

The Lightbulb

Episode Two – Safeguarding Intellectual Property in the Legalized Cannabis Industry

Featuring Jon Lagarenne and Josh Horn

Somerville: Hello, this is Deb Somerville. I'm a partner in the New York office of Fox Rothschild and a member of the firm's IP Department. Today, we are pleased to bring you an engaging discussion on unique IP issues arising in the cannabis industry as addressed by two Fox partners, Jon Lagarenne and Josh Horn.

John is a partner in our Denver office with over 30 years of experience in intellectual property and commercial matters involving both litigation and transactional work. Josh is a partner in our Philadelphia office, where he is co-chair of the firm's Cannabis Law Practice and ranked by Chambers USA among the nation's leading cannabis law attorneys.

Horn: This is Joshua Horn. I co-chair our Cannabis Law Practice Group, which has about 80 individuals in it. We practice nationwide, and actually internationally as well.

With me today is my partner, Jon Lagarenne, who is a partner in our IP practice who has a unique perspective on IP considering that he worked at Fox Rothschild, then worked in-house for a number of years. And he's fortunately back with us again, and he will have some unique perspective with respect to how to protect trade secrets and trademarks and patent issues in the cannabis space.

Lagarenne: Thanks for the introduction. You know, maybe to begin, just broadly as you suggested, you know, outline the intellectual property issues that cannabis businesses face. They're the typical, what all businesses face, but I think there's some unique aspects obviously for the cannabis business.

There's three main buckets of intellectual property that cannabis businesses have to concern themselves with. One, probably the most frequently talked about is, I'll call it branding, trademark registrations for a consumer product. Obviously, the brands you sell under are vital, and there's a lot of issues for cannabis-related businesses because of certain federal laws that don't allow you, for instance, to register cannabis, CBD products. So, that's one area.

Also in the cannabis space there's a lot of patent issues. And we actually do a fair amount of patent filings for cannabis companies, companies that make cannabis products, cannabis-containing products, but also ancillary products. And so there's actually quite a lot of patent work and patent filings going on both by this firm, and in the industry.

The third area of intellectual property that's a frequent issue in the cannabis space is what I'll call generally trade secret law. Because, as you can imagine, a lot of the product differentiation is built around recipes, formulations, unique product characteristics, and that gets into trade secret law. A lot of cannabis companies -- which tend to be early stage, younger companies -- run into issues with trying to

protect their trade secrets or failing to protect their trade secrets, which are vital to their business interest.

So, you got those sort of three major areas, again: branding/trademarks, patents/inventions and then trade secrets, recipes, formulas. Those are the three main intellectual property areas that cannabis businesses encounter. From distributors to manufacturers, providers ... These issues run through all those businesses. And so those are the main buckets.

Horn: Jon, you raised actually an interesting question, because in some of your remarks you were noting about the federal issues. Cannabis, as we know, is still federally illegal, although it's legal in states where there's either legislation or changes in our constitutional framework to allow either medical or adult-use sales. But since a lot of these protections that people can seek are on the federal level, is it really possible to get federal protections, say, for a patent when it's dealing with a cannabis-related product because of the federal illegality?

Can you just give us some insight with respect to that?

Lagarenne: Yes, so, on the patent side, you can file a patent application for any "useful invention" so long as the invention has arguably a medicinal or some kind of possible use, even though it could be a regulated drug, Class I or whatever, you can basically do it. So, you see a lot of patent applications these days about how to refine cannabis products, how to use standard products and almost always have some medicinal or medical component to it. But the short answer is, there's no prohibition on filing patents that relate to cannabis-containing products, even those products that contain THC in excess of 0.03 or whatever.

So, you can do it if you have a product there. And it's a little bit of how you might frame it, but you can file patents there. As opposed to, as many people know on the trademark side, you're not allowed to register because of the federal prohibition. I'm selling THC-containing products, you can't register trademarks to sell a THC-containing product. And so there is a difference there between patents and trademarks. You can usually apply for a patent on pretty much anything that is a useful convention related to cannabis. But you can't register trademarks for selling THC-containing products.

