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Supreme Court Case No. 96598-6
(Court of Appeals, Division One, Case No. 77016-1-I)

IN THE SUPREME COURT OF THE STATE
OF WASHINGTON

HEADSPACE INTERNATIONAL, LLC, a limited liability company
formed in the State of California,

Respondent,

v.

PODWORKS CORP., a corporation in the State of Washington; and
THOMAS WERTH, an individual residing in the State of Washington,

Petitioners.

**RESPONDENT HEADSPACE INTERNATIONAL, LLC'S
ANSWER TO PETITION FOR REVIEW**

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I. INTRODUCTION

In a *unanimous* decision, the Court of Appeals reversed the trial court's order granting summary judgment to Podworks Corp. and its owner Thomas Werth (together "Podworks"). The Court of Appeals determined that Headspace International, LLC's ("Headspace") sufficiently plead lawful use of its trademark in Washington for purposes of its claim against Podworks for trademark infringement. Op. at 1-3 (App. A). In reaching this decision, the Court of Appeals applied long settled principles of statutory construction. Podworks seeks review of the Court of Appeals' decision without providing relevant argument or authority that the Court of Appeals erred or misapplied the law. Podworks also raises two new issues not presented on appeal. Furthermore, Podworks fails to establish any of the criteria required for review by this Court under RAP 13.4(b) and RAP 13.4(c)(7). Accordingly, this Court should deny review.

II. RESPONSE TO STATEMENT OF THE CASE

The Court of Appeals correctly stated the facts of this case in its decision. Op. at 1-18. Headspace objects to Podworks' Statement of Facts because it introduces new information about the Washington Legislature's intent in enacting I-502, an issue they did not present at Court of Appeals.¹

¹ Podworks states that "the Washington State Legislature carefully crafted provisions to ensure that Washington's cannabis industry would stay in Washington and

Resp't Brief (Appendix B). Podworks also makes arguments not properly belonging in the Statement of Facts.² Pet. at 4, 6, 8.

III. ARGUMENT WHY REVIEW SHOULD BE DENIED

Podworks seeks review of the Court of Appeals' unanimous decision that the trial court erred in barring Headspace's claims for trademark infringement, unfair competition, unfair business practices, and violation of the Washington Consumer Protection Act. This Court should deny Podworks' petition for review for several reasons. First, Podworks fails to establish the criteria required for review by this Court under RAP 13.4(b) and RAP 13.4(c)(7). Second, Podworks raises new arguments that

not implicate interstate commerce and the Supremacy Clause, thereby inviting federal intervention" and that the Court of Appeals "acknowledged this intent" on page 10 of its opinion. Pet. at 4. More accurately, the Court of Appeals stated that "[t]o avoid conflicting with those federal interstate commerce laws and regulations prohibiting the possession and sale of marijuana products, licenses may not be issued to out-of-state companies or individuals." Op. at 10.

² For example, Podworks states that "[i]f an out-of-state entity is *directly* involved in Washington's cannabis industry, that clearly violates Washington's cannabis law and puts all parties to that transaction at risk of federal prosecution." Pet. at 4. Headspace objects to Podworks' inclusion of this in its Statement of Facts rather than its argument and also objects to the accuracy of the statement.

Additionally, Podworks cites to a non-legal authority—a Frequently Asked Question Section of the Washington State Liquor and Cannabis Board's (WSLCB) website—to support its statement that "the WSLCB prohibits an unlicensed third party from selling under its brand in the State." Pet. at 6. Headspace objects to Podworks' inclusion of this in its Statement of Facts rather than its argument and also objects to the accuracy of the source cited.

Lastly, Podworks states that "[w]ithout a Washington license, Headspace has not been able to legally make, process, sell or advertise cannabis in Washington." Pet. at 8. Podworks provides no citation for this statement. Headspace objects to Podworks' inclusion of this in its Statement of Facts rather than its argument and also objects to the accuracy of the statement.

were not considered by the Court of Appeals, including Washington’s CSA and the federal Commerce Clause. Pet. at 14-19. Third, the Court of Appeals correctly determined that Headspace alleged lawful use of its trademark in Washington. Fourth, neither the federal Commerce Clause nor the Supremacy Clause is triggered by the Court of Appeals’ well-reasoned Opinion.

A. Podworks Fails to Establish the Criteria Required for Review by this Court Under RAP 13.4(b) and RAP 13.4(c)(7).

Podworks has failed to explain in its Petition why review of the Court of Appeals’ decision is merited under the specific criteria of RAP 13.4(b) and RAP 13.4(c)(7). In fact, Podworks merely cites RAP 13.4(b)(3)-(4) in its “Issues Presented for Review” without offering an explanation of why it is referencing those provisions. Pet. at 2-3.³

This Court grants discretionary review only if the decision conflicts with a decision of this Court or with another decision of the Court of Appeals, or if the case involves a significant constitutional question or an issue of substantial public importance. RAP 13.4(b). Additionally, RAP 13.4(c)(7) requires that the argument section of a petition for review contain a “direct and concise statement of the reason why review should be accepted

³ Podworks only states deep in their argument section that “the Court of Appeals’ decision involves a significant question as to the potential reach of the Commerce Clause of the U.S. Constitution that this Court should resolve” without any citation. Pet. at 16.

under one or more of the tests established in section (b), **with argument.**”
RAP 13.4(c)(7) (emphasis added).

Podworks’ Petition woefully lacks compliance with both the letter and the spirit of these rules.⁴ First, Podworks failed to provide the requisite argument justifying review in its Petition and thus review is not proper under RAP 13.4(c)(7). *See In re Dependency of P.H.V.S.*, 184 Wn.2d 1017, 389 P.3d 460, 461-62 (2015) (denying review where movants failed to demonstrate that review was warranted under any of the criteria of RAP 13.4(b)); *cf. State v. Korum*, 157 Wn.2d 614, 624-25, 141 P.3d 13 (2006) (refusing to consider issue not included in “concise statement of the issues presented for review,” as required by RAP 13.4(c)(5) *State v. Collins*, 121 Wn.2d 168, 178-79, 847 P.2d 919 (1993) (same). Second, The Court of Appeals’ opinion is fully consistent with decisions of this Court as well as the Court of Appeals.⁵ Thus, review is not proper under RAP 13.4(b)(1) or (2). *See* RAP 13.4(b)(1)-(2). Third, the opinion does not raise a significant constitutional question that warrants review under RAP 13.4(b)(3). Podworks raises the specter of the federal Commerce and Supremacy

⁴Podworks also omitted from its Petition “a table of cases (alphabetically arranged), statutes and other authorities cited, to the pages of the brief where cited,” as required by RAP 13.4(c)(2), and “[a] reference to the Court of Appeals decision which [Podworks] wants reviewed” along with “the date of filing the decision,” as required by RAP 13.4(c)(4).

⁵ Podworks cites zero cases from this Court or the Court of Appeals in its Petition.

Clauses, but ignores the sound principles of statutory construction applied by the Court of Appeals in its decision concluding that the licensing agreement at issue was lawful at its inception and remains lawful with the addition of RCW 69.50.395. Finally, the opinion does not involve an issue of substantial public interest that warrants review under RAP 13.4(b)(4).

To conclude, the Court should deny Podworks' petition for review because they failed to demonstrate review was warranted under RAP 13.4(b) and 13.4(c)(7).

B. New Issues Raised in the Petition and Not Argued on Appeal Should Be Declined.

The issue before the Court of Appeals was whether the trial court erred in dismissing Headspace's complaint on the grounds that Headspace failed to allege lawful use of its mark in Washington. Op. at 1-3. Podworks argued in the Court of Appeals that X-Tracted's use of Headspace's mark "THE CLEAR" on cannabis products that X-Tracted produced and sold in Washington was only an indirect placement of the mark and thus not sufficient to satisfy Washington's trademark statute, chapter 19.77 RCW. Op. at 7. The Court of Appeals disagreed. Op. at 7-9. Podworks further argued that even if Headspace exercised sufficient control over the quality of the goods produced and sold by X-Tracted to satisfy the trademark statute, such control necessarily constituted a violation of Washington's Controlled Substances Act ("Washington's CSA"), chapter 69.50 RCW,

and, therefore, cannot satisfy the requirement of lawful placement of the mark in the ordinary course of business. Op. at 9. The Court of Appeals again disagreed. Op. at 9-11.

Podworks has not sought review of the former issue, thereby conceding that the Court of Appeals correctly resolved it. RAP 13.7(b); RAP 13.4(c)(5). In their Petition, Podworks raises two new arguments for the latter issue that were not considered by the Court of Appeals, including whether Washington's CSA implicates the federal Commerce Clause and Supremacy Clause (Issues 2 and 3 of its Issues Presented for Review). Pet. at 2-3; Pet. at 14-19; Resp't. Br. These new issues are not properly before this Court.

