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Obstacles to Obtaining and Enforcing Intellectual Property Rights in the Marijuana Industry

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Obstacles to Obtaining and Enforcing Intellectual Property Rights in the Marijuana Industry

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OBSTACLES TO OBTAINING AND ENFORCING INTELLECTUAL PROPERTY RIGHTS IN THE MARIJUANA INDUSTRY

Emily Pyclik¹

ABSTRACT

While many individual states have legalized the use of marijuana, it remains federally illegal. These contrary laws present unique issues for businesses, courts, and attorneys. This note overviews the obstacles a marijuana business owner may face when trying to secure intellectual property rights. Next, this note addresses the difficulties posed in enforcing marijuana-related intellectual property. Because marijuana patents have yet to be asserted in courts, this note looks at holdings from other areas of law involving marijuana cases. While it is unclear what action courts will take when faced with a marijuana-related patent case, this note concludes by identifying trends in the federal courts and overviews other potential issues a marijuana-related intellectual property owner should consider before litigating.

¹ The University of Notre Dame Law School, J.D. 2018; The University of Notre Dame, M.S. Patent Law; The University of Texas, B.S. Chemistry. I would like to thank my husband and my parents for their never-ending support and encouragement. Additionally, I would like to thank Professor Stephen Yelderman for his guidance while writing this note.
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INTRODUCTION

A dichotomy exists between how federal and state laws treat marijuana. Federally, marijuana remains illegal. In 2016, the Department of Justice reaffirmed its position to treat marijuana as a Schedule 1 controlled substance under the Controlled Substances Act of 1970 (CSA), alongside heroin and LSD.\(^2\) By giving marijuana a Schedule 1 label, the government concluded that marijuana has a high potential for abuse, has no currently accepted use for medical treatment in the US, and lacks acceptable safety use under medical supervision.\(^3\) However, eight states have legalized marijuana for both medical and recreational uses: Alaska, California, Colorado, Maine, Massachusetts, Nevada, Oregon, and Washington.\(^4\) Twenty-nine states currently allow marijuana for medical uses.\(^5\) Although states have passed laws in this area that are contrary to federal law, the Supreme Court revealed how this issue of contrary laws would be resolved in *United States v. Oakland Cannabis Buyers’ Cooperative.*\(^6\) The Court held that the CSA’s prohibition on manufacturing and distributing marijuana provides no medical necessity exception, even for medical reasons recognized by states.\(^7\) Because of the Supremacy Clause of the Constitution, the CSA will trump state laws that recognize medical uses for marijuana.\(^8\) The Court emphasized that it is Congress’ role, not the role of the Court, to define federal crimes.\(^9\) In this role, Congress defined marijuana use as a federal crime and determined that it has ”no currently accepted medical use.”\(^10\)

Despite the continued federal illegality, the market for marijuana has significantly grown in recent years. In part, this was due to the Obama administration’s choice not to enforce the CSA for marijuana in states that had legalized it.\(^11\) The administration released a series of memoranda in 2013 and


\(^5\) Id.


\(^7\) Id. at 494.

\(^8\) Id.

\(^9\) Id. at 490.

\(^10\) Id. at 491.

2014 (the Cole Memos) where the government revealed it would take a hands-off approach to marijuana regulation and directed the US Attorneys to take a deferential approach toward state marijuana laws. However, the Trump administration has indicated that it may not continue the deferential treatment under the Cole Memos, leaving those in the marijuana industry unclear about what stance the government will take and how it may affect marijuana businesses.

Congress has also taken action to temporarily protect states in conflict with federal law and aimed specifically at medical marijuana. Congress passed a temporary rider that prohibits the Department of Justice and Drug Enforcement Administration from using funds to prevent states from implementing their medical marijuana laws. It reads as follows:

None of the funds made available in this Act to the Department of Justice may be used, with respect to any of the States of Alabama, Alaska, Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Oregon, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, and Wisconsin, or with respect to either the District of Columbia or Guam, to prevent any of them from implementing their own laws that authorize the use, distribution, possession, or cultivation of medical marijuana.

In August of 2016, the Ninth Circuit in United States v. McIntosh consolidated five cases charging the defendants with federal marijuana offenses. The defendants asked the court to dismiss their indictments or to enjoin their prosecutions, arguing that § 542 of the Consolidated Appropriations Act prevented the DOJ from spending the funds to prosecute them. The Ninth Circuit agreed and concluded “at a minimum, § 542 prohibits DOJ from spending funds from relevant appropriations acts for the prosecution of individuals who engaged in conduct permitted by the State Medical Marijuana Laws and who fully complied with such laws.” In other words, the rider prohibits federal prosecutors

12 Memorandum from James M. Cole, Deputy Att’y Gen.
15 Id.
16 United States v. McIntosh, 833 F.3d 1163, 1164 (9th Cir. 2016).
17 Id.
18 Id. at 1177.
from going after patients and providers who are operating in accordance with local laws. The court emphasized that the protections only provide temporary relief, so long as Congress continues to include similar riders in future appropriation bills.\textsuperscript{19}

Despite attempts to ease the burdens on marijuana businesses by the former administration and Congress, federal and state laws still conflict. As a result, marijuana businesses face some unique hurdles. These include limits in the business’s ability to: deduct business expenses for tax purposes, use banking services, enforce contracts, and obtain bankruptcy protection.\textsuperscript{20} While marijuana businesses are subject to several of the federal law’s burdens, they are unable to take advantage of federal benefits due to the nature of their businesses. Further, marijuana businesses may face difficulties in obtaining and enforcing intellectual property.

Part I of this note outlines the road to the USPTO issuing patents for marijuana. For now, the USPTO is granting patent protection for novel marijuana strains.

Part II provides an overview of why the USPTO denies trademarks for marijuana-related goods. Notably, the USPTO denies trademark protection for marijuana marks because of the inability to legally use the mark in commerce. This note points out a possible loophole that international marijuana businesses may utilize to obtain priority for a marijuana mark in the United States.

Part III identifies the obstacles marijuana-related IP owners face if seeking a remedy in court. These obstacles include: parties raising equitable defenses like unclean hands at trial, problems trying to get an attorney to work on a case involving a marijuana business, and problems with discovery if a party attempts to invoke the Fifth Amendment. Further, marijuana has been a secret business for so many years that a party seeking to find prior art to invalidate a patent may face a serious burden. With trademarks, a court could cancel a trademark if it determines that an owner is using the mark with illegal goods. Finally, because marijuana is still considered illegal or immoral by many people, the parties may encounter a biased jury.

Part IV explores other areas of law in which courts have ruled on rights for issues involving marijuana, and how this treatment may similarly affect marijuana IP owners.

This note concludes by identifying trends of how courts are dealing with marijuana litigation in other areas of law. A marijuana IP owner would be wise to consider these trends when deciding where to file suit and what type of remedy to

\textsuperscript{19} Id. at 1179

seek from the courts. Further, when entering into license agreements, a choice of law or venue clause may be crucial. Alternatively, an arbitration agreement may be desirable to help keep the IP out of federal courts. Each part will provide these and other possible solutions, along with identifying associated problems.

