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October 2019



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The October 2019 issue of Sterne Kessler's MarkIt to Market® newsletter discusses three "lawful use" cannabis trademark decisions, a recent FTC settlement with a cosmetics company, and the USDA's newly issued interim rules for legal hemp cultivation. In addition, we also list the open gTLD Sunrise periods.

Sterne Kessler's [Trademark & Brand Protection practice](#) is designed to help meet the intellectual property needs of companies interested in developing and maintaining strong brands around the world. For more information, please contact [Monica Riva Talley](#) or [Tracy-Gene G. Durkin](#).

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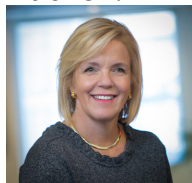


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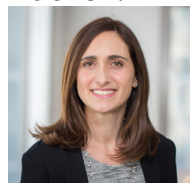


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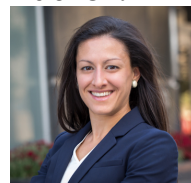


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WAITING TO EXHALE - CLARITY

AROUND ENFORCEMENT OF TRADEMARKS FOR CANNABIS GOODS IS A PIPE DREAM

By: [Lauriel F. Dalier](#)

A recent [article](#) in Marijuana Business Daily projected that the total economic impact of the cannabis industry will range from \$39.2 billion to \$48 billion in 2019. Despite this commercial potential, there remains little clarity around the enforceability of trademarks for cannabis and cannabis-related products.

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ZERO STARS: FTC SETTLES WITH SKINCARE COMPANY OVER FAKE ONLINE REVIEW

By: [Dana N. Justus](#)

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A recent [article](#) in Marijuana Business Daily projected that the total economic impact of the cannabis industry will range from \$39.2 billion to \$48 billion in 2019. Despite this commercial potential, there remains little clarity around the enforceability of trademarks for cannabis and cannabis-related products. As a relatively new arena, characterized by a complicated patchwork of state and federal rights and ever-moving requirements, there is not a lot of precedent to follow.

For those marketing cannabis goods and services exclusively in states where these activities are legal, common law or state trademark rights may be sufficient. However, protecting a brand with national scope is typically advanced by securing federal trademark registration with the U.S. Patent & Trademark Office (PTO) under the Lanham Act. Under the Lanham Act, exclusive rights to a trademark for particular goods/services are granted to the first to use the mark in commerce. And with respect to federal registration, the Lanham Act specifically requires “lawful use,” which the PTO has interpreted to mean uses that do not violate federal laws or regulations, including the Controlled Substances Act (CSA) and Food Drug and Cosmetic Act (FDCA).

While the way in which the “lawful use” doctrine has been applied by the PTO is relatively well understood, its application in the context of enforcement is at best hazy. In this update, we summarize three decisions involving trademarks for cannabis or cannabis-related products where courts have touched on the issue of “lawful use” in different ways, reaching different results.

In *Woodstock Ventures LC v. Woodstock Roots, LLC*, 18-cv-1840 (S.D.N.Y. July 29, 2019), the owner of a trademark registration for WOODSTOCK branded “smokers’ articles” (Woodstock “Roots”) sought a preliminary injunction to enjoin use of the identical mark for recreational marijuana and vaping devices by the owner of the also registered WOODSTOCK mark for music festivals and merchandise (Woodstock “Ventures”). The parties had entered into a coexistence agreement with respect to their registered goods and services. The parties both argued that recreational marijuana and vaping devices were within their respective natural zones of expansion. The court rejected the zone of natural expansion argument on grounds that the sale of recreational marijuana is illegal under federal law and thus neither party was likely to

succeed on this claim. In arriving at that conclusion, the district court discussed the PTO's interpretation of the unlawful use in commerce doctrine and, in direct reference to that administrative policy, held that "the trademark protection afforded to Venture's mark cannot be extended to federal unlawful cannabis."

In stark contrast, only two days later, the court in *RooR International BV v. Shouk*, 3:19-cv-00027 (M.D. Fla. July 31, 2019) refused to summarily invalidate the plaintiff's trademark registration on the basis of the unlawful use doctrine. The mark in question in *RooR* relates to water pipes, which the accused infringer had argued were unlawful marijuana paraphernalia and therefore invalid, depriving the plaintiff of standing. In declining to invalidate the trademark rights on the basis of illegality, the court explained that while the "legal use" in commerce requirement is applied by the PTO as eligibility criteria for trademark registration, under Eleventh Circuit law, a use in violation of the law "must be of such gravity and significance ... so tainted that, as a matter of law, it could create no trademark rights." The court found that such was not the case here.