This Court generally declines to consider issues not properly before the Court, regardless of whether or not the arguments related thereto have merit. *See State v. Arredondo*, 188 Wn.2d 244, 262, 394 P.3d 348 (2017) (citing *State v. Duncan*, 185 Wn.2d 430, 435 n.2, 374 P.3d 83 (2016)); *see also State v. Brown*, 113 Wn.2d 520, 528-29, 782 P.2d 1013 (1989) (declining to decide whether a jury instruction containing both a permissible *and* impermissible purpose under ER 404(b) was a basis for reversal when the issue was not properly argued on appeal). An issue is not properly before this Court when it was not raised or briefed in the Court of Appeals. *State*

v. Simms, 171 Wn.2d 244, 249, 250 P.3d 107 (2011) (citing *State v. Halstien*, 122 Wn.2d 109, 130, 857 P.2d 270 (1993)).

To conclude, without waiving the arguments above that Podworks failed to justify review under RAP 13.4(b) and (c)(7), Headspace asks that this court, at a minimum, decline to consider Issues 2 and 3 in Podworks' Petition because they were not raised or briefed in the Court of Appeals. Pet. at 2-3. This leaves only Issue 1 in Podworks' Petition to consider.

C. Review of Issue 1 Should be Denied Because: (i) Podworks Fails to Establish Grounds for its Review, (ii) Podworks Adds Language Not Found in the CSA, and (iii) Recent Amendments to the CSA Affirm Trademark Licensing Agreements as Lawful.

1. *Podworks fails to establish grounds for review of Issue 1.*

Podworks fails to establish grounds for review of Issue 1. Podworks reasserts the same arguments it made previously without providing authority showing how the Court of Appeals erred or misapplied the law. This is detrimental for obtaining review of Issue 1. *See* RAP 13.4(b)(1)-(2).

The Court of Appeals determined that Headspace alleged lawful use of its mark in Washington by applying well-settled principles of law for statutory construction. Under the CSA, for conduct to be unlawful in Washington it must be an act specifically prohibited, e.g., the possession, manufacture, and delivery of any controlled substance identified in the CSA, or the unlicensed production, processing, or selling of marijuana. RCW 69.50.401. The Court of Appeals unanimously agreed that nothing in

the licensing agreement between Headspace and X-Tracted requires Headspace to produce, process, or sell cannabis in Washington or participate in X-Tracted's processing of marijuana products. Op. at 10-12. Podworks' Petition does not sufficiently challenge this. Pet. at 12. Podworks failure to sufficiently challenge the Court of Appeals' position on this issue results in forfeiture of the issue by Podworks and this Court must not consider it. *See Arredondo*, 188 Wn.2d at 262; *State v. Young*, 89 Wn.2d 613, 625, 574 P.2d 1171 (1978) (if a party does not provide a citation to support an asserted proposition, courts "may assume that counsel, after diligent search, has found [no supporting authority]") (quoting *DeHeer v. Seattle Post-Intelligencer*, 60 Wn.2d 122, 126, 372 P.2d 193 (1962)); *see also* RAP 10.3(a)(6) (arguments made must include supporting "citations to legal authority").

To conclude, Podworks fails to establish grounds for review of Issue 1 on its Issues Presented for Review and the Court should deny its review. If the Court chooses the alternative, the following paragraphs are presented to rebut Podworks' Issue 1 on the grounds that: (i) Podworks adds language not found in the Washington CSA to justify an erroneous interpretation of the act; and (ii) the recent amendments issued under ESSB 5131 affirms trademark licensing agreements as lawful.

2. *Podworks adds language not found in the Washington CSA to justify an erroneous interpretation of the act.*

Podworks argues that any intellectual property licensing agreement with an out-of-state company is unlawful under Washington law. Pet. at 9. Podworks arrives at this erroneous result by concluding that a trademark licensing agreement is conduct that furthers the sale, processing, or production of cannabis, and such conduct is not listed in RCW 69.50.360, 69.50.363, or 69.50.366, so therefore, the conduct violates Washington's CSA. Pet. at 9. This is absurd. Podworks' conclusion is not found in any case law or in the text of Washington's CSA. RCW 69.50.401. Nonetheless, Podworks attempts to convince the Court that the trademark licensing agreement between Headspace and X-Tracted is illegal under Washington's CSA. Pet. at 9. Podworks provides no citation that holds their position and no clause under Washington's CSA states it. *See* RCW 69.50.401. Podworks' position is wrong and they arrived at it by creatively misinterpreting Washington's CSA.

The text of Washington's CSA is clear. It prohibits the possession, manufacture, and delivery of any controlled substance but excludes "[t]he production, manufacture, processing, packaging, delivery, distribution, sale, or possession of marijuana in compliance with the terms set forth in RCW 69.50.360, 69.50.363, or 69.50.366." RCW 69.50.401(1);

69.50.401(3). Podworks’ attempts to add language to Washington’s CSA where language does not exist.⁶ *See e.g.*, Pet. at 4, 6, 8, 13, 14. Podworks’ subsequent legal conclusion would lead to illogical results: the sale of books, grow lights, fertilizers, water timers, extraction pipets, and other proprietary technologies that further the sale, processing, or production of cannabis would all become illegal in Washington State. Podworks’ additional language and erroneous legal conclusion are not stated in the Washington CSA nor are they what the Washington legislation intended.

Podworks attempts to cite RCW 69.50.331(1)(b)(iii) for the erroneous argument that since Headspace is an out-of-state company they must have conducted unlawful business in Washington under the CSA. Pet. at 10. There are two problems with Podworks argument. First, Headspace was not producing, processing, or selling cannabis in Washington state. *See*, Op. at 6, 10, 11. Second, Podworks is, again, adding words not found in

⁶ The Petition is peppered with additional phrases Podworks uses to try to describe the trademark licensing agreement and paint it as unlawful under Washington law. Such phrases include: “*directly* involved in Washington’s cannabis industry” (Pet. at 4 (emphasis in original)); “participate in the Washington cannabis industry” (Pet. at 6); “make, process, sell or *advertise* cannabis” (Pet. at 8 (emphasis added)); “directly aid the production of cannabis products” (Pet. at 13); and “participate in the production of cannabis products in Washington” (Pet. at 14). None of these phrases are actually used in Washington’s CSA, nor are they necessarily covered in its prohibition of the possession, manufacture, and delivery of any controlled substance.

Moreover, Podworks has failed to even explain how the trademark licensing agreement equates to “conduct further[ing],” “directly aid[ing]” or “participat[ing] in” the production of cannabis.

69.50.331(1)(b)(iii).⁷ Pet. at 10. Nowhere does the statute preclude out-of-state intellectual property licensing agreements. *See id.*; RCW 69.50.360, .363, .366. Podworks’ erroneous argument would have this Court outlaw the sale and distribution of cannabis related books, grow lights, fertilizers, water timers, and other proprietary technologies simply because they come from out-of-state companies and further the sale, processing, or production of cannabis.

To conclude, Podworks adds language not found in the Washington CSA to justify an erroneous interpretation of the act. The text of Washington’s CSA is clear and the Court of Appeals correctly determined that Headspace sufficiently alleged lawful use of its mark in Washington.

3. *Recent Amendments to the CSA Affirm Trademark Licensing Agreements as Lawful.*

The Court of Appeals correctly determined that Engrossed Substitute Senate Bill (ESSB) 5131, codified as RCW 69.50.395, affirms trademark licensing agreements as lawful. Podworks attempts to argue that ESSB 5131 implies that trademark licensing agreements were illegal prior

⁷ The statute states that “[n]o license of any kind may be issued to . . . (iii) A partnership, employee cooperative, association, nonprofit corporation, or corporation unless formed under the laws of this state, and unless all of the members thereof are qualified to obtain a license as provided in this section . . .” RCW 69.50.331(1)(b)(iii).

to its enactment.⁸ Podworks is wrong. Nowhere in the text of ESSB 5131 does it retroactively make prior trademark licensing agreements illegal.⁹ RCW 69.50.395.

The Court of Appeals applied sound principles of statutory construction established by this Court, including a rebuttable presumption that a legislative amendment is presumed to change the law rather than clarify existing law. Op. at 11-15 (citing *Jane Roe v. TeleTech Customer Care Mgmt. (Colorado) LLC*, 171 Wn.2d 736, 751, 257 P.3d 586 (2011)). The Court of Appeals also considered the statements of individual lawmakers, especially bill sponsors, as evidence of the reasons for the legislative amendment. Op. at 12 (citing *In re Marriage of Kovacs*, 121 Wn.2d 795, 807-08, 854 P.2d 629 (1993)). After an extensive review of the legislative history, the Court of Appeals concluded that it was “devoid of any indication that the legislature sought to make legal any licensing

⁸ The significance of this argument is whether or not the trademark licensing agreement was lawful at its inception in 2014, three years before ESSB 5131 passed.