I. OBTAINING PATENT PROTECTION FOR MARIJUANA

The government has granted at least four-dozen cannabis-related utility patents.21 Interestingly, even the U.S. government holds a patent for using non-psychoactive cannabinoids to protect the brain from damage or degeneration caused by certain diseases, such as cirrhosis.22 Some argue this is hypocritical because the government holds a utility patent for a medical use for marijuana, yet continues to identify it as a Schedule I controlled substance with no legitimate medical use.23 The U.S. Government developed the invention inside the National Institutes of Health (NIH), an agency of the United States Department of Health & Human Services. The NIH conducts and funds research involving marijuana, and filed this patent on behalf of the U.S. Government. The patent states “Cannabinoids have been found to have antioxidant properties... This new found property makes cannabinoids useful in the treatment and prophylaxis of a wide variety of oxidation associated diseases... Nonpsychoactive cannabinoids, such as cannabidoil, are particularly advantageous to use because they avoid toxicity that is encountered with psychoactive cannabinoids ...”24 The U.S. Government has even licensed this patent to Kannalife, a biopharmaceutical company that develops cannabinoid-based therapeutics.25 Further, the Food and Drug Administration, also part of the federal government, has approved the drugs Marinol and Syndros.26 These drugs are synthetic forms of THC, the primary psychoactive cannabinoid in marijuana. However, the FDA has not yet approved any product containing or derived from botanical marijuana.

While still not approved by the FDA, the United States Patent and Trademark Office (USPTO) has begun granting utility patents for marijuana that contain significant amounts of the active ingredient THC.27 U.S. Patent 9,095,554 issued

22 U.S. Patent No. 6,630,507 (filed Apr. 21, 1999).
23 See Wallace, supra note 21.
24 See ‘507 Patent.
25 See Wallace, supra note 21.
on August 4, 2015 covers: the plant itself, a method of breeding the plant, and edible cannabis products containing the patented invention. The patent states:

"There is a real need for cannabis varieties for potential medical use that produce modulated THC concentrations and varying concentrations of other pharmacologically active substances. There is also a need for healthier cannabis for recreational use with reduced negative side effects from THC. The inventions described herein meet that long-felt need."  

The USPTO is now issuing patents for both medical and recreational marijuana containing the psychoactive ingredient THC.  

While the USPTO had a history of rejecting patents for being immoral, in 1977 the Board of Patent Appeals and Interferences ruled in *Ex Parte Murphy* that a utility rejection for morality reasons was inappropriate. In *Ex Parte Murphy*, the Patent Board stated:

"[W]e cannot find any basis in 35 U.S.C. 101 or related sections which justify a conclusion that inventions which are useful only for gambling ipso facto are void of patentable utility. . . [W]e think this office should not be the agency which seeks to enforce a standard of morality with respect to gambling, by refusing, on the ground of lack of patentable utility, to grant a patent on a game of chance if the requirements of the Patent Act otherwise have been met."

The Board reversed the rejection for lack of patentable utility.  

In 1999, the Federal Circuit clearly put an end to “the principle that inventions are invalid if they are principally designed to serve immoral or illegal purposes” because neither the USPTO nor the courts should serve as arbiters of morality. In *Juicy Whip, Inc. v. Orange Bang, Inc.*, the court held that:

"Congress never intended that the patent laws should displace the police powers of the States, meaning by that term those powers by which the health, good order, peace and general welfare of the community are promoted . . . we find no basis in section 101 to hold that inventions can be ruled unpatentable for lack of utility simply because they have the capacity to fool some members of the public."

Therefore, so long as the invention is “capable of providing some identifiable benefit,” it meets the statutory requirement for use.  

The USPTO’s patent division issues patents that comply with applicable statutes, and there are no special statutory requirements or restrictions placed on patenting marijuana plants. The USPTO now includes in the Manual of Patent

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28 Id.  
29 Id.  
32 Id. at 1368 (citing *Webber v. Virginia*, 103 U.S. 344, 347-48 (1880)).
Examining Procedure that “[a] rejection under 35 U.S.C. 101 for lack of utility should not be based on grounds that the invention is frivolous, fraudulent or against public policy.” So, the fact that marijuana is federally illegal, and may be considered immoral by some, has not stopped the USPTO from issuing patents on it.

II. OBTAINING TRADEMARK PROTECTION FOR MARIJUANA

While the USPTO has begun issuing patents covering marijuana inventions, it is still rejecting marijuana-related trademarks. To be eligible for federal trademark protection, the law requires the use of the trademark in U.S. commerce. Because marijuana is federally illegal, the USPTO is rejecting marijuana marks for failure to meet the use in commerce requirement.

The Trademark Trial and Appeal Board (TTAB) has affirmed rejections by trademark examiners for marijuana-related products due to an inability to legally use the products in commerce. In In re Brown, the Board affirmed a trademark examiner's refusal to register “Herbal Access” for “retail store services featuring herbs” after finding that the applicant engaged in marijuana sales. The TTAB held that the trademark's use in commerce would be unlawful under federal law, and, thus, the PTO denied the applicant’s registration. To qualify for a trademark or service mark, the use in commerce must be lawful.

In In re JJ206, the case arose from an examiner’s refusal to register the marks “Powered by Juju” and “Juju Joints” for smokeless cannabis-vaporizing devices because the applicant could not establish an intent to use the marks in lawful commerce. Because the federal Controlled Substances Act outlaws the sale of marijuana paraphernalia, registration was not permitted because actual lawful use in commerce was not possible. In other words, it is a legal impossibility to have a bona fide intent to use a mark for illegal goods in commerce. Therefore, because there is no lawful use, illegal goods cannot serve as a basis for federal registration.

The USPTO includes in its Trademark Manual of Examining Procedures that “[u]se of a mark in commerce must be lawful use to be the basis for federal registration of the mark.” The manual specifically mentions the following about marijuana and its use in commerce:

38 See id.
Evidence indicating that the identified goods or services involve the sale or transportation of a controlled substance or drug paraphernalia in violation of the Controlled Substances Act ("CSA")... would be a basis for issuing an inquiry or refusal... Subject to certain limited statutory exceptions, the CSA makes it unlawful to manufacture, distribute, or dispense a controlled substance; possess a Schedule I controlled substance; or sell, offer for sale, or use any facility of interstate commerce to transport drug paraphernalia... Note that, regardless of state law, marijuana and its psychoactive component, THC, remain Schedule I controlled substances under federal law and are subject to the CSA’s prohibitions.40

So, until the federal government legalizes marijuana, the USPTO will likely continue rejecting marijuana-related trademark applications.

