

by DREW WILSON

CAP'N CRUNCH vs KAP'N KRONIK

Fair use protection does not apply in the circumstance of marijuana-infused products because the trademarks are used as a “designation of source”

THE MARIJUANA INDUSTRY has exploded in recent years. Once relegated to back alleys and shady venues, nine states have legalized recreational amounts of marijuana without the need for a doctor’s prescription: Washington, Oregon, Nevada, California, Colorado, Maine, Vermont, Massachusetts, and Alaska. Twenty-one others allow for the medical use of marijuana with a doctor’s prescription,¹ and in some states, the reasons that medical marijuana may be prescribed to patients are so broad as to render many states’ medical requirements illusory.² Thus, marijuana is by any measure a blossoming industry. In 2017 alone, Colorado marijuana sales hit a record \$1.5 billion despite the state’s population of only 5.6 million.³ California, which legalized the recreational use of marijuana on January 1, 2018, has yet to report sales figures, but given its population of nearly 40 million and status as the fifth largest economy in the world, the sales should be impressive.⁴

Drew Wilson is an intellectual property attorney at the law firm of Lewis Roca Rothgerber Christie, LLP in Glendale, California. He represented Tapatío Foods in *Tapatío Foods, LLC v. Ponce, et. al.*

KEN CORRAL



TM

R



When marijuana sales were underground, growers of strains and bakers of edibles would often name their products in such a way as to evoke the image of other famous brands. Weetos evoked Cheetos and even featured a green version of the iconic Chester Cheetah. Froot Poofs evoked Fruit Loops and bore a stoned version of Toucan Sam. Kap'n Kronik was Cap'n Crunch's red-eyed counterpart, high from the cereal that bore his name. These are just a few of the more blatant examples.

It was not just chips and cereal that were targeted. Candy bars and cookies suffered the same fate with such knockoffs as 3 Rastateers (3 Musketeers), Twixed (Twix), Munchy Way (Milky Way), Rasta Reese's (Reese's Pieces), Keef Kat (Kit Kat), among others. Common to all of these goods was that the name was a play on words of the famous brand and the packaging directly

occurs has legalized marijuana for recreational use, the show will generally require attendees to have a medical marijuana card so they arguably have a legitimate purpose for attending the show. The problem, however, is that many federally licensed private investigators will not be able to attend these shows because they are unwilling to obtain a medical marijuana card for fear of jeopardizing their federal private investigator's license. Marijuana is, after all, still illegal on a federal level. It is considered a schedule 1 controlled substance along with heroin, LSD, and MDMA.

With the growth of marijuana sales, certain companies have begun enforcing their trademarks against some of these blatant infringers. The Hershey Company, for example, sued a Colorado-based medical marijuana manufacturer, Tincture Belle, for selling products that looked suspiciously like Hershey's Almond Joy, Reese's, Heath, and York Peppermint Patty brands.⁸

Hershey asserted a number of causes of action against Tincture Belle, including trademark infringement under the Lanham Act, unfair competition under the Lan-

A point of amusement was the fact that one of the infringers accused the other infringer of stealing his trademark.

copied the color scheme and overall appearance of the major brands.

Since most of these sales were in small numbers by people who were operating illegally in the first instance, many corporations did not have the time, money, or patience to track down these infringers to put a stop to their use. Because the use of the infringing trademark was not for goods that were legal, there was no concern that the use could create trademark rights.⁵ While this is still true at the federal level, it is not necessarily so at the state level. As of January 1, 2018, the California secretary of state allowed for the registration of cannabis-related service marks or trademarks so long as: 1) the mark is lawfully used in commerce within California and 2) the goods match the classification for goods adopted by the U.S. Patent and Trademark Office (USPTO).⁶

Finding the Infringer

Although marijuana sales have gone mainstream, many manufacturers of edibles remain somewhat underground due to the difficulties with permitting, health inspections, city codes, and other bureaucratic red tape. While most of the more legitimate and licensed manufacturers have begun to operate like any normal business, including respecting the intellectual property rights of third parties, many small, independent vendors stick with the old ways of advertising and promotion. It is generally the small unpermitted operations that resort to attempts to free ride on the goodwill of major name brands, often operating under the mistaken belief that they just have to change a certain amount of the senior user's trademark in order for theirs to be allowable.⁷

The same small operations, which obviously have a limited understanding of the law, do not have traditional brick-and-mortar stores nor do they usually sell to legitimate dispensaries. Instead, most leverage social media to advertise their products' availability for sale. They set up an account in the name of the infringing product, often making the account private in order to require authorization for new users to follow them. On the social media pages themselves, infringers often list an e-mail address where they can be contacted for orders and feature upcoming "shows" and "events" in which they will participate. These types of events operate much like farmers' markets, with individual vendors setting up pop-up booths under canopies to sell their wares.