⁹ Specifically, RCW 69.50.395 provides: (1) A licensed marijuana business may enter into a licensing agreement, or consulting contract, with any individual, partnership, employee cooperative, association, nonprofit corporation, or corporation, for: (a) Any goods or services that are registered as a trademark under federal law or under chapter 19.77 RCW; (b) Any unregistered trademark, trade name, or trade dress; or (c) Any trade secret, technology, or proprietary information used to manufacture a cannabis product or used to provide a service related to a marijuana business. (2) All agreements or contracts entered into by a licensed marijuana business, as authorized under this section, must be disclosed to the state liquor and cannabis board.

agreements that had been previously illegal.” Op. at 15. Instead, the Court of Appeals stated, “its purpose was to better regulate that which I-502 had previously legalized.” Op. at 15.

Podworks cites no authority that would bring into question the Court of Appeals’ interpretation of ESSB 5131’s legislative history. And unfortunately, Podworks’ arguments about the illegality of licensing and other agreements under Washington’s CSA are not so apparent that they can be made “without saying.” A trademark licensing agreement does not equate to “illegal conspiracies in violation of RCW 69.50.407.” Pet. At 13. Thus, again, based on this lack of authority for Podworks’ contentions, this Court “may assume that counsel, after diligent search, has found [no supporting authority].” *Young*, 89 Wn.2d at 625 (quoting *DeHeer*, 60 Wn.2d at 126).

Additionally, Podworks asserts that “[b]ut for the existence of the amendments to the CSA in 2017, all agreements to produce, process or sell cannabis between licensed and unlicensed entities were illegal conspiracies in violation of RCW 69.50.407.” Pet. at 13. To support this assertion, Podworks argues in the negative that “[i]f this were not true, i.e., if entities not licensed to sell, process, or produce cannabis in Washington could lawfully enter into agreements of any kind with licensed entities for the production, processing, and sale of cannabis in Washington, this would

render meaningless the licensing and disclosure requirements of Washington's CSA." *Id.* Taking that fatalistic argument one step further, Podworks adds that the Court of Appeals' decision "sanctions agreements of any kind between licensed and unlicensed cannabis sellers, producers, and processors" and even "render[s] the residency requirements of RCW 69.50 a nullity" *Id.*

However, neither the licensing and disclosure requirements nor the residency requirements are rendered meaningless under the Court of Appeals' interpretation. They still serve their original purpose of tightly regulating the production, processing, and sale of marijuana, which is where the legislature's concerns lie (i.e., the parts of the industry that appeal to criminal drug organizations). *See* Laws of 2013, ch. 3, § 1(3) (stating one of the purposes of I-502 was to take "marijuana out of the hands of illegal drug organizations and bring it under a tightly regulated, state-licensed system similar to that for controlling hard liquor.")

To conclude, the Court of Appeals correctly determined that ESSB 5131 affirms the lawful use of trademark licensing agreements. Podworks asserts the same argument it previously made without providing new authority to demonstrate that the Court of Appeals erred or misapplied the law and therefore their petition on this issue should be denied. *See In re Disciplinary Proceeding Against Abele*, 184 Wn.2d 1, 14, 358 P.3d 371

(2015) (considering and then rejecting appeal in which the subject of a disciplinary proceeding, rather than making a new argument, merely reiterated the arguments that were considered and rejected by the hearing officer and by a unanimous Disciplinary Board).

D. Neither the federal Commerce Clause nor the Supremacy Clause is Triggered by the Court of Appeals' Well-Reasoned Opinion.

Issue 2 and Issue 3 pertaining to the federal Commerce Clause and the Supremacy Clause, addressed at pages 14-19 of the Petition, are not properly before this Court. *See Supra*, § III.B. Nevertheless, Headspace provides the following paragraphs in rebuttal to Podworks' argument on these issues.

1. *The Court of Appeals' Decision Does Not Implicate the Federal Commerce Clause because Headspace is not producing, processing, or selling cannabis.*

The Court of Appeals decision does not implicate the federal Commerce Clause because Headspace does not produce, process, or sell cannabis in Washington state and Headspace does not participate in X-Tracted's processing of marijuana products. *See, Op.* at 6. Nonetheless, Podworks contends that the Court of Appeals decision invites "the federal government to intervene and prosecute other cannabis business engaged in

similar activities.” Pet. at 14-15.¹⁰ To support this argument Podworks cites a single distinguishable case—*Gonzales v. Raich*, 545 U.S. 1, 17, 125 S. Ct. 2195 (2005).

In *Raich*, cannabis growers sued the Attorney General of the United States and the head of the DEA for injunctive and declaratory relief prohibiting the enforcement of the Federal Controlled Substances Act in California. *Raich*, 545 U.S. at 7. The U.S. Supreme Court held that Congress has the power under the federal Commerce Clause to prohibit the local cultivation and use of marijuana even if it is in compliance with California law. *Raich*, 545 U.S. at 9.

Raich is clearly distinguishable from the trademark licensing agreement at issue here. First, Headspace is not producing, processing, or selling cannabis or participating in X-Tracted’s processing of marijuana products in Washington state. *See Op.* at 6, 10, 11. Second, *Raich* involved cultivators suing the Attorney General of the United States and the head of the DEA for injunctive and declaratory relief prohibiting the enforcement

¹⁰ Once again, Podworks overstates the Court of Appeals’ decision—the court never held that through the agreement, Headspace “aid[s] in the production of cannabis products from outside the state of Washington.” *Id.*

A few paragraphs later, Podworks tries again to summarize the Court of Appeals’ ruling in a way that is more favorable to Podworks. It states the Court of Appeals ruled “that interstate cooperation in the production of cannabis products is lawful, and as a consequence, ruled that Headspace may be able to establish valid trademark rights.” Pet. at 15. Nowhere in its decision does the Court of Appeals state “interstate cooperation in the production of cannabis products is lawful.”

of the federal Controlled Substances Act (CSA), 84 Stat. 1242, 21 U.S.C. § 801 et seq. *Raich*, 545 U.S. at 7. Third, Podworks provides no citation or authority on why they have standing to invoke the federal Commerce Clause in a private civil matter between two non-governmental entities.

To conclusion, Podworks has not met its burden of showing how the Court of Appeals' ruling implicates the federal Commerce Clause. *See Young*, 89 Wn.2d at 625 (quoting *DeHeer*, 60 Wn.2d at 126). Even if the Court of Appeals' ruling implicates the federal Commerce Clause, Podworks fails to show how they have standing to invoke and implement the federal Commerce Clause in a private civil matter between two non-governmental entities.

2. *The Court of Appeals' Decision Does Not Implicate the Federal Supremacy Clause.*

Podworks argues that if the trademark licensing agreement here is permitted under RCW 69.50.395, the federal Supremacy Clause is necessarily triggered to preempt the same. Podworks' argument fails.

In general, there is a strong presumption against finding federal preemption of state law in an ambiguous case and the burden of proof is on the party claiming the preemption. *Wash. State Physicians Ins. Exchange & Ass'n v. Fisons Corp.*, 122 Wn.2d 299, 327, 858 P.2d 1054 (1993). There is an even stronger presumption against federal preemption if the state is

exercising its historic police powers (e.g., in areas involving state protection of health and safety). *Id.* The federal CSA includes a preemption provision, but it is narrowed to only those circumstances where “there is a positive conflict between that provision of this subchapter and that State law so that the two cannot consistently stand together,” thereby triggering the presumption based on ambiguity. 21 U.S.C. § 903. Moreover, through RCW 69.50.395 the state regulates public health as part of its historic police powers, thus triggering the even stronger presumption. It is Podworks’ burden to overcome this presumption.

This Court has identified three ways in which Congress may preempt state law: express, field, and conflict preemption. *See Dep’t of Labor & Indus. v. Common Carriers, Inc.*, 111 Wn.2d 586, 588, 762 P.2d 348 (1988). Podworks argues that the federal CSA includes a combination of two of these categories—that it is “‘an express invocation of conflict preemption,’ requiring a determination whether ‘compliance with both federal and state regulations is a physical impossibility,’ or the ‘state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.’” Pet. at 17 (quoting *Or. Prescription Drug Monitoring Program v. U.S. Drug Enf’t Admin.*, 860 F.3d 1228, 1235-

36 (9th Cir. 2017)).¹¹ For its physical impossibility argument, Podworks contends that “[o]ut-of-state involvement in the processing of cannabis by trade-secret licensing or by trademark licensing is illegal under federal law, so if Washington law permits such agreements, compliance with federal law is an impossibility.” Pet. at 17. For its obstacle argument, Podworks contends that “when an out-of-state actor furthers the production of cannabis in Washington, Washington’s CSA ‘stands as an obstacle to the full implementation of the federal CSA because it interferes with the methods by which the federal statute was designed to reach [its] goal.’” Pet. at 17-18 (quoting *Or. Prescription*, 860 F.3d at 1236).