If a trademark owner admits that their mark is associated with illegal goods in commerce, this is perilous because a trademark owner will risk federal criminal prosecution by admitting this on the record. However, ancillary businesses can get trademark protection for legal goods and services related to marijuana, like merchandise that says marijuana or otherwise contains a protectable marijuana-related mark.41 In fact, the USPTO has allowed several marks that use the word “marijuana” or images of marijuana plants, including the mark “KITTYJUANA” for catnip, “NO ONE BELONGS IN JAIL FOR MARIJUANA!,” and “MARIJUANA INTERNATIONAL,” for a cannabis advertising services company.42

There are examples of ancillary businesses beating actual marijuana businesses to the USPTO for their marks. Rohan Marley, son of legendary Reggae musician Bob Marley, announced the start of a global cannabis brand, Marley Natural, in 2014.43 But soon afterward, a tobacco exporter, with no connection to Marley, filed trademarks for “Natural Marley Spirit Marijuana” which contained a lion and cannabis leaf. Yet, because the Marley Natural brand is associated with marijuana, their mark would not be eligible for trademark protection.44 If the U.S. ever federally legalizes marijuana, ancillary businesses that use marijuana in their marks, like tobacco exporters, will have a head start in incorporating marijuana

40 See id.
42 See, e.g., KITTYJUANA, Registration No. 4445944; NO ONE BELONGS IN JAIL FOR MARIJUANA!, Registration No. 4372165; MARIJUANA INTERNATIONAL, Registration No. 4110524.
44 Id.
into their existing businesses and with an established goodwill. This could give these ancillary businesses an advantage in being able to select marks first.

Another option that marijuana businesses previously used to seek protection for their business names was pursuing protection for the use of their marks on different merchandise, like hats, t-shirts, coffee mugs, etc., in lieu of protection relating to the use of the marijuana product itself. Entities used this method as “trademark laundering”, which initially starts with a trademark application for legal goods. The entity would get the mark approved for its legal goods, but then expand the goods or services attached to the mark by using it on additional goods and services not mentioned in the application. For example, a marijuana business may apply for a mark for their legal merchandise, but then, after obtaining registration, also use it on marijuana or marijuana paraphernalia.

However, the PTO may reject or cancel a mark due to trademark laundering involving illegal goods or services. The Trademark Trial and Appeals Board of the USPTO delivered a blow to marijuana businesses with its 2016 In re Morgan Brown decision. The Board affirmed the refusal to register the mark HERBAL ACCESS for “retail store services featuring herbs.” To qualify for federal registration, a mark must be in lawful use. Therefore, any goods or services an applicant attaches to the mark must not be illegal under federal law. The Trademark Office is not precluded from using external evidence, like the applicant’s website, to conclude that the identified goods or services encompass cannabis.

While marijuana businesses may not be eligible for federal trademark protection, they may be eligible for state trademark protection. This state-level protection is unique to trademarks because states are unable to provide patent-like protection. Businesses are clearly taking advantage of state protection. For example, as of July 2015, there were over 200 marijuana trademark registrations in Colorado. However, state trademarks have important limitations: they are only enforceable within a state’s borders, and they require navigating multiple state laws to receive protection if sought in multiple states.

Another strategy an entity could use to obtain trademark protection in the United States would be to first secure protection in another country where

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45 See Kamin, supra note 41.
46 In re Morgan Brown, 119 USPQ2d 1350 (T.T.A.B. 2016) [precedential].
47 Id.
48 Id.
marijuana is legal. Some other countries have legalized marijuana for medicinal or recreational use, including some members of the TRIPS Agreement. Since the United States is a member of the TRIPS agreement, it is required to adhere to the minimum standards set forth in the agreement. One such requirement is that the nature of the goods cannot form an obstacle for trademark protection. So, if someone were to obtain trademark protection for marijuana in a TRIPS country, then the United States could not deny protection for it on the basis of its nature. There are exceptions to the agreement, including that a nation can opt to not enforce sections if “necessary to protect public morals.” However, the USPTO has denied trademark protection for lack of use in commerce due to its illegality, not due to immorality.

To avoid a denial for use by the USPTO, an entity could first file abroad in a TRIPS member country where marijuana is legal. After obtaining trademark protection abroad they could then apply for U.S. trademark protection. Under TRIPS, “actual use of a trademark shall not be a condition for filing an application for registration.” Therefore, applications based on prior foreign applications from a different country of origin are entitled to U.S. registration without any actual use. In SCM Corp. v. Langis Foods Ltd., the Court of Appeals for the District of Columbia held that a corporate foreign national, who applied for trademark registration in its home country, had priority in registering that mark over a domestic corporation, even though it had yet to use the mark in the U.S. So, the U.S. would have to allow registration of a mark if filed properly under Paris Priority, even if the mark was not able to be legally used in the U.S.

TRIPS permits the cancellation of a mark if it is not used within three years; however, the agreement recognized valid reasons for non-use as “[c]ircumstances arising independently of the will of the owner of the trademark which constitute an obstacle to the use of the trademark, such as import restrictions or other government requirements for goods or services protected by the trademark.” Inability to use was at issue for the mark “Havana Club,” where a U.S. embargo

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54 Id. at art. 14.


56 See TRIPS: Agreement, supra note 53, art. 15:3.

57 SCM Corp. v. Langis Foods Ltd., 539 F.2d 196 (D.C. Cir. 1976).

on Cuba prevented the mark’s use in the U.S. Because the reason for non-use was out of the trademark owner’s control, the U.S. trademark is not recognized as abandoned.

In summary, if trying to obtain a trademark in the United States where marijuana is illegal, a trademark applicant could first apply for the mark in a TRIPS member country of origin, then subsequently file in the United States within the Paris Priority period. Consequently, if marijuana is federally legalized in the United States, the foreign filer could claim priority for the mark. Even if three years passed and marijuana was still illegal in the United States, the trademark owner could argue against abandonment because it could not use the mark in the United States for circumstances it could not control, namely, that it was illegal under U.S. Federal Law. So, using this strategy could entitle a trademark owner to priority for its mark.

III. OBSTACLES MARIJUANA IP OWNERS FACE IN ENFORCEMENT

A patent owner has yet to assert a marijuana-related patent in U.S. courts. However, when that day comes, there are many litigation issues for an illegal business. Similarly, trademark owners who obtained their trademarks through laundering or other means may also face an uphill battle when it comes to litigating. These associated hurdles include problems of equitable defenses such as unclean hands raised by the other side, problems trying to get an attorney to work on a case where the business owner is engaging in unlawful activity, and problems with discovery when one party is avoiding self-incrimination in any testimony. Further, it may be a burden for a party to find prior art to invalidate a patent since marijuana has been grown and used in secret for many years. Additionally, because marijuana is still considered illegal or immoral by many people, the parties may encounter a biased jury. Finally, a trademark owner risks cancellation of their trademark if they use the mark for federally illegal goods like marijuana.

A. Unclean Hands

A maxim of equity is that a party seeking the aid of a court of equity must come into court with clean hands. While the Clean Hands Doctrine started as an equitable doctrine, many jurisdictions also apply it for legal remedies like damages. Courts have applied this doctrine to those engaged in federally illegal

60 Byron v. Clay, 867 F.2d 1049, 1052 (7th Cir. 1989) (“But with the merger of law and equity, it is difficult to see why equitable defenses should be limited to equitable suits anymore; and of
businesses when they are seeking equitable relief. For example, in *Fourth Corner Credit Union v. Federal Reserve Bank of Kansas City*, a plaintiff involved in the marijuana industry asked the court to exercise its equitable authority to issue a mandatory injunction. The case involved a credit union formed to service marijuana-related businesses, which was denied a “master account” with the Federal Reserve Bank of Kansas City, a private corporation. The court declined to force the defendant bank to open the master account because the marijuana business plaintiff was coming to court with unclean hands. The court declined to facilitate such criminal activity. The judge concluded that “[a] federal court cannot look the other way” when a party is violating the law.