In another turnabout several months later, the District Court for the Northern District of California applied the unlawful use doctrine in the context of rejecting a claim of prior common law rights in a trademark based on prior use of the mark because the mark was used in connection with cannabis-infused chocolates and other edibles. *Kiva Health brands LLC v. Kiva Brands Inc.*, 19-cv-03459-CRB (C.A.N.D. Sept. 6, 2019).

In sum, those holding their breath for clear guidelines may not be able to exhale any time soon.

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The FTC’s [Complaint](#) alleged that both the company Sunday Riley and its eponymous owner/CEO created and participated in a detailed fake online reviews program for over two years, under which employees and interns were charged with setting up fake customer accounts on Sephora’s website to increase the number of positive reviews for the company’s skincare line, disagree with negative reviews of its products, and criticize competitors’ offerings. Sunday Riley committed to these efforts to such an extent that, after Sephora removed numerous fake employee-written reviews, Sunday Riley took the step of obtaining an Express VPN (virtual private network) account to mask its users’ IP addresses and locations, to enable it to continue its review practice.

The Complaint includes excerpts from a July 2016 staff-wide email written by Ms. Riley, in which she asks each employee to create three different accounts on Sephora.com “registered as different identities,” “connect to the Internet ONLY using the VPN and make sure to choose a city of origin that goes along with where your character lives,” “leave a review... be very enthusiastic without looking like a plant, always leave 5 stars,” “you will need to clear cookies and use the VPN every time, or your account will be flagged,” and “if you see a negative review, DISLIKE it.” Another quoted email from Sunday Riley’s Skincare Account Manager responsible for Sephora details similar steps and requirements for the fake reviews, and includes the observation, “The power of reviews is mighty, people look to what others are saying to persuade them and answer potential questions they have.”

Although the FTC’s Complaint charged the company and its owner with two violations of the FTC Act – (1) false or misleading endorsement claims, and (2) deceptive failure to disclose material connections with endorsers – Sunday Riley negotiated a [settlement via a proposed administrative consent order](#). Although the settlement bars Sunday Riley from misrepresenting the status of a person reviewing products and requires the company to instruct its employees

and agents to disclose their connections to the company in any endorsements, it does not include an admission of wrongdoing by either the company or its namesake chief executive, nor any financial penalty.

This result prompted a strong rebuke from FTC Commissioners Rohit Chopra and Rebecca Kelly Slaughter, who voted against the settlement in the Commission's 3-2 vote. Even more notably, Commissioner Chopra issued [his own statement](#) (joined by Commissioner Slaughter) arguing that the Commission's failure to seek money damages and an admission of fault for an "unambiguous" violation of its Act is counter to its mission of addressing online consumer deception – "Sunday Riley and its CEO have clearly broken the law, and the Commission has ordered that they not break the law again." Such a settlement is unlikely to deter other companies or individuals pondering a similar scheme, and may result in a flood of additional consumer deception in the difficult-to-police world of online marketplaces.

The proposed consent order is available for [public comment](#) until November 25, 2019 and has been the subject of much discussion in the beauty journalism area ([Elle](#), [Allure](#), [The Cut](#)) and beyond ([The New York Times](#), [The Washington Post](#), and [CNN](#)), so it will be interesting to see whether a potential consumer backlash may have an impact on its terms. In any event, companies should think twice before penning phony online reviews to boost their sales or torpedo competitors' – although the FTC may have gone easy on Sunday Riley, it may not be as forgiving in the future.

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As of October 31, 2019, ICANN lists new Sunrise periods as open for the following new gTLD that may be of interest to our clients. A full list can be viewed [here](#).

.madrid

.new

ICANN maintains an up-to-date list of all open Sunrise periods [here](#). This list also provides the closing date of the Sunrise period. We will endeavor to provide information regarding new gTLD launches via this monthly newsletter, but please refer to the list on ICANN's website for the most up-to-date information – as the list of approved/launched domains can change daily. Because new gTLD options will be coming on the market over the next year, brand owners should review the list of new gTLDs (a full list can be found [here](#)) to identify those that are of interest.

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