Setting aside the fact that Podworks still has not shown how trademark licensing is “involvement in” or “furtherance of” the production or processing of cannabis,” these arguments also ignore a “significant constitutional counterweight to the Supremacy Clause: the Tenth Amendment’s anticommandeering doctrine.” Erwin Chemerinsky et al., *Cooperative Federalism and Marijuana Regulation*, 62 UCLA L. Rev. 74, 102 (2015). Under this doctrine, the federal government cannot commandeer states by forcing them to enact laws prohibiting marijuana or by requiring state officers to assist the federal government in enforcing its

¹¹ This contention is based on the plain language of 21 U.S.C. § 903.

own laws within the state. *Id.* (citing *Printz v. United States*, 521 U.S. 898, 912 (1997); *New York v. United States*, 505 U.S. 144, 162 (1992)). Yet, Podworks essentially argues that federal law preempts RCW 69.50.395 because it does not prohibit out-of-state licensors from entering into trademark licensing agreements with licensed in-state marijuana businesses, which Podworks contends is unlawful under the federal CSA. This is wrong and Podworks fails to cite a single case that supports its argument requiring the result it advocates.

To conclude, Podworks fails to overcome the presumption against finding preemption of RCW 69.50.395. Podworks fails to show how trademark licensing is “involvement in” or “furtherance of” the production or processing of cannabis.” Finally, Podworks fails to address the significant constitutional counterweight to the Supremacy Clause: the Tenth Amendment’s anticommandeering doctrine.

IV. CONCLUSION

For the reasons articulated above, the Court of Appeals’ *unanimous* decision does not conflict with any decisions of this Court or the Court of Appeals, nor does it involve a significant constitutional question or an issue of substantial public importance. This Court should deny review.

Dated: January 21, 2019.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I am a resident of the State of Washington, over the age of eighteen years, and not a party to the within action. My business address is 5400 California Ave. SW Ste E, Seattle, WA 98136. On January 21, 2019, I electronically filed the foregoing brief with the Washington State Supreme Court, which will send notifications of such filing to the following persons:

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I declare under the penalty of perjury under the laws of the State of Washington that the above is true and correct. Executed on January 21, 2019, at Seattle, WA.

DATED: January 21, 2019.

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Appendix A

IN THE COURT OF APPEALS OF THE STATE OF WASHINGTON

HEADSPACE INTERNATIONAL LLC,)
a limited liability company formed in the)
State of California,)

Appellant,)

v.)

PODWORKS CORP., a corporation in)
the State of Washington; and THOMAS)
WERTH, an individual residing in the)
State of Washington,)

Respondent.)

DIVISION ONE

No. 77016-1-I

PUBLISHED OPINION

FILED: October 29, 2018

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COURT OF APPEALS DIV 1
STATE OF WASHINGTON
2018 OCT 29 AM 9:14

DWYER, J. — Headspace International LLC (Headspace), a California-based marijuana business, filed this lawsuit alleging infringing use of its mark, “THE CLEAR,” by Podworks Corp., a Washington-based marijuana business, and Thomas Werth, Podworks Corp.’s chief executive officer (collectively, Podworks). In response, Podworks filed a CR 12(b)(6) motion to dismiss all claims. The trial court granted the motion, ruling that Headspace did not allege any lawful use of its mark in the ordinary course of trade in Washington and therefore had no trademark rights in “THE CLEAR” in Washington. Holding that Headspace did allege lawful use of its mark in the ordinary course of trade in Washington, we reverse.

On January 26, 2017, Headspace filed suit against Podworks alleging trademark infringement, unfair competition, unfair business practices, and violation of the Washington Consumer Protection Act, chapter 19.86 RCW.

Headspace made the following factual allegations in its complaint:

[Headspace], is and has been for many years, a well-known seller and licensor of concentrated and refined essential plant oils including cannabis concentrates, vapor related products, educational and other services sold under the trademark THE CLEAR. [Headspace] developed a notoriety in the cannabis industry because their in-house chemist and engineer developed a proprietary chemical process to create highly refined essential plant oils including cannabis concentrates. [Headspace] has, since April 10th 2013, adopted and used the mark THE CLEAR for its products in California and for its services including licensing the mark THE CLEAR in Washington State. . . .

. . . Since the initial use of THE CLEAR, [Headspace] has continually used the mark for its products and services. [Headspace]'s Washington State trademark registration was granted by the Washington State Secretary of State on December 15th, 2014, file number 57531, in class 34 – cannabis concentrates.

. . . .

. . . In 2014 [Headspace] entered into an agreement to license their proprietary chemical process and THE CLEAR mark to X-Tracted Laboratories 502 Inc., a Washington State business that is licensed with [the] Washington Liquor and Cannabis Board. X-Tracted Laboratories 502 Inc. sells and distributes various marijuana related products, including cannabis concentrates, in Washington State. X-Tracted Laboratories 502 Inc. licensed [Headspace]'s THE CLEAR mark to use on cannabis concentrates and related products sold and/or used in commerce in Washington State. X-Tracted Laboratories 502 Inc. continues to license [Headspace]'s proprietary chemical process and use [Headspace]'s THE CLEAR mark in commerce in Washington State according with its Washington Liquor and Cannabis Board license.

Headspace further alleged that Podworks had used and continues to use the mark "THE CLEAR," or "CLEAR," for the sale of cannabis concentrates in Washington. Headspace also alleged that it sent Podworks a cease and desist letter, informing Podworks of its trademark for the mark "THE CLEAR," and demanding that Podworks immediately terminate further use of the mark or confusingly similar marks. Podworks refused, and Headspace filed this lawsuit.

Podworks responded by filing a CR 12(b)(6) motion to dismiss all claims against it for failure to state a claim upon which relief could be granted. Podworks argued that Headspace failed to allege that it had trademark protection in Washington for its mark "THE CLEAR," because it did not allege lawful use of the mark in the ordinary course of trade in Washington. The trial court granted the motion, reasoning that Headspace failed to allege lawful use of its mark in the ordinary course of trade in Washington and holding that there "is no claim for trademark infringement where the plaintiff does not allege that its mark is lawfully placed in the ordinary course of trade."

Headspace appeals.

II

Headspace asserts that the trial court erred by dismissing its complaint for failure to state a claim. Specifically, Headspace contends that it alleged lawful use of its mark in the ordinary course of trade in Washington and, therefore, had trademark protection for its mark pursuant to Washington's trademark statute. We agree.

We review dismissals pursuant to CR 12(b)(6) de novo. Wash. Trucking Ass'ns v. Emp't Sec. Dep't, 188 Wn.2d 198, 207, 393 P.3d 761, cert. denied, 138 S. Ct. 261 (2017). Dismissal is appropriate only when "it appears beyond doubt that the plaintiff cannot prove any set of facts, consistent with the complaint, justifying recovery." Hipple v. McFadden, 161 Wn. App. 550, 556, 255 P.3d 730 (2011). When reviewing a CR 12(b)(6) dismissal, we presume all factual allegations in the complaint to be true and also consider any hypothetical facts, consistent with the complaint, proffered by the plaintiff. Gorman v. Garlock, Inc., 155 Wn.2d 198, 214, 118 P.3d 311 (2005).

To determine whether Headspace obtained trademark protection for its mark pursuant to Washington law, we must interpret our state's trademark statute, codified at chapter 19.77 RCW. Washington's trademark statute is based on the Model State Trademark Bill (MSTB) produced by the International Trademark Association. In the most recent update to the statute, the Senate and House Committees on the Judiciary recommended updating Washington's trademark statutes to more closely conform to federal law and the MSTB. See FINAL B. REP. on S.B. 5122, 58th Leg., Reg. Sess. (Wash. 2003).

One of the assumed benefits for states that have adopted the MSTB is that it is designed to enable state courts interpreting state trademark statutes to rely on federal court decisions interpreting federal trademark law, as set forth in the Lanham Act, 15 U.S.C. § 1051.¹ Our state legislature affirmed this

¹ See Anne W. Glazer, *INTA's Model State Trademark Bill: Modernizing and Harmonizing U.S. State Trademark Laws*, 64 INTA BULL. (Oct. 1, 2009), <http://www.inta.org/INTABulletin/Pages/INTAsModelStateTrademarkBillModernizingandHarmonizingUSStateTrademarkLaws.aspx> [<https://perma.cc/8UWC-RN5P>].

assumption by explicitly instructing Washington courts to construe the language of our trademark statute in accordance with federal decisions interpreting the Lanham Act. RCW 19.77.930.

Our Supreme Court has employed just such an approach. In Seattle Endeavors, Inc. v. Mastro, 123 Wn.2d 339, 345, 868 P.2d 120 (1994), the court explained that trademark infringement claims brought pursuant to Washington's trademark statute are evaluated consistently with prevailing federal standards, noting that the analysis employed by federal courts "operates tacitly in Washington trademark cases." Thus, consistent with the direction provided by both the legislature and our Supreme Court, we turn to federal court interpretations of the Lanham Act to guide our interpretation of the requirements of our state trademark statute.