Horn: That's interesting, Jon, because it just so happens I was out to dinner with an IP lawyer, a friend of mine at another firm here in town, and he was telling me about a trademark application that they got negative pushback from the trademark office. But it wasn't for traditional cannabis. It was for a hemp-related product. And hemp, under the 2018 Agricultural Improvement Act, was legalized, including derivatives from hemp, which is typically CBD derived from hemp. And hemp is defined as a matter of laws that cannabis sativa plant in any derivative is thereof that contain 0.3% or less of THC on a dry away basis. How that's actually calculated is beyond me, but that's the definition. And so, using my friend's problem, now that he's got this great pushback... can you just talk about, because hemp is legal, why would the Trademark Office push back on a hemp-related trademark application? When yes, it has THC in it, but it's not above the threshold to be something other than hemp.

Lagarenne: So, I guess the short answer a little bit is that the Trademark Office to some extent didn't get the memo.

So, let's just talk maybe initially about strategies of registering trademarks. So again, any commercial consumer product in particular you're selling you want to develop a brand, and whether that's with a THC-containing product or just a CBD oil or etc., whatever, of course, those are important to your overall commercial success to your brands.

And for trademarks, of course, you can get them at the state level and federal. There's federal registration for trademarks. And so what we're talking about here in particular where there's a problem is federal registration of trademarks that cover cannabis products in general. And so, what happened is that people realized that they couldn't register at the federal level trademarks for specifically cannabis-containing products, but they could get a lot of space around them. So ancillary products, from pipes to paraphernalia, shirts, things like that. And so there's been a lot of brands that have filed a lot of trademark registrations around cannabis products, but not directly for particularly THC-containing products.

Then with the FARM Act, they said, "All right, hemp is legal," and there was this rush to the Trademark Office to get the closest adjacent space to cannabis, or to THC-containing products, which is the hemp products. And the Trademark Office has been fighting that. However, some brands are getting through and some aren't. And I gotta be frank about it. It doesn't seem to be scientific at the moment, fully. If they consider it too close to registering a brand or a trademark for something that could cross the line into federally illegal conduct, they won't register.

And so it's becomes sort of a battleground, and it's not entirely clear yet where it's going to sort out. But in theory, you can register a trademark at the federal level to sell anything that's legal to sell at the federal level. But as I said, in this hemp area, it seems that the Trademark Office is not entirely allowing that. And again, the reason for it in part is, the Trademark Office is sensitive to the fact that people are really intending to brand something that does contain THC. They're going after the hemp thing to try and get ahead of everybody else on the assumption that at some point, THC-containing products will be federally legal as well and they can get registrations.

And so, under the trademark law, the person who's got the first use has the priority. And so you're trying to establish that priority on a very close use to the THC use. And again, the Trademark Office is resistant to this because they're trying not to give anybody a head start, if you will, on registering products for what's currently illegal at the federal level: THC-containing products. So it's a mess short term, sure. Bottom line, the whole trademark registration on the federal level is a bit of a mess.

Horn: It's interesting, Jon. Is it almost as if it's like a luck of the draw of who your reviewer is, whether you're going to get past?

Lagarenne: Well yeah, it's a little bit of that. So, when you file a trademark registration, you have to identify the products you're going to sell. And how you identify the products you are going to sell or are selling -- you can file a trademark registration on an intent to use or for actual use -- but how you identify the products that are going to be sold under the trademark has a large impact on how you do it.

So, how you define them. If they don't think the line is clearly drawn, that can be an issue. For instance, smokeable products might contain less than . 3% THC by weight, that's going to probably be a problem.

If, on the other hand, you're registering it and it's an obvious cannabis-related brand, but it's for logos on t-shirts and other things, you're likely to get by with it.

But hemp products in particular have a whole host of issues that they're very sensitive to. A lot of them are in CBD. There are other undercurrents here. It's not explicit, which is that there's FDA regulations related to CBD products and claims about what they can do. They help you sleep better, all those kind of things. And so there's another undercurrent here, where there's some resistance to register marks around things that are maybe federally regulated, but not well regulated.

So anyway, the answer in sum is it depends on how you describe the goods you're going to sell under the brand.

Horn: It's interesting, you raised the FDA issue. Because the FDA, although under the FARM Bill of 2018, it was delegated the responsibility to regulate derivatives, namely CBD products from hemp, but yet it has yet to do so. Instead what it has been doing is sending cease and desist letters to companies where they're making health-curative claims such as, "Our CBD product cures migraines." There were even some folks out there that are saying their CBD products prevented COVID, which I thought was an interesting one. And that's really all they've been doing.