Catching infringers at these shows is not necessarily as easy as one might think. An interesting wrinkle encountered during enforcement efforts is that unless the state in which the show

ham Act, dilution under the Lanham Act, common law unfair competition and violation of the Colorado Consumer Protection Act.⁹ The case ultimately settled before going to trial. The parties entered into a consent judgment almost immediately after service of the lawsuit.¹⁰

Tapatío—whose hot sauce can be found in restaurants, grocery stores, and even as a flavor of Doritos corn chips—discovered last year that not one but two separate entities had begun selling marijuana-infused meatless hot sauce under the name "Trapatio."¹¹ Both infringing products featured a composite mark with the word "Trapatio" in an arching red font over a man in a sombrero. Below the man was a red furled banner with various wording. One of the two infringers even applied for a trademark registration for the stylized Tapatío word mark for the goods "Medicinal drinks; Medicinal herb extracts; Medicinal herbal extracts for medical purposes; Medicinal herbs; Medicinal oils; Medicinal roots; Herbs for medicinal purposes; Sweets for medicinal purposes."¹²

During the investigation of the infringers, Tapatío sent private investigators to make test purchases to verify that the products were actually being sold and to see exactly what the logos on the bottles looked like. As part of the investigation, social media sites of the infringers were scanned. A point of amusement was the fact that one of the infringers accused the other infringer of stealing his trademark.

Tapatío filed complaints against both sets of infringers in the U.S. District Court for the Central District of California asserting causes of action for trademark infringement of a registered trademark under the Lanham Act, unfair competition under the Lanham Act, California statutory unfair competition, and dilution by tarnishment under the Lanham Act.¹³ Tapatío also asked the court to order the USPTO to deny the trademark registration for Trapatio. As the litigation was ongoing, various news sites picked up the case, including the celebrity gossip page TMZ.¹⁴ One of the infringers responded to the news report on TMZ, claiming that he had contacted Tapatío before releasing his marijuana-infused knockoff and that Tapatío was open to working together. This was news to Tapatío, which was not aware of any contact with this infringer.

Tapatío pursued default judgments against both of the parties. At the hearing for entry of default judgment, one of the parties showed up for the first time despite not having answered the complaint. The court, out of an abundance of caution, gave the

defendant a second opportunity to respond, indicating that if she did not respond within two weeks, the court clerk might reenter her default, and the court might issue a default judgment and permanent injunction against her that was similar in form and substance to the default and permanent injunction entered against her partners.¹⁵ After two weeks, the defendant still had not responded to the complaint. At the hearing, the defendant showed up for a second time. This time, because she had already had her day in court and failed to respond to the judge's orders, the court entered the default judgment against her.¹⁶

After default judgment was entered against both infringers, and both had ceased use of the infringing marks, an odd thing occurred: One of the infringers, a young man in his twenties, began sending Tapatío instances of other third parties who were infringing Tapatío's trademarks, repeatedly asking why they were allowed to operate when Tapatío had sued him. The former infringer's policing proved to be quite useful as he was more connected with the underground drug scene than Tapatío or its investigators.

It is not just confectionary and hot sauce companies that have to weed out trademark infringers. In one instance, a culinary magazine, *Wine Spectator*, filed suit against the distributors of *Weed Spectator* magazine for creating a magazine with a similar title to *Wine Spectator* that ranked marijuana with a similar 100-point system.¹⁷ *Weed Spectator* took its alleged infringement a step further by applying for trademarks at the USPTO that, according to *Wine Spectator*'s complaint, directly copied the formatting, font, and style of the *Wine Spectator* stylized mark.¹⁸

Wine Spectator's complaint includes causes of action for trademark infringement under the Lanham Act, unfair competition under the Lanham Act, trademark dilution under the Lanham Act, trademark infringement, unfair competition, and dilution, under New York statutory and common law.¹⁹ The case was recently filed, and the parties have yet to engage in dispositive briefing.

Free Riding Marijuana Infringers

Food and magazines have both been the target of free riding marijuana lovers who decided to jump start their confections and periodicals by using the name of another famous brand. For Hershey, Tapatío, and *Wine Spectator*, the answer was simple: sue for trademark infringement. The infringer made a confusingly similar use of their mark on the same class of goods, candies, hot sauce, and magazines, respectively.

What about glue, though? A developer of strains of marijuana, CG Strains, LLC, developed a new strain of cannabis and named it after the famous adhesive brand, Gorilla Glue. This is presumably due to the fact that the female bud of high-quality marijuana is covered with a sticky resin that looks like glue.²⁰ But it is hard to argue that Gorilla Glue as applied to marijuana creates a likelihood of confusion among reasonably prudent purchasers. While people certainly have been known to use glue as a drug,²¹ it is hardly a practice that is endorsed by glue manufacturers.