Both the Lanham Act and Washington's trademark statute require that a mark be used before it will receive trademark protection. See RCW 19.77.030; CreAgri, Inc. v. USANA Health Scis., Inc., 474 F.3d 626, 630 (9th Cir. 2007). Federal law requires lawful use in commerce, CreAgri, 474 F.3d at 630, and Washington's statute contains an analogous provision requiring that a mark be placed in the ordinary course of trade in Washington. See RCW 19.77.010(11).² Although Washington's statute does not explicitly state that such placement must

² The full text of RCW 19.77.010(11) states:

A trademark shall be deemed to be "used" in this state when it is placed in the ordinary course of trade and not merely to reserve a right in a mark in any manner on the goods or their containers, or on tabs or labels affixed thereto, or displayed in connection with such goods, and such goods are sold or otherwise distributed in this state, or when it is used or displayed in the sale or advertising of services rendered in this state.

be lawful, such a requirement is clearly implied. As the Ninth Circuit explained when interpreting the federal lawful use requirement:

[A]s a logical matter, to hold otherwise would be to put the government in the “anomalous position” of extending the benefits of trademark protection to a seller based upon actions the seller took in violation of that government’s own laws . . . [and] as a policy matter, to give trademark priority to a seller who rushes to market without taking care to carefully comply with the relevant regulations would be to reward the hasty at the expense of the diligent.

CreAgri, 474 F.3d at 630. To avoid placing the government in such an “anomalous position,” we interpret Washington’s statute to require lawful placement of a mark in the ordinary course of trade.

Here, the allegations in Headspace’s complaint, when treated as verities, are sufficient to satisfy its obligation to allege a set of facts that could justify recovery. The allegations of the complaint, as well as hypothetical facts consistent with the complaint, set forth the following: (1) that Headspace used its mark “THE CLEAR” in Washington when it licensed the mark to X-Tracted Laboratories 502 Inc. (X-Tracted) and that X-Tracted placed the mark on cannabis concentrates placed in the ordinary course of trade in Washington; and (2) that such use was lawful because such a licensing agreement was and is not prohibited by Washington’s Uniform Controlled Substances Act, codified at chapter 69.50 RCW (CSA), when it does not require Headspace to produce, process, or sell cannabis products in Washington.

A

Headspace asserts that it alleged use of its mark in the ordinary course of trade in Washington when it alleged X-Tracted's use of the mark on cannabis products X-Tracted produced and sold in Washington. In response, Podworks avers that such indirect placement of the mark in the ordinary course of trade in Washington does not satisfy the requirements of the statute. We disagree. It does not matter if the use of the mark is direct or indirect. Either can be sufficient to satisfy the requirements of the statute.

While the language of RCW 19.77.010(11) does not directly speak to whether indirect placement by another inures to the benefit of the owner of a mark, common law principles and federal court interpretations of the Lanham Act support the view that indirect placement can be sufficient. It is an established principle of the common law of trademark that indirect use of a protected mark by a licensee inures to the benefit of the owner of the mark when the owner has sufficient control over the quality of the goods or services provided to customers under the licensed mark. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 cmt. b (AM. LAW INST. 1995) ("If the trademark owner exercises reasonable control over the nature and quality of the licensee's goods or services, the benefits of the licensee's use accrue to the trademark owner."); 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 18:52 (4th ed. 1996).

Similarly, federal courts have opined that the licensing of trademarked marks is permissible under the Lanham Act when the trademark owner has

sufficient control over the quality of goods or services produced by the licensee. Although federal courts have not uniformly applied a single analytical approach to determining the extent of control over quality necessary for a mark's owner to retain trademark rights, they have generally focused on three factors when making such a determination: (1) contract language authorizing control over the licensee by the licensor,³ (2) whether the licensor exercised actual control over the licensee,⁴ or (3) whether the product quality over time was sufficient for the licensor to rely on the licensee to ensure quality control.⁵ In a recent decision discussing this question, the Ninth Circuit analyzed all three factors when determining whether a licensor maintained sufficient control over the quality of goods or services produced by the licensee. See FreecycleSunnyvale v. Freecycle Network, 626 F.3d 509, 516-19 (9th Cir. 2010) (finding no evidence to show contractual control, actual control, or control pursuant to sufficient grounds to trust in the quality control procedures of the licensee). Because federal courts have found sufficient control over quality based on any of the three factors, we apply the Ninth Circuit's test evaluating all three factors to determine whether any factor supports an assertion that the licensor possesses sufficient control over quality.

³ See, e.g., Arthur Murray, Inc. v. Horst, 110 F. Supp. 678, 679 (D. Mass. 1953) (holding the license valid and trademark rights maintained because the contract language provided for licensor's control over the quality of services provided by licensee).

⁴ See, e.g., Embedded Moments, Inc. v. Int'l Silver Co., 648 F. Supp. 187, 194 (E.D.N.Y. 1986) (explaining that it was not necessary for the license agreements to contain explicit provisions for the exercise of control and that actual control by licensor is sufficient to maintain trademark rights).

⁵ See, e.g., Transgo, Inc. v. Ajac Transmission Parts Corp., 768 F.2d 1001, 1017-18 (9th Cir. 1985) (holding that, although licensor did not inspect the products, quality control was maintained by reliance on the integrity and control procedures of licensee where licensor and licensee were in a close working relationship).

Here, Headspace's complaint did not specifically allege that it retained control over X-Tracted's production of cannabis concentrates. Instead, in its briefing, Headspace proffered hypothetical facts consistent with the allegations in its complaint that could support a claim that it had sufficient control over X-Tracted's production of cannabis concentrates to maintain trademark rights. Specifically, Headspace proffered, both in the trial court and in its briefing on appeal, that its license agreement with X-Tracted included terms that provided Headspace sufficient quality assurances. Furthermore, it is not inconsistent with the allegations of the complaint to hypothesize that Headspace could have relied on the quality control measures utilized by X-Tracted. Because either the hypothetical quality control terms in the license agreement or Headspace's hypothetical reliance on X-Tracted's quality control measures would satisfy the applicable test for quality control, we hold that Headspace has made the necessary showing that it alleged use of its mark "THE CLEAR" in the ordinary course of trade in Washington.

B

Podworks next contends that even if Headspace exercised sufficient control over the quality of the goods produced and sold by X-Tracted, such control necessarily constituted a violation of the CSA and, therefore, cannot satisfy the requirement of lawful placement of the mark in the ordinary course of trade. We disagree.

Podworks first asserts that Headspace's licensing agreement with X-Tracted directly violated the CSA at the time Headspace filed its lawsuit. This is so, Podworks avers, because the agreement necessarily required Headspace to participate in X-Tracted's processing of marijuana products, which it was legally prohibited from doing.

In 2012, Washington voters approved Initiative Measure 502, LAWS OF 2013, ch. 3, codified as part of chapter 69.50 RCW (I-502), setting forth the circumstances attendant to the legal possession and sale of marijuana. I-502 modified the CSA by establishing a framework pursuant to which individuals and businesses could apply to the Washington State Liquor and Cannabis Board (WSLCB) for licenses to legally produce, process, or sell marijuana products in Washington. RCW 69.50.325. To avoid conflicting with those federal interstate commerce laws and regulations prohibiting the possession and sale of marijuana products, licenses may not be issued to out-of-state companies or individuals. RCW 69.50.331(1)(b). In addition, businesses that obtain a license to produce, process, or sell marijuana products must not permit any other person or entity to use the license or to participate in the production, processing, or sale of marijuana products. RCW 69.50.325.

Here, Headspace is an out-of-state company that is not permitted to obtain a license to produce, process, or sell marijuana products in Washington. However, Headspace's alleged licensing agreement with X-Tracted does not necessarily require that Headspace participate in X-Tracted's processing of

marijuana products. While Podworks asserts that the only way that Headspace could have sufficiently controlled the quality of X-Tracted's products was to be directly involved in the processing of X-Tracted's marijuana products, this is not so. Headspace could have ensured the necessary quality through contractual means or by relying on X-Tracted's quality control measures. Headspace's alleged licensing agreement arranged for Headspace to provide X-Tracted with the formula or recipe for processing cannabis concentrates and the right to place Headspace's mark on those concentrates X-Tracted processed using said formula or recipe. The agreement as alleged did not require Headspace to actually participate in the processing or sale of those products. Because no provision of the CSA prohibited Headspace from reaching such an agreement with X-Tracted, Podworks' contention that the agreement necessarily violated the CSA fails.

ii

Podworks next asserts that a recently added provision of the CSA stating that trademark and proprietary information licensing agreements are lawful, enacted in 2017 as part of Engrossed Substitute Senate Bill (ESSB) 5131⁶ and codified at RCW 69.50.395, necessarily implies that such agreements were illegal prior to the enactment of ESSB 5131. To be sure, because the alleged licensing agreement never required Headspace to produce, process, or sell cannabis in Washington, nothing in the pre-amendment CSA specifically addressed this matter. Similarly, because X-Tracted's processing and sale of

⁶ ENGROSSED SUBSTITUTE S.B. 5131, 65th Leg., Reg. Sess. (Wash. 2017).

cannabis was lawful, the licensing agreement did not make Headspace an accomplice to any wrongdoing. This leaves Podworks with only the argument that an implied prohibition existed prior to ESSB 5131's enactment. We next analyze this claim.