The position the FDA takes is that CBD is a drug, because the FDA approved a drug called Epidiolex, which treats two forms of childhood epilepsy. And so, it's just an interesting dynamic because, notwithstanding the fact that you have the FARM Bill of '18 saying it's legal, in some way, that's even more of a mess.

But one of the things that you raised was the companies had some success in getting collateral products, getting trademark protection, such as things like pipes and other paraphernalia, but yet the control substance for that paraphernalia, if it's used primarily for the purposes of an illicit substance, is illegal. So, how are companies getting their vapes approved?

Lagarenne: You gotta say it's for smoking tobacco or other type of products that are legal. But it's a mess. Our people who have gotten brand registrations for pipes that could be used for cannabis products, but again, you described the products to be used for smoking legal substances. But of course they can also be used in some cases for non-legal substances, depending on the designs, etc. But, yeah, it's such a mess.

So, I do want to step back. And so one of the things, of course, everybody is doing -- and just to make sure people understand this recommendation -- so again, trademarks, a lot of it, in terms of staking out your territory, comes down to first to use. And so, unlike where you can legally do a business, you would, say, register at the federal level, get federal protections and the benefits of after five years, it's incontestable. Instead, in the cannabis space, everybody is basically trying to register at least at the state level to establish an early date of use, at least with the respect to any THC-containing product.

We end up, within the cannabis space, when it comes to branding and trademarking, is this sort of two-tiered approach. It's that you try to register locally as much as possible marks and brands that you're using indirectly for THC-containing products. And then at the federal level, you try to get registrations

that are in what we call adjacent or near fields on the theory that when and if THC-containing substances become federally legal, you'll be able to expand your brand into this adjacent space.

And you need to make them, as much as possible, focused on non-federally prohibited activities. And even with all that, there's just this reluctance at the Trademark Office for the FDA and other reasons. And so you get a much higher scrutiny or review when it's clearly a cannabis-related brand, I have to be honest.

Horn: That raises another interesting issue. I think for the people who operate in the space on a regular basis, branding means everything. And I think some companies view that as really the true value of their company is their brand. But when you talk about the products that they sell, they try to get, people try to get protection on the products that they sell. But if you were to go randomly and pick 20 grow facilities and see what products they make, they probably all make the same named products. Purple Kush ... it seems like everyone has a product called Purple Kush. So, how could one company get protection for that and another company can't? Or is it even possible if everybody has the same named product?

Lagarenne: Well, again, on a product, say Purple Kush, I don't think you're going to get the Trademark Office to allow you to register it because it's, I guess, in their view, obviously, related to a THC-containing product. So it does create this scenario where it's a Wild West. But again, that's where I mentioned state registrations. You can register that brand in a state if you're the first to use it. And then I think what's going to happen is you're going to start seeing some sort of common law trademark suits where people fight out who's really first and who really has the rights to the brand.

And I do want to mention -- among other stuff, you said the brand is the value of the company. But brand is closely associated with quality. Now, quality, I don't mean necessarily high quality, low quality. A brand can be a cheap brand, right? That's their stake. And another brand can be the high-end brand. But quality is a factor in that. And that's where you cut over into trade secret side of it. So, for blends and products like that, that have a unique experience, that can be a function of how you put it together, the sequence or the mix or the blends of products. And that's where you get into trade secret, which is closely tied with your brand. It's an identifier of your unique products, which are tied to the way they're made or whatever, and your trade secrets.

So, I just want to emphasize, I think that trade secret is a bit overlooked in a lot of cannabis businesses. And to maintain a trade secret, it takes a certain amount of discipline. Like, not the least of which is only having people who have a need to know the secret, know it, so not everybody in the building knows it. And locking it up. But again, when you're developing a brand and you're trying to identify a certain type of quality or qualities of that product, you also want to think about trade secrets that make your product differentiate from the others, that are why people assimilate to the brand.

And that's another way, if your product gets a unique sort of reputation for -- whatever -- that it's got a certain, spiciness to it, whatever you want to call it, that goes with your brand hand-in-hand. So, the two go together. And I think a lot of people on the cannabis space overlook the importance of their trade secrets to confidentiality, not just having an open floor where you can, anyone can see how they blend their products, for instance.

Horn: And I would think, Jon, it would get more complicated because there's some companies -- what we call multi-state operators -- they operate it in multiple states at the same time. And so if I understand what you're saying, wouldn't those companies have to seek independent protection in each state in which they operate, because presumably they're not sending anything over state lines?