However, in 2014 a court in California took a different stance in a trademark case. The case arose after the Military Order of the Purple Heart of the United States of America (Military Order) sent cease and desist letters to the Purple Heart Patient Center (PHPC), a medical marijuana seller. In response to the letter, PHPC filed an action seeking a declaratory judgment from the court that its mark was not infringing the Military Order’s mark. The defendant, the Military Order, then moved for a judgment on the pleadings due to lack of standing by the plaintiff, asserting that the plaintiff could not show the type of damages cognizable under federal law because the sale of marijuana violates federal law. In other words, the defendant argued that the plaintiff could not use the Lanham Act to protect illegal activities. However, the court found that the plaintiff, PHPC, did have standing because the defendants sent cease and desist letters, raising a “threat of peril.” The court acknowledged the Unclean Hands Doctrine as follows:

While it is a concern that plaintiff could flagrantly violate federal laws and simultaneously seek the assistance of a federal court of equity to cancel trademarks, nevertheless, defendants began this controversy by sending cease-and-desist letters forcing plaintiff to defend itself. If the trademark owner had sued first for damages, would anyone say that the defendant would not have had the right to defend itself in court? No, that would not be the American way. And if that is so, then declaratory relief is equally available to the accused. Given that defendants seek relief for alleged trademark infringement arising from registrations which could be

course many are not so limited, and perhaps unclean hands should be one of these.”) (citations omitted); Mona v. Mona Elec. Group, Inc. 176 Md. App. 672, 713 (Sept. 13, 2007) (“Traditionally, the clean hands doctrine only applied in equity. It has been expanded, however, to cases at law, as well.”); Fibreboard Paper Prods. Corp. v. E. Bay Union of Machinists, 227 Cal. App. 2d 675, 696 (Cal. App. 1st Dist. 1964); Robert N. Leavell, Et. Al., Equitable Remedies, Restitution, and Damages, 722 (4th ed. 1986).

62 Id.
invalid, it would be wrong to deny plaintiff the opportunity to defend itself.\textsuperscript{64}

The court went on to acknowledge, “[I]t would be unfair to strip plaintiff of this avenue of defense.” And, “[t]aken one step further, if we were to recognize defendants' theory, then every trademark action would devolve into a side showing wherein the trademark owner dredges up various other federal laws supposedly violated by the accused. This cannot be.” In summary, the court in \textit{Purple Heart} allowed the plaintiff to have its day in federal court after another party sent cease and desist letters, even though the plaintiff was operating a business in violation of federal law.

As for patent cases, courts have not yet ruled on the issue of injunctions or damages for marijuana-related businesses. A court may decide to follow the reasoning outlined in \textit{Four Corner Credit Union} and choose not to issue an injunction to a competitor which would aid the plaintiff’s own illegal activity. Or, it may agree with the reasoning of \textit{Purple Heart}, and allow the action to proceed. Indeed, based on these different outcomes, the cleanliness of the party ultimately demanding damages may determine the application of the doctrine.

\textbf{B. Obtaining an Attorney}

Attorneys risk violating Rules of Professional Conduct for assisting in criminal activities.\textsuperscript{65} Different states have variants of ABA Model Rule of Professional Conduct 1.2(d)—which broadly permits lawyers to advise clients on the legal consequences of conduct but prohibits lawyers from assisting clients with conduct the lawyer knows is criminal.\textsuperscript{66} One example of a state variant is the Colorado Rule of Professional Conduct 1.2(d), which states:

A lawyer shall not counsel a client to engage, or assist a client, in conduct that the lawyer knows is criminal or fraudulent, but a lawyer may discuss the legal consequences of any proposed course of conduct with a client and may counsel or assist a client to make a good faith effort to determine the validity, scope, meaning or application of the law.\textsuperscript{67}

After Colorado legalized marijuana, lawyers faced a conundrum: if they chose to represent a client engaging in the marijuana industry, they risked violating the rules and being disciplined. In response, Colorado’s Supreme Court added a

\textsuperscript{64} \textit{Id.}
\textsuperscript{66} ABA Model Rule of Prof'l Conduct, r. 1.2(d) (Am. Bar Ass'n 2017).
\textsuperscript{67} Colo. Rules of Prof'l Conduct, r. 1.2(d) (Colo. Bar Ass’n 2016).
comment to the Rules to include exceptions that attorneys can assist with marijuana counseling, but they must advise clients of federal laws and policies.\textsuperscript{68}

Other states, like Illinois, have also amended their professional rules to accommodate the laws allowing for medical marijuana usage. In amending the Illinois Rules of Professional Conduct, the Illinois Supreme Court stated:

The conflict between state and federal law makes it particularly important to allow a lawyer to provide legal advice and assistance to a client seeking to engage in conduct permitted by Illinois law. In providing such advice and assistance, a lawyer shall also advise the client about related federal law and policy.\textsuperscript{69}

To date, no attorneys have faced disciplinary action for representing a client in the marijuana industry in a state which has legalized marijuana. However, scholars and states remain divided about whether providing a legal service to marijuana businesses is indeed an ethical violation.\textsuperscript{70}

For example, in Maine, the Professional Ethics Commission pointed out that the professional rules make no distinction between enforced and unenforced crimes.\textsuperscript{71} As a result, attorneys in Maine would risk violating ethics rules if they chose to represent a marijuana business because, even though in Maine it is unenforced, marijuana is still federally illegal.\textsuperscript{72}

On the other hand, Arizona took a different approach to this problem. An opinion by the State Bar of Arizona pointed out the problems that could arise if the industry does not have access to legal counsel in such a highly regulated industry.\textsuperscript{73} The State Bar of Arizona determined that "[a] lawyer may ethically counsel or assist a client in legal matters expressly permissible under the Arizona Medical Marijuana Act, even though such conduct may potentially violate applicable federal law," so long as "the lawyer advises the client regarding

\textsuperscript{68} Colo. Rules of Prof’l Conduct, r. 1.2, cmt. [14]. (Colo. Bar Ass’n 2016).

\textsuperscript{69} In re Amended Rule 705, 2015 III. LEXIS 1247 (Oct. 15, 2015).

\textsuperscript{70} Eric Mitchell Schumann, Comment, Clearing the Smoke: The Ethics of Multistate Legal Practice for Recreational Marijuana Dispensaries, 6 St. Mary’s J. Legal Mal. & Ethics 332, 352 (2016).


\textsuperscript{73} State Bar of Ariz. Ethics Opinion 11-01, COMM. ON THE RULES OF PROF’L CONDUCT (Feb. 2011), http://www.azbar.org/Ethics/EthicsOpinions/ViewEthicsOpinion?id=710 ("We decline to interpret and apply ER 1.2(d) in a manner that would prevent a lawyer who concludes that the client’s proposed conduct is in ‘clear and unambiguous compliance’ with state law from assisting the client in connection with activities expressly authorized under state law...").
possible federal law implications of the proposed conduct. So Arizona appears to take the same stance as the state of Colorado, albeit for a different reason.