When construing a law adopted by initiative, “[t]he collective intent of the people becomes the object of the court’s search for ‘legislative intent.’” Dep’t of Revenue v. Hoppe, 82 Wn.2d 549, 552, 512 P.2d 1094 (1973). “If a statute is ambiguous, we may look to the statute’s subsequent history to clarify the original legislative intent.” Jane Roe v. TeleTech Customer Care Mgmt. (Colorado) LLC, 171 Wn.2d 736, 751, 257 P.3d 586 (2011).⁷ Upon the adoption of an amendment to a statute, the “new legislative enactment is presumed to be an amendment that changes a law rather than a clarification of the existing law, but the presumption may be rebutted by clear evidence that the legislature intended an interpretive clarification.” Jane Roe, 171 Wn.2d at 751. “One indication a new enactment is a clarification is that the original statute was ambiguous.” Jane Roe, 171 Wn.2d at 751. The statements of individual lawmakers, especially bill sponsors, can also be instructive in discerning the reasons for changes in legislation. In re Marriage of Kovacs, 121 Wn.2d 795, 807-08, 854 P.2d 629 (1993).

⁷ As regards the utility of subsequent history to interpret the pre-amendment version of a statute, we see no pertinent distinction between the original legislative intent of a law passed by the legislature and the original legislative intent of a law approved by initiative. Our constitution permits the legislature to freely amend statutes enacted by initiative measures provided that, for the first two years subsequent to approval by the voters, amendments to, or repeal of, statutes enacted by initiative measures obtain the approval of two-thirds of the members of each house of the legislature. CONST. art. II, § 1(c). Therefore, just as a subsequent legislature may clarify the laws passed by an earlier legislature through subsequent amendment, so too may the legislature, via subsequent amendment, clarify the laws passed by an earlier direct vote of the people.

One of the stated purposes of I-502 was to take “marijuana out of the hands of illegal drug organizations and bring[] it under a tightly regulated, state-licensed system similar to that for controlling hard alcohol.” LAWS OF 2013, ch. 3, § 1(3). To achieve this purpose, I-502 requires that the WSLCB strictly monitor and regulate Washington’s cannabis industry. See RCW 69.50.325.

Subsequent to I-502’s passage, the WSLCB developed regulations to comply with its statutory obligations. However, these regulations did not include a requirement that all trademark and proprietary information licensing agreements be disclosed to the agency.

In 2017, our legislature passed ESSB 5131, which added a provision to the CSA entitled “Licensed marijuana businesses may enter into certain licensing agreements or consulting contracts—Disclosure to state liquor and cannabis board.” This provision states:

(1) A licensed marijuana business may enter into a licensing agreement, or consulting contract, with any individual, partnership, employee cooperative, association, nonprofit corporation, or corporation, for:

(a) Any goods or services that are registered as a trademark under federal law or under chapter 19.77 RCW;

(b) Any unregistered trademark, trade name, or trade dress;

or

(c) Any trade secret, technology, or proprietary information used to manufacture a cannabis product or used to provide a service related to a marijuana business.

(2) All agreements or contracts entered into by a licensed marijuana business, as authorized under this section, must be disclosed to the state liquor and cannabis board.

RCW 69.50.395.

During Senate committee hearings on the bill, Senator Ann Rivers, the bill’s sponsor, explained that the bill “is just a clean-up bill.” Hr’g on S.B. 5131

Before the S. Commerce, Labor and Sports Comm., 65th Leg., Reg. Sess., at 59 min., 17 sec. (Jan. 19, 2017) (statement of Senator Ann Rivers, sponsor of SB 5131), *video recording by TVW, Washington State's Public Affairs Network*, <https://www.tvw.org/watch/?eventID=2017011226>. Similarly, before the House Committee on Commerce and Gaming, Senator Rivers explained that “what we are trying to do with this is continue the regulation of our big experiment [with the marijuana industry].” Hr’g on S.B. 5131 Before the H. Commerce and Gaming Comm., 65th Leg., Reg. Sess., at 24 min., 41 sec. (Mar. 20, 2017) (statement of Senator Ann Rivers, sponsor of SB 5131), *video recording by TVW, Washington State’s Public Affairs Network*, <https://www.tvw.org/watch/?eventID=2017031214>. The legislative history of the bill is devoid of any indication that members of the legislature were of the view that, at the time, trademark and proprietary information licensing agreements were illegal or that the bill was designed to authorize their lawful existence.

The intent of the voters who approved I-502 was clear: to legalize the business of producing, processing, and selling marijuana pursuant to a strict regulatory framework. However, the WSLCB did not view I-502 as authorizing or requiring it to monitor all licensing agreements entered into by licensed marijuana businesses for trademarks and proprietary information relating to the processing of marijuana products. As a result, the WSLCB did not develop the regulations necessary to monitor the industry’s use of such agreements, contravening the intent of the voters as perceived by the legislature. To correct this misperception by the executive branch agency and “continue the regulation” of Washington’s

experiment with legal marijuana, the legislature passed a “clean-up bill” that, in part, clarified for the WSLCB its obligation to monitor licensing agreements entered into by licensed marijuana businesses. ESSB 5131’s legislative history is devoid of any indication that the legislature sought to make legal any licensing agreements that had been previously illegal. Instead, its purpose was to better regulate that which I-502 had previously legalized.

iii

Podworks next asserts that if Headspace actually possessed the amount of control over the quality of X-Tracted’s cannabis products necessary to protect its trademark rights, such control would have necessarily made Headspace a “true party of interest” of X-Tracted. Podworks also avers that this would have required disclosure of the agreement (and Headspace’s status as a “true party of interest”) to the WSLCB. Furthermore, Podworks reasons, because Headspace did not allege that X-Tracted had ever reported that Headspace was a “true party of interest” to the WSLCB, the alleged use of Headspace’s mark by X-Tracted could not have been lawful. We disagree. Podworks’ argument is unavailing because Headspace could have possessed the required control over quality to maintain its trademark rights without becoming a “true party of interest.”

The definition of a “true party of interest” is set forth in WAC 314-55-035. The regulation requires that all “true parties of interest” be listed on a marijuana business’s license. WAC 314-55-035(1). Pursuant to the regulation, the “true parties of interest” for a corporation are all corporate officers and stockholders, and their spouses. WAC 314-55-035(1). The regulation also provides that any

entity or person expecting a percentage of the profits from a marijuana licensed business in exchange for a monetary loan or expertise is also a “true party of interest.” WAC 314-55-035(1). We have previously explained that a “‘true party of interest’ is specifically distinguishable from . . . ‘persons who exercise control of business.’” Haines-Marchel v. State Liquor & Cannabis Bd., 1 Wn. App. 2d 712, 723-24, 406 P.3d 1199 (2017) (internal quotation marks omitted), review denied, 191 Wn.2d 1001 (2018). The regulation does not require that persons or entities who exercise control of the business be listed in a marijuana business’s license, but does state that the WSLCB will investigate those persons or entities. WAC 314-55-035(4).⁸

Podworks’ assertion that Headspace, to protect its trademark, must have exercised sufficient control over X-Tracted so as to become a “true party of interest” misapprehends the meaning of “true party of interest”. That Headspace might have sufficient control over X-Tracted’s production of cannabis concentrates to protect its trademark rights does not establish that Headspace thereby became either a corporate officer or a stockholder of X-Tracted (nor a spouse of corporate officers or stockholders). Similarly, it does not necessitate that Headspace receives a percentage of X-Tracted’s profits.⁹ Hence,

⁸ WAC 314-55-035(4) states in full: “**Persons who exercise control of business** – The WSLCB will conduct an investigation of any person or entity who exercises any control over the applicant’s business operations. This may include both a financial investigation and/or a criminal history background.”

⁹ It is possible that Headspace’s license agreement with X-Tracted specified that Headspace would receive a percentage of X-Tracted’s profits, in which case Headspace would have been a “true party of interest” under the regulation. The exact terms of the license agreement were not alleged in the complaint. However, it is consistent with the allegations of the complaint to hypothesize that the license agreement does not create such an arrangement. Headspace could have the required control to establish trademark rights without being a “true party of interest.”

Headspace can have the necessary control over quality of X-Tracted's cannabis concentrates to establish trademark rights without becoming a "true party of interest."

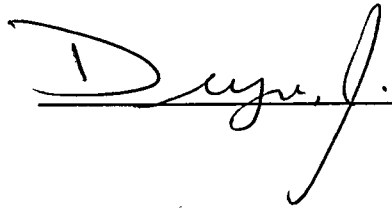
Furthermore, even if Podworks had asserted that Headspace was required to submit to an investigation by the WSLCB as an entity that controlled X-Tracted's business operations, such an assertion is not supported by the language of the regulation. The regulation stated that the WSLCB would conduct investigations of persons or entities that exercised control over business operations. WAC 314-55-035(4). It did not require the licensed business to provide a list of all parties with whom it has licensing agreements or copies of those agreements.