As is evident from Gorilla Glue's complaint, trademark dilution provides owners of a famous mark far greater latitude in protecting their brands against freeriders than any other causes of action such as trademark infringement and unfair competition.²² Unlike likelihood of confusion, the trademark infringement standard, which requires the potential for confusion between the senior and junior user's marks, dilution allows for an injunction against a junior user who "commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual

economic injury."²³ There are two forms of dilution: dilution by blurring and dilution by tarnishment. Dilution by blurring is an association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.²⁴ Dilution by tarnishment is an association arising from the similarity between a mark or trade name that harms the reputation of the famous mark.²⁵

In instances such as these, a plausible argument can be made that any association of the senior mark with cannabis tarnishes the mark because cannabis is a schedule 1 controlled substance. Even though there might not be a likelihood of confusion, people might begin to associate the Gorilla Glue mark with marijuana, which tarnishes its reputation.

Fair Use Protection

To justify reference to a famous brand a defendant might argue that the name chosen is simply a parody—a play on words—of the famous mark, i.e., fair use. At first glance, this argument does not seem to be a bad one. Fair use is specifically enumerated as a defense to a claim of trademark dilution under 15 USC 1125(c) (3)(a). However, the statute expressly contemplates just such a misuse of the defense and is clear that the fair use defense does not apply when the mark in question is used "as a designation of source for the person's own goods or services." This is exactly what the junior users are doing in the marijuana space. Their reference to the famous mark is used as a trademark—a designation of source—for their marijuana-infused products.

Free riding on the goodwill of a major name brand was the standard method of operation when marijuana was underground. Then, growers and edible creators were outlaws. If they were breaking the law regarding selling a control substance, what did they care about intellectual property rights? They wanted names that were instantly recognizable and, at the same time, conveyed the countercultural image that was pervasive in the world of weed. Due to the limited and underground nature of the business, there was little threat that the use of the infringing mark would grow to the point where it damaged the reputation of the legitimate senior user. However, with the recent green explosion, all of that is changing. Now, senior users of marks must enforce their rights or risk having their reputations go up in smoke. What follows are a few practice points gleaned from enforcement efforts:

- Social media is important in discovering infringement activity. Most of the infringers will primarily market their products via social media. Following their accounts can help determine the next location where they will be making a sale.
- It can be useful to make a sample purchase to establish jurisdiction.
- A complaint must be filed and served at the same time as a cease-and-desist letter is sent. Many of these small operations will go underground after first contact, and it is best if the clock starts to run on the time for default judgment as soon as possible.
- It is necessary to assert a cause of action for dilution by tarnishment. Even if the infringer's mark is further away from a right holder's mark than would normally work for standard trademark infringement under a likelihood of confusion test, dilution provides significantly broader protection. Even if a mark is not as well known as a Hershey's candy bar, or even Gorilla Glue, if a plausible claim to fame for a mark can be asserted, the pleadings in a complaint are presumed to be true during default judgment. ■

¹ Jeremy Berke and Skye Gould, *This map shows every state that has legalized marijuana*, BUSINESS INSIDER, Oct. 17, 2018, available at <https://www>

Earn CLE credit by writing substantive legal articles for *Los Angeles Lawyer*

For guidelines and article submission, contact Susan Pettit at spettit@lacba.org



REAL ESTATE DISPUTE CONSULTING

WARONZOF ASSOCIATES

Timothy R. Lowe, MAI, CRE, FRICS



- economic damages
- fair compensation
- property valuation
- lost profits
- lease disputes
- land use disputes
- partnership interest value
- reorganization plan feasibility

Waronzof Associates, Incorporated
400 Continental Boulevard, Sixth Floor
El Segundo, CA 90245

310.322.7744 T 424.285.5380 F
tlowe@waronzof.com
www.waronzof.com



The world's leading immigration law firm
right here in Los Angeles

FRAGOMEN WORLDWIDE

A world of difference in immigration. From visas and work permits, to advisory services and corporate compliance, we work with each client to understand their business and immigration priorities. As the industry leader in immigration law, we're here in Los Angeles working with individuals, investors (EB-5), families, small start-ups, mid-size local companies and large corporations in the state's most prominent industries.