While Colorado’s District Court adopts most of Colorado’s RPC as their own, in 2014 it clarified that the state’s exceptions for marijuana were not going to be allowed at the federal level. While the Colorado Supreme Court has adopted the exception, the District Court has rejected the exception. So, Colorado’s state and federal courts are treating the issue differently. This problem is not unique to Colorado, as Arizona district courts may choose to take the same stance, resulting in attorneys still risking violation of ethics rules if practicing in federal courts. Because of the conflict between state and federal laws regarding lawful representation under ethics rules, some law firms and attorneys may shy away from representing those engaged in the marijuana business. This uncertainty for attorneys is particularly true when medical or recreational marijuana is newly legal in a state, and the state has yet to amend its ethics rules in response.

While trademark attorneys could still potentially litigate in state courts where marijuana is legalized, it is unclear whether trademark attorneys still risk violating ethical or professional rules by representing clients in federal court.

Because federal courts preside over patent litigation, a patent attorney would be subject to federal rules. Furthermore, many states require an attorney to uphold both state and federal laws. An attorney federally barred to practice before the USPTO is additionally bound by the USPTO’s Rules of Professional Conduct. The USPTO’s relevant rule is:

A practitioner shall not counsel a client to engage, or assist a client, in conduct that the practitioner knows is criminal or fraudulent, but a practitioner may discuss the legal consequences of any proposed course of conduct with a client and may counsel or assist a client to make a good-faith effort to determine the validity, scope, meaning or application of the law.

Thus, a patent attorney would rightfully be hesitant to represent a marijuana patentee.

This problem is not unique to attorneys, as other professionals face a similar dilemma. For example, Certified Public Accountants (CPAs) also need to be cautious when working with marijuana businesses. The American Institute of Certified Public Accountants (AICPA) released guidelines for CPAs to consider before providing services to businesses that operate in these industries: “AICPA

74 Id.
75 See Wald, supra note 65 at 3.
76 Id.
78 37 C.F.R. § 11.102(d) (2016).
recommends that all CPAs and CPA firms interested in providing services to marijuana businesses review the full guidance offered by the U.S. Department of Justice.” 79 As of January 8, 2016, only seven state boards of accountancy had issued specific guidance for CPAs who may wish to provide services to these businesses.80 Washington and Oregon have permitted CPAs to work with marijuana businesses, but cautioned them to consider the risks involved.81 However, other states are unclear about whether action could be taken against a CPA if found guilty under a federal act.82 Nevada decided “[t]he Board's position does not negate the possibility that disciplinary action may be taken by the Board should a licensee be found guilty of a federal criminal act.”83 The AICPA further cautioned that “[a] state board of accountancy could consider providing services to marijuana-related businesses as grounds to refuse to grant or renew a license based on the failure to satisfy the good moral character requirement, or as grounds for disciplinary action, although none have made such a determination so far.”84

C. Fifth Amendment Invoked in Discovery

The U.S. Constitution’s Fifth Amendment provides that: “No person... shall be compelled in any criminal case to be a witness against himself.”85 The Supreme Court has extended this right against self-incrimination to the civil context for when a witness’s answers might incriminate him in subsequent criminal proceedings.86

This issue appeared in a case between a marijuana business owner and the IRS.87 A company operated a marijuana business and wanted to deduct business expenses, but the IRS would not allow them because of the nature of their business.88 The case stated:

80 Id.
81 Id.
82 Id.
83 Id.
84 Id.
85 U.S. CONST. art. V.
86 See McCarthy v. Arndstein, 266 U.S. 34 (1924) (the Fifth Amendment “applies alike to civil and criminal proceedings, wherever the answer might tend to subject to criminal responsibility him who gives it.”); see also Wehling v. Columbia Broadcasting Sys., 608 F.2d 1084, 1086 (5th Cir. 1979) (“Even if the rules did not contain specific language exempting privileged information, it is clear that the Fifth Amendment would serve as a shield to any party who feared that complying with discovery would expose him to a risk of self-incrimination. The fact that the privilege is raised in a civil proceeding rather than a criminal prosecution does not deprive a party of its protection.”) (citing Lefkowitz v. Cunningham, 431 U.S. 801, 805 (1977))
87 See Feinberg v. Comm’r of Internal Revenue, 808 F. 3d 813 (10th Cir. 2015).
88 Id. at 814.
“As the litigation progressed, though, the IRS issued discovery requests asking the petitioners about the nature of their business — no doubt seeking proof that they are indeed trafficking in marijuana, just as the agency alleged. The petitioners resisted these requests, asserting that their Fifth Amendment privilege against self-incrimination relieved them of the duty to respond.”

The IRS then filed a motion to compel discovery, which the Tax Court granted. The Tenth Circuit denied the Colorado marijuana business’ plea to overturn the U.S. Tax Court’s decision that it must comply with the IRS’s requests for information about the nature of its business because the lower court case was still ongoing. The business owner needed to wait for a final judgment in order to appeal. Regardless, the business owners still had the option to obtain an appealable final judgment either by choosing to defy the tax court’s order or comply under protest, after which the circuit court could order a new trial without the materials in question. Importantly, the 10th Circuit did not say that the option of invoking the Fifth Amendment was off the table or lacked merit, but that it could not rule on the issue until a final judgment had occurred.

A business may choose to refuse to answer discovery questions that would connect it to selling marijuana or otherwise violating the CSA. In patent law, refusing to answer could cut either way for a patent holder. If the patent holder invoked the Fifth Amendment, it could help the patent holder because they would not be forced to disclose prior art in discovery. On the other hand, invoking the Fifth Amendment could mean that a defendant would not have to testify about the production of the product, claiming a risk of self-incrimination. It has yet to be addressed by the courts as to whether invoking the Fifth Amendment in patent litigation will bar discovery.

In trademark litigation, a defendant may counter argue that the USPTO should cancel the trademark because it is being used for marijuana. In that situation, the plaintiff may try to invoke the Fifth Amendment.

In civil proceedings, unlike criminal proceedings, adverse inferences can be drawn from a party's invocation of this Fifth Amendment right. So, if parties in....

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89 Id.
90 Id. at 815.
91 Id.
92 Id.
93 Id.
94 Id.
96 See Baxter v. Palmigiano, 425 U.S. 308, 318 (1976); see also SEC v. Colello, 139 F.3d 674, 677 (9th Cir. 1998); see also United States v. Solano-Godines, 120 F.3d 957, 962 (9th Cir. 1997) (“In civil proceedings, however, the Fifth Amendment does not forbid fact finders from drawing adverse inferences against a party who refuses to testify.”).
either patent or trademark litigation were to invoke their Fifth Amendment right, the jury could draw adverse inferences that may substantially affect the case.

D. Finding Prior Art

Another potential issue in marijuana litigation is finding prior art because people have been growing and using marijuana in secret for so many years. When software patents became patentable, a similar issue existed with finding software prior art because many times the prior art was not published, rather just used in private computers. In response to this issue, Microsoft, IBM, and Apple sponsored the Software Patent Institute. Projects like this made more software prior art available to patent examiners in an effort to protect the quality and legitimacy of issued software patents. Essentially, this led to a database that ensured that patents were not issued for technology already in use. The mission of the program is:

The Software Patent Institute (SPI) is a nonprofit corporation formed to provide prior art related to software technology with the intention of improving the patent process. We strive to aggregate hard-to-access software data which is not readily available online or in electronic form elsewhere. Our source documents include computer manuals, older textbooks, journal articles, conference proceedings, computer science theses, and other such materials which may contain valuable prior art.