Additionally, the recent enactment of RCW 69.50.395 supports our reading of the regulation. The current version of WAC 314-55-035 came into effect on June 18, 2016, and ESSB 5131, with the pertinent provisions codified at RCW 69.50.395, was signed into law on May 16, 2017. RCW 69.50.395 clarifies that marijuana businesses must disclose to the WSLCB all licensing agreements, and was passed after the enactment of the WAC regulation directing the WSLCB to investigate persons exercising control over a licensed marijuana business. RCW 69.50.395(2). It is plain that the legislature collectively thought that the WSLCB required a clearer statement of its role under I-502's regulatory system, as regards licensing agreements. The legislature determined that requiring the disclosure of licensing agreements to the WSLCB would best implement the policy approved by the voters in I-502. The legislature clarified this for the

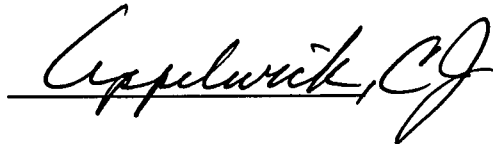
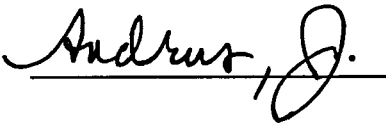
WSLCB, explicitly mandating that it require disclosure of licensing agreements in the future.¹⁰

If, indeed, X-Tracted failed to disclose its licensing agreement with Headspace to the WSLCB, such failure was not unlawful because the WSLCB did not previously require the disclosure of such agreements. Following the enactment of RCW 69.50.395, however, it is clear that the WSLCB must now require X-Tracted to disclose the agreement. Podworks' assertion that Headspace could not have had sufficient control over X-Tracted's production of cannabis concentrates without violating the CSA is unavailing.

Reversed and remanded.



We concur:



¹⁰ The WSLCB, as an executive branch agency, properly confines its rule making to such authority as is delegated to it by the legislature or the people (through initiative). The best view of this aspect of the bill is that the agency was unclear as to its responsibilities vis-à-vis licensing agreements, upon passage of the initiative, and that the legislature properly clarified the issue.

Appendix B

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Division I
State of Washington
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NO. 77016-1

IN THE COURT OF APPEALS OF THE STATE OF WASHINGTON
DIVISION ONE

HEADSPACE INTERNATIONAL, LLC,

Appellant,

v.

PODWORKS CORP., and THOMAS WERTH,

Respondent

BRIEF OF RESPONDENTS PODWORKS CORP. AND THOMAS
WERTH

APPEAL FROM KING COUNTY SUPERIOR COURT CASE NO. 17-2-
01751-5 SEA, THE HONORABLE JUDGE MARY E. ROBERTS

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I. INTRODUCTION

This case involves an attempt by an out-of-state cannabis company to establish trademark rights in Washington by licensing the use of a trademark to an in-state cannabis processor. The trial court granted a motion to dismiss under Civil Rule (“CR”) 12(b)(6), concluding that trademark rights were not established in this case because the trademark-owner failed to allege lawful use in Washington. That ruling should be affirmed.

II. STATEMENT OF THE CASE

The mark at issue is THE CLEAR. Appellant Headspace International, LLC (“Headspace”) alleges that it is “a well-known seller and licensor of concentrated and refined essential plant oils including cannabis concentrates, vapor related products, educational and other services” CP002 at ¶4. Headspace started using THE CLEAR trademark April 10, 2013 in California and purported to license the use of THE CLEAR in Washington. *Id.*

Headspace’s Washington-based licensee is a company named X-Tracted Laboratories 502, Inc. (“XTL”). CP003 at ¶7. Sometime in 2014, Headspace granted XTL the right to use Headspace’s “proprietary chemical process and THE CLEAR mark.” *Id.* XTL “sells and distributes various

marijuana related products, including cannabis concentrates, in Washington State.” *Id.* According to Headspace, XTL used THE CLEAR mark on “cannabis concentrates and related products” in Washington. *Id.*

XTL is licensed to sell cannabis products in Washington according to the collection of rules and laws passed following enactment of Initiative 502 (“I-502”), the law establishing Washington’s self-contained, intrastate cannabis industry. *See* Ballot Measure 1, Bill Text (Wash. 2012) (“The people intend to stop treating adult marijuana use as a crime and try a new approach that ... [t]akes marijuana out of the hands of illegal drug organizations and brings it under a tightly regulated, state-licensed system....”); *see also*, notes following RCW § 69.50.101.

Notwithstanding Washington’s I-502, it remains a federal crime to manufacture, import, possess, use, or distribute marijuana or to aid another’s manufacture, importation, possession, use, or distribution. During the relevant time period, however, the U.S. Department of Justice has expressly declined to prosecute individuals “whose actions are in clear and unambiguous compliance” with existing state law, so long as those “jurisdictions . . . have implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of marijuana.” *See* U.S. Dept. of Justice Memorandum authored

by James M. Cole (August 29, 2013) available at <https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf> (last visited November 3, 2017). To this effect, the Washington State Legislature carefully crafted provisions to ensure that Washington’s cannabis industry would stay in Washington and not implicate interstate commerce.

Headspace sued Appellees Podworks Corp. and Thomas J. Werth (collectively “Podworks”) alleging trademark infringement by Podworks’ sale of cannabis-concentrate products in Washington. CP004 at ¶8. Headspace alleged consumers are likely to be confused by Podworks’ use of CLEAR and THE CLEAR on cannabis concentrates. *Id.* ¶¶8-10.

III. STATEMENT OF THE ISSUE

The issue in this case is whether Headspace, an out-of-state cannabis business, alleged lawful use of THE CLEAR in Washington, where Headspace’s only alleged use of THE CLEAR in Washington involved the licensing of its technology and trademark to an in-state cannabis processor.

IV. ARGUMENT

A. Legal Standard

A dismissal under CR 12(b)(6) is for “failure to state a claim upon which relief can be granted.” *See* CR 12(b)(6). “This weeds out complaints

where, even if what the plaintiff alleges is true, the law does not provide a remedy.” *McCurry v. Chevy Chase Bank, FSB*, 233 P.3d 861, 863 (Wash. 2010).

B. Headspace Fails to Allege Lawful Use in Commerce

The Washington State Legislature intended for the State trademark statute, RCW 19.77 *et seq.* to be construed consistently with the United States Lanham Act, 15 U.S.C. § 1051. *See* RCW 19.77.930; *see also* *Seattle Endeavors v. Mastro*, 868 P.2d 120, 124 (1994). Thus, interpretation of the Lanham Act’s “use in commerce” requirement is instructive to this Court. It is axiomatic that “only lawful use in commerce can give rise to trademark priority.” *CreAgri, Inc. v. USANA Health Scis., Inc.*, 474 F.3d 626, 630 (9th Cir. 2007). Therefore, only lawful use of a trademark in Washington should be deemed in “the ordinary course of trade.” *See* RCW 19.77.010(11) (“A trademark shall be deemed to be ‘used’ in this state when it is placed in the ordinary course of trade and not merely to reserve a right in a mark.”). The Ninth Circuit’s rationale supporting the Lanham Acts’ “lawful use in commerce” requirement is instructive: “as a policy matter, to give trademark priority to a seller who rushes to market without taking care to carefully comply with the relevant regulations would be to reward the hasty at the expense of the diligent.” *Id.* at 630.

This rule has long been a cornerstone of trademark law. *See* 15

U.S.C. §§1051, 1127; 37 C.F.R. § 2.69; *Werts Novelty Co. v. Chandler & Universal Manufacturing Co.*, 30 F. Supp. 774, 775 (W.D. Mo. 1939) (manufacturer of lottery tickets could not sue to enforce its trademark rights in Missouri, because lottery tickets were illegal under Missouri law); *Intrawest Financial Corp. v. Western Natl. Bank*, 610 F. Supp. 950, 959 (D. Colo. 1985) (plaintiff acquired no rights in its trademark because it used the trademark to violate national banking laws); *see also In re Stellar Int'l, Inc.*, 159 USPQ 48, 50-51 (T.T.A.B. 1968). Unlawful use will be found where there has been a per se violation of a statute regulating the sale of a party's goods. *Dessert Beauty, Inc. v. Fox*, 617 F. Supp. 2d 185, 190 (S.D.N.Y. 2007) (citations omitted).