Fragomen, Del Rey, Bernsen & Loewy, LLP
444 South Flower Street | Suite 500 | Los Angeles, CA 90071

Mitch Wexler, Partner • mwexler@fragomen.com
Chad Blocker, Partner • cblocker@fragomen.com
Michael Boshnaick, Partner • mboshnaick@fragomen.com

- .businessinsider.com/legal-marijuana-states-2018-1.
- ² Staff, *How to Get a Legal Medical Marijuana Card or Authorization*, Leafly, Oct. 30, 2017, <https://www.leafly.com/news/health/qualifying-conditions-for-medical-marijuana-by-state>.
- ³ Alicia Wallace, *Colorado pot sales hit a record \$1.5 billion in 2017, and border towns saw a green rush from neighbors*, DENVER POST, Feb. 10, 2018, available at <https://www.denverpost.com/2018/02/10/colorado-pot-sales-2017-border-towns>.
- ⁴ Jonathan J. Cooper, *California now world's 5th largest economy, surpassing UK*, USA TODAY, May 5, 2018, available at <https://www.usatoday.com/story/news/nation-now/2018/05/05/california-now-worlds-5th-largest-economy-beating-out-uk/583508002>.
- ⁵ *Intrawest Fin. Corp. v. W. Nat. Bank of Denver*, 610 F. Supp. 950, 959 (D. Colo. 1985) ("Trademark rights cannot be acquired or maintained by illegal use of a trademark.") Use in commerce in violation of federal drug laws—Marijuana-related goods and services, 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §19:124 (5th ed.) ("Because it remained illegal under federal law, the USPTO and the Trademark Board have refused registration to marks used for any goods or services connected with marijuana whether or not use is legal under state law.")
- ⁶ Alex Padilla Cal. Sec'y of State., *Frequently Asked Questions*, <https://www.sos.ca.gov/business-programs/ts/faqs/#question13>.
- ⁷ Vendors have personally reported to author that the amount is in the range of 20 to 30 percent.
- ⁸ *Complaint, Hershey Co. v. Tincturebelle, LLC et al.*, No. 14-CV-01564 WYD-MJW, Dkt. No. 1, (C.D. Colo. June 3, 2014).
- ⁹ *Id.* See also COLO. REV. STAT. §§6-1-101 *et seq.*
- ¹⁰ *Settlement Agreement, Tincturebelle, Dkt. No. 14-CV-01564 WYD-MJW, No. 22* (Sept. 22, 2014).
- ¹¹ "Trapping" is the act of selling drugs. See *Urban Dictionary*, "Trapping," <https://www.urbandictionary.com/define.php?term=trapping>
- ¹² U.S. Trademark Application Serial No. 87/539,264.
- ¹³ *Complaint, Tapatío Foods, LLC v. Ponce, et al.*, No. 17-CV-07530-MWF-MRW, Dkt. No. 1 (C.D. Cal. Oct. 16, 2017); *Complaint, Tapatío Foods, LLC v. Granados*, No. 17-CV-07532-MWF-MRW, Dkt. No. 1 (C.D. Cal. Oct. 13, 2017).
- ¹⁴ *Tapatio sues Duuuuuuuude...YOU STOLE NUESTRO FAMOSO LOGO, TMZ* (Oct. 17, 2017), <https://www.tMZ.com/2017/10/17/tapatiao-suing-marijuana-company-similar-sombrero-logo>.
- ¹⁵ *Civil Minutes, Ponce*, No. 17-CV-07530-MWF-MRW, Dkt. No. 32 (Feb. 27, 2018).
- ¹⁶ *Default Judgment and Permanent Injunction Against Defendant Ingrid Veronica Ponce, Ponce*, No. 17-CV-07530-MWF-MRW, Dkt. No. 40 (Apr. 16, 2018).
- ¹⁷ *Complaint, M. Shanken Communc'ns, Inc. v. Modern Wellness, Inc.*, No. 18-CV-08050-AKH, Dkt. No. 1 (S.D. N.Y. Sept. 4, 2018).
- ¹⁸ *Id.*
- ¹⁹ *Id.*
- ²⁰ Will Hyde, *Leafly's Visual Quality Guide to Selecting Cannabis* (May 6, 2015), <https://www.leafly.com/news/cannabis-101/leaflys-visual-quality-guide-to-selecting-cannabis> ("First-class cannabis will have a thick coat of sugary resin that contains the cannabinoids and terpenes, giving the plant its powerful effects and captivating flavors.")
- ²¹ James Roland, *Healthline.com, How Sniffing Glue Affects Your Health* (Aug. 7, 2018), <https://www.healthline.com/health/sniffing-glue>.
- ²² *Complaint, Gorilla Glue Company v. GG Strains LLC*, No. 17-CV-00193-MRB, Dkt. No. 1 (S.D. Ohio Mar. 24, 2017).
- ²³ 15 U.S.C. §1125(c).
- ²⁴ 15 U.S.C. §1125(c)(2)(B).
- ²⁵ 15 U.S.C. §1125(c)(2)(C).