For marijuana strains, a similar database is being developed with the Open Cannabis Project. The mission of the Open Cannabis Project is very clearly to prevent the patenting of marijuana strains that are already in use: “The Open Cannabis Project is building an archival record of all existing cannabis strains, in order to ensure that they remain forever in the public domain, available to all, and will not be restricted by commercialization or patenting.”

With cannabis strains, there is often no proof that a strain is not new. And, once the patent issues, proving that it was already in use becomes very difficult. So, the Open Cannabis Project aims to disclose these strains to ensure that they are non-novel and thus unpatentable.

While the marijuana industry is booming and companies in the industry are more sophisticated than ever before, “[t]his industry came up in stealth, born in

99 See About SPI, supra note 97.
101 Id.
basements and crawl spaces. . . [t]his started as a hippy industry.” 102 Prior art is much more difficult to come by when the industry previously lacked any database of what was already in the public domain. However, this problem will likely begin to diminish, as today’s top breeders are geneticists and other researchers funded by pharmaceutical companies. 103 They now have access to sophisticated technology, like gas chromatography, and are more organized than ever before. 104 “We are certainly getting away from the free-love mentality. Patents is a pure money play.” 105

E. Jury Bias

Because marijuana is something that many in our nation do not support or strongly condemn, potential jury bias is another issue that could potentially affect a trial. Even in states where the people voted marijuana to be legal, these may have been close elections. For instance, in the May 2016 vote in Maine, just a few thousand votes separated the issue. 106 Jury bias may be a non-issue when both parties are involved in the marijuana industry, like when a marijuana patent owner sues another marijuana business that is making, using, or selling the patented strain. However, jury bias could present an issue if the marijuana patent owner is a non-practicing entity, and may not be engaged in the marijuana business. A biased jury who may not approve of the marijuana industry in the area may support shutting down a marijuana business or may grant a large judgment to have that effect.

In trademark litigation at the state level, a marijuana trademark owner may face a near impossible feat if the jurors selected are not in favor of legalized marijuana. It is important for a fair trial that courts dismiss people with potential biases about marijuana from jury selection during voir dire.

F. Risk of Cancellation of the Trademark

While there are strategies, such as trademark laundering, for obtaining rights, courts have the authority under 15 U.S.C. § 1119 to order the cancelation of

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103 Id.
104 Id.
105 Id.
trademark registrations. In litigation, a defendant in a trademark infringement suit may even assert a counterclaim requesting the cancellation of the mark due to lack of use. “[A] registration may be vulnerable to cancellation if the goods and services for which the registration has been issued, are proven to be unlawful.” 108

In *Trans-High Corporation v. Reimers*, the district court considered the defendant’s counterclaim that the plaintiff was selling unlawful goods not listed in the trademark registrations, specifically drug paraphernalia and controlled substances (marijuana). The court ultimately rejected this argument because the plaintiff was merely advertising these items in its magazine, rather than directly selling them, and the CSA excludes advertising.

Yet, *Trans-High Corporation v. Reimers* is distinguishable from a scenario in which a marijuana-related business engages in trademark laundering and is selling drug paraphernalia or controlled substances. In such a case, the party would be in violation of the CSA, and a court could use its authority under 15 U.S.C. § 1119 to cancel the trademark.

IV. TRENDS FOR HOW COURTS TREAT MARIJUANA CASES IN OTHER AREAS OF LAW

Currently, federal trademarks are not issuing for marijuana, and there are no cases on point for how a court will treat a patent litigation case involving marijuana. When a court does rule on the issue, it will likely review cases from other areas of law in forming its opinion. The following areas of law involve civil cases and marijuana: bankruptcy, banking, contract law, employment law, and tax law.

A. Bankruptcy

While marijuana businesses are subject to many of the burdens of federal law, they are not entitled to many of the benefits that federal law provides. 109 The inability to take advantage of federal benefits puts marijuana business owners at a disadvantage compared with business owners that operate in a federally legal arena. One federal benefit not available for marijuana businesses is bankruptcy protection.

As noted earlier, the Doctrine of Clean Hands prevents equitable relief when businesses operate illegal enterprises. For instance, in In re Rent-Rite Super Kegs W. Ltd., the Court found that the debtor was engaged in an ongoing criminal violation of the CSA by knowingly leasing part of a warehouse to tenants who used the space to grow marijuana. The court held that there was cause to dismiss the bankruptcy case because the debtor came to court with unclean hands.

Similarly, in In re Arenas, a marijuana business that was licensed to grow and dispense medical marijuana in Colorado tried to declare bankruptcy, and the court would not allow it because the activities the business engaged in, although legal under Colorado law, were in violation of the CSA. The 10th Circuit Bankruptcy Appellate Panel in In re Arenas upheld the lower court’s denial because the business owners were unable to propose a good faith Chapter 13 plan. The court reasoned that the business owners could not afford their reported monthly expenses without using the proceeds of the marijuana growing operation, and any plan would require the trustee to take possession, sell, and distribute marijuana in violation of federal law. The judge noted the following in his conclusion:

In this case, the debtors are unfortunately caught between pursuing a business that the people of Colorado have declared to be legal, but which the laws of the United States—laws that every United States Judge swears to uphold—proscribe and subject to criminal sanction. Because of that neither a Chapter 7 nor 13 trustee can administer the most valuable assets in this estate. Without those assets or the marijuana bases income stream, the debtors cannot fund a plan without breaking the law, and are therefore ineligible for relief under Chapter 13.

Further, in In re Medpoint Management, LLC., the Bankruptcy Court for the District of Arizona held that creditors of a marijuana business knew the business was illegal and did not allow them to utilize the bankruptcy court. The court said “[p]etitioning Creditors' hands are unclean and they cannot now seek relief from this Court.”

Like injunctions sought in patent litigation, bankruptcy proceedings are a form of equitable relief under the jurisdiction of federal courts. It is possible that federal courts will analogize these two types of equitable proceedings; however, the courts may rule differently if a non-practicing entity asks for an injunction to stop a business. In the case of a non-practicing entity seeking an order against a marijuana business, a judge would actually prevent illegal activity by granting an injunction.

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111 In re Arenas, 535 B.R. 845, 849-50 (B.A.P. 10th Cir. 2015).
112 Id. at 852.
113 Id. at 854.
B. Banking

Often it is challenging for marijuana businesses to find a bank due to the expensive compliance hurdles and uncertain legal consequences banks face. Banks may face civil or criminal liability if they knowingly accept proceeds from marijuana transactions, so many banks simply refuse service to marijuana businesses. Further, if banks knowingly violate federal law, they cannot hold FDIC insurance. In October of 2015, only about 220 banks and credit unions accepted cash connected to marijuana businesses. The federal barriers for bank compliance include the CSA, USA Patriot Act, Bank Secrecy Act, and the Racketeer Influenced and Corrupt Organizations Act.

It is a criminal offense to engage in monetary transactions with the proceeds of specified unlawful activity, including proceeds from marijuana-related activities in violation of the CSA.

