illegal drugs).

<sup>13</sup> *Top Tobacco L.P.*, Opp’n No. 91203352, 2015 WL 9901179, at \*1 (TTAB Sept. 18, 2015).

<sup>14</sup> Stipulated Permanent Inj. and Dismissal, *Trans-High Corp. v. Nw Harvest Festival*, No. 13-CV-1551 RSL (W.D. Wash. Jan. 9, 2014) (ECF No. 4); *TRANS-HIGH Corp. v. Reimers*, No. 2:14-cv-00279, 2015 WL 5928937 (E.D. Wash. Apr. 27 2015), ECF No. (May 14, 2015).

<sup>15</sup> *Reimers*, 2015 WL 5928937 (E.D. Wash. Apr. 27 2015).

<sup>16</sup> *Reimers*, 2015 WL 144417 (Jan. 12, 2015); *see* 21 U.S.C. § 843(c)(1) (“The term ‘advertisement’ does not include material which merely advocates the use of a similar material, which advocates a position or practice, and does not attempt to propose or facilitate an actual transaction in a Schedule I controlled substance.”)

in making a compelling record, and offer the appropriate public policy arguments in response to unlawful use rejections.

### **Strategy: State Trademarks for Marijuana Products and Your Name**

In view of the obstacles to federal trademark protection for marijuana products, building the marijuana part of your brand under state law makes sense. State law, however, is a checkerboard of approaches even where marijuana is legalized.

*Limitations of the Colorado trademark protections:* The Colorado trademark statute has a statement of registration provision that does not confer any rights and remedies; the common law creates all substantive right and remedies.<sup>17</sup> The statute does provide for judicial cancellation of a state registration based on bad faith or fraudulent filing, among other grounds.<sup>18</sup>

*Limitations of the Oregon trademark protections:* The Oregon trademark statute's directive is to provide registration and protection substantially consistent with the construction of federal statutes.<sup>19</sup>

*Limitations of the Washington trademark protections:* The Washington statute prohibits registration on grounds similar to the federal statute,<sup>20</sup> and the registration certificate is *prima facie* evidence of valid registration, ownership and the exclusive right to use in the state for the specified goods or services.<sup>21</sup> The statute directs state courts to follow the interpretation of federal statutes employed by federal courts.<sup>22</sup> The legislative history indicates the state courts are to be "guided," but not required, to consider federal law, which is consistent with the analysis allowing for departure from federal law when rooted in state's statutes authorized under the state consumer protection statute.<sup>23</sup>

Actual use is the standard for state trademark protection; Washington entities, however, can file a reservation to reserve a mark for up to 180 days.<sup>24</sup> Questions will arise from the revision of

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<sup>17</sup> Colo. Rev. Stat. § 7-70-103; see Lee Ann W. Lockridge, Abolishing State Trademark Registrations, 29 Cardozo Arts & Ent. L.J. 597, 621 (2011) (discussing Colorado and comparing it with other states).

<sup>18</sup> Colo. Rev. Stat. § 7-70-107.

<sup>19</sup> Or. Rev. Stat. § 647.115 ("The intent of this chapter is to provide for a system of trademark registration and protection substantially consistent with the system of trademark registration and protection set forth in 15 U.S.C. 1051 et seq. Construction given the provisions set forth in 15 U.S.C. 1051 et seq. constitutes persuasive authority for interpreting and construing this chapter.")

<sup>20</sup> Wash. Rev. Code Ann. § 19.77.020 (immoral, deceptive, or scandalous matter; or which may disparage or falsely suggest a connection ...)

<sup>21</sup> Wash. Rev. Code Ann. § 19.77.040.

<sup>22</sup> Wash. Rev. Code Ann. § 19.77.930 ("It is the intent of the legislature that, in construing this chapter, the courts be guided by the interpretation given by the federal courts to the federal trademark act ...")

<sup>23</sup> Clancy, 18 Lewis & Clark L. Rev. at 1082-83 (2014); accord, *Blewett v. Abbott Labs.*, 86 Wash. App. 782, 788, 938 P.2d 842, 846 (1997) (construing similar "guided by" text in state consumer protection law, Rev. Code 19.85.920, and stating "[a]ny departure from federal law, therefore, must be for a reason rooted in our own statutes or case law and not in the general policy arguments that this court would weigh if the issue came before us as a matter of first impression."); *State v. LG Elecs., Inc.*, 185 Wash. App. 123, 132, 340 P.3d 915, 919 (2014), review granted, 183 Wash. 2d 1001, 349 P.3d 856 (2015).

<sup>24</sup> Wash. Rev. Code Ann. § 19.77.015.

marks in emerging state industries,<sup>25</sup> as well as whether they are being used in interstate commerce.

To further complicate the issue, California's trademark office has denied trademark applications for legal medical marijuana dispensaries and products if the applicant is unable to establish that the products comply with the Controlled Substances Act in California.<sup>26</sup>

### **Regardless of Whether You Register, Screen Your Trademark or Name**

In the rush to obtain state licenses and get to market, marijuana businesses often forget the basics of protecting their brands. Always screen preferred names and trademarks. Ultimately, there are risks of trademark infringement and zone of expansion issues, but those are risks over which you may not have any influence.

*Herbal Access* teaches us: know your limitations. Do the best job you can do within the existing parameters. Trademark applications and responding to office actions warrant thoughtful strategic decision-making — not Polyjuice potions or mock Romulan cloaking devices.



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<sup>25</sup> *Accord, Hana Fin., Inc. v. Hana Bank*, 135 S. Ct. 907, 190 L. Ed. 2d 800 (2015) (holding, when a jury trial has been requested in a trademark case and when the facts do not warrant entry of summary judgment or judgment as a matter of law, the question whether tacking is warranted must be decided by a jury).

<sup>26</sup> Shannon L. McCarthy, Dawn Newton, *Franchising A Marijuana Business: It's Not Quite Mission Impossible*, 35 *Franchise L.J.* 357, 368 & n. 69 (2016).