Lagarenne: The short answer is yes. Any state you're operating in you should register or file your marks in your brand. Yes.

Horn: And/or do whatever the law requires to protect trade secrets.

Lagarenne: And that's fairly consistent across most states. There are little nuances, but that's fairly consistent. And the basics are that: A) you got to keep it secret and confidential. You gotta take reasonable steps so that not anybody knows it; and then B) is that it's gotta be something that actually gives you an advantage over your competitors.

Now, again, if you're talking something smokeable and the blend has a unique aroma, unique taste or whatever and that's because of the unique blend, that's clearly something that can qualify as a trade secret if you maintain your recipe confidentially. The recipes are a classic trade secret.

Again, fertile area for people developing brands in the cannabis space is think about your recipes, think about your unique products. And again, if it goes to things like pipes and stuff, you can have unique designs. You can get design patents also sometimes. But you can have unique designs of the way you make the product. If that somehow gives it a better performance, that can be a trade secret.

But the third area, which is why I segue to the pipes ... Useful devices can get patents. And so you can get a patent on a unique pipe. If it's nothing in the prior art like it, you can get a patent on the design that you put on a pipe. That's the third element of IP here. That again, I think, in the cannabis space, I think you're right, everybody's brand-focused. But parts of brand are the qualities that make it unique. And that can be in trade secrets or when it comes to, like, design features. There could be patent design protection also for your brand. The virtue of a patent -- a design patent for instance, which goes to the artistic design, not something useful about it -- but the value of that in a cannabis business is you get nationwide protection. So, if you've got some kind of unique design that you mark on all your products, and it's a physical design that goes on the device as opposed to a trademark, you can think about design patents as another way to build your brand.

Horn: Got it. So I guess, along that line, if there's federal legalization, I think obviously, at least from what I'm hearing, many of these issues that we've wrestled with may eventually fade away. But let's assume, federal legalization of THC products over 0.3%, is not going to come anytime soon. And assuming that's the case, where do you think the cannabis industry is heading from an intellectual property protection standpoint?

Lagarenne: I think they're headed to some level of chaos because the whole purpose of federal registration for the trademark side is to avoid confusion in the marketplace where there's multiple different parties selling under very similar brands.

But again, you have state laws that you can use to enforce it. And it just becomes more costly and more scatter-shot, and you can get varying results in different states. So, I think you're going to end up -- and I think you've already alluded to it -- where there's going to be some level of chaos where there's gonna be people selling products with confusingly similar names that are distinctly different products.

It's going to be a little difficult for brand guys to protect it, but then that's why, again, I emphasize to think about the trade secret and patent aspect of it. Even the design patent aspect of it, that you somehow make your products look unique in some way. Because there you'll have better ability to enforce your brand.

Brand is associated with a certain quality or qualities of a product and certain aspects of it that make it unique and identify it. And especially because of the lack of federal, I think cannabis businesses need to think more thoughtful about other ways that they can protect their brand and enforce their brand across the country.

Horn: One of the things you'd mentioned on the state level is making sure you have limited exposure to who knows the secret sauce, if you will. Do you recommend that employers have employees sign confidentiality agreements?

Lagarenne: Absolutely. Thanks for bringing that out. A lot of states impose a certain level of confidentiality obligation and a loyalty on employees, but you should, as a matter of course, just like any other business, have your employees sign a confidentiality undertaking when they come on board. And typically also an assignment of inventions and patents when they come on board. So that if, while you're paying them, they devise or come up with a better way to harvest your cannabis or to make your products, that also could possibly do either a design patent or a utility patent because of some useful mechanism.

And again, if you get a patent, you can enforce that nationwide and you can get an injunction against a competitor, etc. So, you should have these basic principles that apply to other businesses, of when your employees come on board, they should sign appropriate confidentiality, invention disclosure and invention assignment agreements. The same form of agreement that other businesses use. There's nothing unique about them in the cannabis space.

Horn: That's great, John, I appreciate your comments here. I think, you really gave us a lot of food for thought of the issues that currently face cannabis businesses and THC businesses and issues that they'll likely face for the short and maybe long term, depending upon what happens at the federal level. So, I appreciate your time and taking the time to speak with us today.

Lagarenne: Thanks Josh. My pleasure.