Under the Bank Secrecy Act, banks are required to assist government agencies in detecting and preventing money laundering. The BSA requires the financial institutions to monitor and report cash transactions exceeding $10,000 and to file suspicious activity reports that may signify criminal activities. In February of 2014, the Financial Crimes Enforcement Network (FinCEN) issued guidance for banks providing services for marijuana-related businesses, which included extensive requirements for financial institutions to meet. Also, if a bank offers financial services to a marijuana-related business, the bank must file suspicious activity reports.

Another financial hurdle that marijuana businesses face is that the official rules of payment processing companies, such as Visa, MasterCard, and American Express, which prohibit the use of their debit and credit cards for marijuana purchases. For this reason, many marijuana businesses are only allowed to accept cash which contributes to the more significant problem of a high volume of hard cash flow, but nowhere to put it.

117 See Kaplan, supra note 115.
Thus, in effect, businesses involved in the marijuana industry are prevented equal access to financial institutions. The federal government forces the banks to treat their business differently because they are breaking federal laws.

C. Insurance/Contract Law

Insurance and contract law is purely state law, so it varies by district. The trend right now is hard to predict because of this variance, but federal courts have addressed the role public policy plays when asked to rule on an issue that violates federal law.

In 2012, the District Court of Colorado held in *Haeberle v. Lowden* that a contract for the sale of medical marijuana between a cultivator and a medical marijuana business engaged in retail sales was void and unenforceable for public policy reasons. The court reasoned, “contracts in contravention of public policy are void and unenforceable,” and if a “disputed contract violates federal law, it would be against public policy and would be void and unenforceable.” The court emphasized that marijuana possession and use remains illegal under federal law, and federal law regarding marijuana preempts state law. In effect, the court found that contracts for the sale of marijuana are void as they are against public policy.

In 2012, the Superior Court of Arizona held in *Hammer v. Today’s Health Care II* that a contract for a loan agreement for financing a retail medical marijuana sales and grow center was void and unenforceable. In *Hammer*, the two plaintiffs loaned $250,000 each to a dispensary, but the dispensary defaulted on the loan. The court gave the plaintiffs no remedy, stating, “[t]he explicitly stated purpose of these loan agreements was to finance the sale and distribution of marijuana. This was in clear violation of the laws of the United States.” The court went on to say that equitable relief, like unjust enrichment, would not be available since the contract was void as against public policy. One who enters into an illegal contract “is not only denied enforcement of his bargain, he is also denied any restitution for any benefits he had conferred under the contract.” Thus, the court in this case ruled out both legal damages and equitable damages.

In 2016, however, the Northern District of California upheld a contract relating to the medical marijuana industry where the contract included evidence of

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120 Id.
122 Id. at ¶4.
ties to medical marijuana.\textsuperscript{123} The plaintiff sued for breach of contract after the defendant defaulted on payment, and the defendant contended that the agreement was “void ab initio because it related to medical marijuana, which is still a prohibited substance under the federal Controlled Substances Act.”\textsuperscript{124} The defendant claimed that it could only make payments promised with revenue from operating the marijuana businesses and that the plaintiff was aware of that.\textsuperscript{125}

Here, the court found that it could grant relief that would not require the defendant to break federal law, since the defendant had not proven that using funds from its medical marijuana business was its only means of repayment.\textsuperscript{126} Further, the court emphasized that even though the nature of the business may indirectly involve medical marijuana, if the court enforced the agreement it would deter other potentially illicit conduct.\textsuperscript{127} Namely, the defendant, due to its illegal dealings, could avoid paying for services rendered pursuant to a contract.\textsuperscript{128} In summary, the court allowed recovery for a contract involving a marijuana business because a remedy existed that would not require the court to order a violation of federal law, and it was in the interest of public policy to deter further illicit conduct by the defendant.\textsuperscript{129} Courts are still divided about whether to uphold marijuana-related contracts. Further, as will be discussed below, insurance contracts are also a divided issue.

In 2012, the District Court of Hawai‘i held in Tracy v. USAA Casualty Insurance Company that enforcing an insurance policy covering items in violation of federal law is contrary to public policy.\textsuperscript{130} In Tracy, the plaintiff was growing twelve marijuana plants in their house as was consistent with Hawaiian law, which permitted individuals to grow marijuana for medical purposes. The plants were stolen and the plaintiff tried to recover through a homeowner’s insurance policy with USAA. The court refused to enforce the insurance provision that would allow recovery of the plants “because Plaintiff’s possession and cultivation of marijuana, even for State-authorized medical use, clearly violates federal law.”

In 2016, the District Court of Colorado held differently than in Haeberle v. Lowden in 2012 and expressly declined to follow the Hawaiian court’s reasoning in Tracy.\textsuperscript{131} In Green Earth Wellness v. Atain Specialty Insurance, the court held

\begin{footnotes}
\footnote{Id. at *2.}
\footnote{Id.}
\footnote{Id. at *7.}
\footnote{Id.}
\footnote{Id. at *8.}
\end{footnotes}
that it was not against public policy to enforce an insurance contract for a claim for marijuana losses. After a nearby wildfire, smoke and ash overwhelmed the company’s ventilation system, which in turn damaged the marijuana plants. Additionally, plaintiff made a claim for theft of marijuana plants. The court distinguished this case from others since both parties were aware that they were insuring marijuana. The court held that the insurance company, “having entered into the Policy on its own will, knowingly and intelligently, is obligated to comply with its terms or pay damages for having breached it.” It also noted the “several additional years evidencing a continued erosion of any clear and consistent federal public policy in this area,” and declined to declare the policy void on public policy grounds and allowed the case to go forward to trial.

Thus, in 2016, Tracy and Green Earth provided two contrary opinions on whether it was against public policy to require insurance companies to allow recovery for marijuana plants. In four years, Colorado changed its tune in response to apparent acquiescence by federal authorities in the prosecution of marijuana crimes in recent years. When both parties are aware of the illegal activity, at least in Colorado, the courts are willing to hear cases in which a party seeks to enforce a contract signed with such knowledge. Similarly, as evidenced in Mann v. Gullickson, California district courts are enforcing contracts when a party enters into the contract with knowledge of the illegal activities. Thus, the trend appears to be that if a party has knowledge of illegal activities and still enters into an agreement, they cannot later renege on their agreement due to the illegal activity.

Notably, in all these district court cases, the parties were in federal court due to diversity jurisdiction. In cases dealing with a federal patent or trademark rights, the courts would have federal question jurisdiction. The fact that states have legalized marijuana may be less relevant because federal law would control. On the other hand, if enforcing a licensing agreement where the parties agreed to a choice of law, then the state’s law may become relevant.

**G. Employment Law**

The laws governing whether an employer can fire an employee for using medical marijuana vary by state. The conflict between federal and state laws is leading to confusion for employers because in many states it remains unclear which law to enforce with their employees and whether to permit marijuana use. In California, the Supreme Court held in Ross v. Ragingwire Telecommunications, Inc. that under state law, an employer could fire an employee who used medical

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marijuana under the Compassionate Use Act, even if used at home and did not affect work performance. However, in Rhode Island and Connecticut, the medical marijuana laws provide that an employer cannot discriminate against those who use medical marijuana. Arguably, in California or other states that follow suit, the state is allowing the employer to determine the best medical decision for its employee, something normally left to the patient and its doctor. Uncertainty exists as to how the other states that allow medical marijuana will handle the issue.

Montana’s Medical Marijuana Act states that nothing in the act should be construed to require “an employer to accommodate the use of marijuana by a registered cardholder,” to “prohibit an employer from including in any contract a provision prohibiting the use of marijuana for a debilitating medical condition,” or to permit a cause of action against an employer for wrongful discharge... or discrimination.” So, in Montana, an employer could fire an employee for using marijuana and not face a lawsuit.

Similarly, in Oregon, the Supreme Court held in Emerald Steele v. Bureau of Labor and Industries that a state law that authorizes marijuana use, for any reason, is an obstacle to Congress achieving the goals of the CSA. So, the employer did not have to accommodate the employee’s medical marijuana usage.

The trend for medical marijuana users seeking relief after their employer fired them for positive drug tests is that courts are ruling against the marijuana user. The courts are ruling in favor of the employers for two main reasons: (1) Federal law preempted any state law purporting to legalize marijuana use, or (2) the state statutes were silent on employment and did not remove an employer’s power to fire for drug use. In states where courts rule a certain way due to preemption, they may choose to rule the same way in IP litigation. While employment law is under state jurisdiction, it is relevant to see how the courts treat another issue where the state and federal marijuana laws are conflicting. Courts’ decisions regarding employment law could inform how courts handle state trademarks.

**H. Tax Law**

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135 See Lieberman, supra note 132.
139 Id.
The U.S. Tax code requires that businesses who are “trafficking in controlled substances” according to the CSA may not utilize many tax deductions and credits available to other businesses, like deducting rent, advertising costs, and employee-related expenses. So, sellers of Schedule I controlled substances are required to pay taxes on their gross revenue instead of their net income. This inability to make tax deductions puts marijuana businesses at a steep disadvantage in comparison to federally legal businesses.

In 2007, the U.S. Tax Court in *Californians Helping to Alleviate Medical Problems, Inc. v. C.I.R.* held that this rule against deduction of business expenses related to drug trafficking does not preclude deduction of expenses for a non-drug-related business of the taxpayer. Businesses had been relying on this ruling for years to deduct some expenses for the businesses, just not for the marijuana itself.

However, in 2012, the Tax Court in *Olive v. C.I.R.* held that marijuana business expenses are not deductible. The court said “[t]he dispensing of medical marijuana, while legal in California, among other states, is illegal under federal law. Congress in section 280E has set an illegality under Federal law as one trigger to preclude a taxpayer from deducting expenses incurred in a medical marijuana dispensary business. This is true even if the business is legal under State law.”

While marijuana businesses are legal in some states, the IRS still considers these businesses to be in violation of the CSA and prevents them from taking deductions that legitimate businesses may utilize.

**CONCLUSION**

While many states are legalizing marijuana, the drug remains illegal by federal standards under the Controlled Substances Act. Even though federal law does not recognize marijuana as having any legitimate medical use, the United States Patent and Trademark Office’s patent division has begun issuing utility patents for marijuana. However, the trademark division of the USPTO is still rejecting trademarks because of a lack of legal use in commerce. While state trademarks are available, they are less valuable for a business than a federal trademark because they are geographically limited. Some parties have opted to trademark launder to try to obtain trademark rights for marijuana, but courts will likely cancel these marks in litigation.

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141 26 U.S. Code § 280E (2012) (provides that sellers of Schedule I controlled substances must pay taxes on their gross revenue instead of their net income).

Litigating marijuana IP will inevitably invoke a variety of issues for the IP owner. For instance, a court may dismiss a case due to the Clean Hands Doctrine since marijuana is still against federal law. Also, parties in the marijuana industry may have difficulty obtaining an attorney, particularly in federal court because the attorney’s Rules of Professional Conduct do not allow attorneys to assist in unlawful activity. Another potential problem could arise with discovery if one party attempts to avoid self-incrimination. Further, it may be a serious burden for a party to find prior art to invalidate a patent when marijuana has been a secret business for so many years. Because marijuana is still considered illegal or immoral by many people, the parties may encounter a biased jury. Finally, a trademark owner who is using the mark on federally illegal goods risks the court cancelling the mark.

In deciding where to litigate, an attorney might look to other areas of law where civil courts have ruled on marijuana business rights. For instance, parties in civil cases have brought claims for bankruptcy, banking, contract law, employment law, and tax law. Some courts ruling on bankruptcy, an equitable issue, have not permitted marijuana businesses to utilize the bankruptcy courts. Courts have reasoned that public policy prevents them from allowing a business engaged in federally illegal activity to benefit from federal equitable options. Like bankruptcy, injunctions sought by IP owners are an equitable remedy. A court may decline to grant an injunction because a party is engaged in illegal activity.

With banking regulations, the federal government makes it more difficult for banks to work with marijuana businesses. The federal government treats businesses that are involved in the marijuana industry differently than other businesses regarding access to financial institutions.

In contract law, the trend appears to be that if a party has knowledge of illegal activities and still enters into an agreement, they cannot later renege on their agreement due to the illegal activity. But, the courts are divided on this issue, with some courts still declining to offer any remedy for businesses involved with marijuana. Notably, for the contract law cases discussed in this note, the parties were in federal court due to diversity jurisdiction. In cases dealing with a federal patent or trademark, the courts would have federal question jurisdiction. The fact that states have legalized marijuana may be less relevant because federal law would control.

With employment law, the trend is that courts are not siding with marijuana users because of federal preemption of state marijuana laws, and federal law still prohibits marijuana usage. Finally, tax courts have not allowed marijuana businesses the same benefits as other businesses. The IRS is still considering marijuana businesses to be in violation of the CSA and is not allowing them to take advantage of deductions that legitimate businesses may utilize.
Marijuana IP owners seeking a remedy in federal court may face difficulties due to the connection with federally illegal activity. A business owner would benefit from litigating in state versus federal court when possible. If federal court is necessary, like in patent litigation cases, it would be wise to choose a venue where the courts have allowed marijuana business owners to recover damages in other areas of law.

If parties license marijuana IP in a contract, they could include a choice of law by consenting to the exclusive jurisdiction of a particular court. A marijuana business may opt for a venue where the courts allow marijuana businesses to litigate legal issues. Additionally, patent owners may choose to include an arbitration clause in a license agreement as a strategy to avoid federal court. Arbitration is common with license agreements, especially international agreements, and courts are not required to approve arbitrators. Indeed, courts are rarely involved unless a party appeals or tries to enforce an arbitration award.

How courts will treat marijuana patents in litigation remains unseen. As for marijuana trademarks, state protection is the only option for many businesses. Marijuana IP litigation is still the Wild West for courts, and only time will tell how courts will ultimately treat this area of law.
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ARTICLES

THE FIRST 48: A TC HEARTLAND STORY

Marc Kustner & Nicholas Tsui

U.S. REGULATION OF BLOCKCHAIN CURRENCIES: A POLICY OVERVIEW

Averie Brookes

LIGHTS, LIGHTS, LIGHTS! - FINDING LIGHT IN THE DARKNESS OF THE PUBLIC/PRIVATE PATENT DEBATE

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