1. No Lawful Use By Headspace

Headspace's use of THE CLEAR as alleged in its complaint evidences several *per se* violations of Washington's laws. These violations go straight to the heart of Washington trademark law: identification as to the source of the goods, and consumer protection. Washington adopted the Uniform Controlled Substances Act (RCW § 69.50 *et seq*), which still lists cannabis and its extracts as Schedule I Controlled Substances. RCW § 69.50.204(c)(22). With the passage of I-502, the Washington Legislature outlined specific actions that would not be criminal activity under

Washington's CSA. *See, e.g.*, RCW §§ 66.08.012 (Intent); 69.50.360 (Acts of Licensed Retailers); 69.50.363 (Acts of Licensed Processors); 69.50.366 (Acts of Licensed Retailers). In other words, unless an exception is provided, activities covered by Washington's CSA are still illegal under both federal and Washington law. Consequently, noncompliant use of a mark for cannabis in Washington cannot possibly constitute "lawful use" to obtain trademark protection. *See generally Erva Pharms., Inc. v. Am. Cyanamid Co.*, 755 F. Supp. 36, 40 (D.P.R. 1991) (considering trademark protection under the Lanham Act and reasoning "[i]f the product is being marketed in violation of these laws, plaintiff's use of the trademark is unlawful and cannot be the basis upon which to enforce its rights as trademark owner and senior user of the mark"); *GoClear LLC v. Target Corp.*, No. C 08-2134 MMC 2009 U.S. Dist. LEXIS 6649, at *13 (N.D. Cal. Jan. 22, 2009) (finding no lawful use of a trademark because it was used in violation of the F.D.C.A.).

Headspace has not alleged use in compliance with Washington's cannabis laws. Headspace alleged that it licensed its intellectual property to XTL in 2014 (CP003 at ¶7), but Headspace itself has not made, processed, sold, or advertised its products legally at all in Washington. From 2014 to the present, selling, producing, or processing cannabis products has required a license from the WSLCB. *See* RCW §§ 69.50.360, 363, and 366. Further,

RCW 69.50.331(1)(b)(iii) throughout the relevant time period has precluded out-of-state companies from obtaining a license to participate in the Washington cannabis industry. The Washington Administrative Code in 2014 further provided that any applicant must have resided in the state at least three months prior to applying for a license. *See* WAC § 314-55-020(7) (2014). The residency requirement was increased to six months (WAC § 314-55-020(7)), and only the license recipient is permitted to use the state-issued license. *See* RCW § 69.50.325(2).

At no point has Headspace obtained a license to produce, process, or sell cannabis in this state.¹ Accordingly, any use of the alleged mark in Washington has been by XTL, not Headspace. CP003 at ¶7. Without a Washington license, Headspace has not been able to legally make, process, sell or advertise cannabis in Washington. Any alleged use of THE CLEAR by Headspace on cannabis products is therefore unlawful and cannot establish trademark priority. *See, e.g., Erva Pharms*, 755 F. Supp. at 40 (dismissing case upon finding that asserted use was noncompliant with FDA regulations and therefore could not obtain trademark priority).

Headspace indicated in its state trademark application that “THE

¹ Current and previous applicants for licenses can be readily obtained directly from the WSLCB online at <http://lcb.wa.gov/records/frequently-requested-lists>; *see also* CP042.

CLEAR” would be used as a “label affixed to container in which goods [i.e., cannabis concentrates] are sold.” *See* CP114. Under the relevant WSLCB regulations, every cannabis product in the State must show “[t]he business or trade name and the sixteen-digit Washington state unified business identifier number of the licensees that produced, processed and sold the marijuana or marijuana products.” WAC § 314-55-105(12) (a). Thus, THE CLEAR—by law—was required to be placed alongside the business name of the entity who has produced, processed, or sold the product. However, Headspace has *not* alleged that its business name appears on any packaging sold in Washington. Further, Headspace failed to allege that its name appeared *alongside* XTL’s on any labeling. As a result, no consumers in Washington could have associated the mark THE CLEAR with Headspace. Indeed, as indicated above, Headspace cannot legally operate in Washington, and the brand THE CLEAR could not have been used to indicate Headspace as the source of any Washington cannabis product.

Additionally, the WSLCB prohibits an unlicensed third party from selling under its brand in the State. The WSLCB’s FAQ section on its website makes this abundantly clear:

May an un-licensed third party marketing company sell to retailers? We are a licensed grower and have been approached by a marketing/advertising

company who wants to “represent” growers under their brand. They claim to want to do all the marketing for a group of growers. They will sell their brand to the licensed retailer.

No. In regards to marijuana/infused products, an unlicensed party cannot be involved in the sale of marijuana. They could sell other things such as packaging and t-shirts.

See LCB FAQs About I-502 Advertising, http://lcb.wa.gov/mj2015/faq_i502_advertising, (emphasis original) (last visited March 1, 2017). This was reiterated throughout the site when discussing a trademark licensor. *See id.* at http://lcb.wa.gov/mj2015/faq_i502_advertising#Bonus Question (last visited March 1, 2017).² Like an unlicensed marketing company attempting to represent companies under a common “brand,” Headspace tried to assert its out-of-state brand through XTL with no presence in Washington. Put plainly, the allegations in the complaint show that Headspace was not *legally allowed* to present itself as a source for cannabis products in Washington. Any alleged use would have been unlawful and could not have been used to reserve rights in THE CLEAR in Washington. *See, e.g., In re*

² Can a marijuana licensee enter into a licensing agreement for the use of a trademark/branding held by a separate (non-licensed) company?

Whether or not a licensee would be allowed to use the trademark owned by another entity is dependent on the contractual arrangement between the parties and will be determined on a case by case basis. Depending on the structure of the contract a trademark holder could be considered a true party of interest and would need to be disclosed and investigated as such.

Taylor, 133 U.S.P.Q. (BNA) 490, 491 (T.T.A.B. 1962) (“The specimens filed at the time of application are not in compliance with the Federal Food, Drug, and Cosmetic Act, and their use in interstate commerce cannot be construed to be a lawful use.”).

2. *Headspace Did Not Allege Requisite Control*

Setting aside the *per se* violations identified above with respect to labels for cannabis products sold in Washington, in order for Headspace to allege ownership of trademark rights by virtue of XTL’s use of THE CLEAR, Headspace must have exercised control over the quality of goods sold by XTL under the mark. *See* 15 U.S.C. § 1055; *see also*, TRADEMARK MANUAL OF EXAMINING PROCEDURE (“TMEP”) § 1201.03. However, if Headspace did exercise control over XTL’s goods sufficient to own valid trademark rights, then Headspace should have been disclosed as a “true party of interest” under Washington’s cannabis law. *See* WAC § 314-55-035. Importantly, Headspace did not plead that it was disclosed as a “true party of interest” in connection with XTL’s I-502 license.³ On the contrary, Headspace did not plead that it exercised *any* control over XTL’s use of THE CLEAR. Absent allegations of sufficient control over the quality of XTL’s good sold under THE CLEAR trademark, Headspace merely alleged

³ XTL could lose its processor license for this failure to disclose Headspace, even on the first violation. WAC § 314-55-535.

the existence of a “naked license” which could not have provided Headspace any rights in the mark. *See, e.g., Edwin K. Williams & Co. v. Edwin K. Williams & Co. East*, 542 F.2d 1053, 1059 (9th Cir. 1976) (“a finding of insufficient control essentially works a forfeiture”); *see also First Interstate Bancorp v. Stenquist*, No. C-89-4106 MHP, 1990 U.S. Dist. LEXIS 19426, at *10 (N.D. Cal. July 13, 1990) (finding that licensor placed responsibility of quality control and regulatory compliance on a licensee, thereby abandoning rights).

Headspace argues that “[t]here remains a question of fact as to whether Headspace’s license agreement [with XTL] meets this definition of ‘control.’” *Aplt. Br.* at 13. But this misses the point. Washington’s cannabis law, as it existed during the relevant time period,⁴ precluded *any* out-of-state control over quality, for selling, producing, or processing cannabis products has required a state license. *See* RCW §§ 69.50.360, 363, and 366 (providing exceptions to actions subject to the Washington Controlled Substances Act only “when performed by a validly licensed marijuana [retailer, processor, or producer].”). Further, RCW § 69.50.331(1)(c) in 2014 (currently RCW § 69.50.331(1)(b)(iii)) expressly precluded out-of-

⁴ In July of 2017, Washington’s cannabis law changed to allow, in certain situations, an out-of-state entity to license use of a trademark by an in-state cannabis retailer. *See* E.S.S.B. 5131, 65th Leg., 2017 Regular Sess. (Wa. 2017) at Section 16 (enacted); *See also* RCW § 69.50.395.

state companies from obtaining a license to participate in the Washington cannabis industry, and only the license recipient was permitted to use the state-issued license. *See* RCW § 69.50.325(2).

3. No Lawful Use for Services

Headspace argues that it adequately alleged use of THE CLEAR “for . . . services including licensing the mark.” *Aplt. Br.* at 8 (quoting CP002 at ¶4). This argument fails. Headspace did *not* allege use of THE CLEAR on any services sold, advertised, or offered for sale within Washington. Instead, the Complaint alleged Headspace used the mark *in California. Id.* The only use in Washington alleged by Headspace was by its licensee, XTL. *Id.* Use by Headspace on goods and services in California cannot create trademark rights in Washington absent federal registration, which is not available for marijuana-related goods. *Rolley, Inc. v. Younghusband*, 204 F.2d 209, 211 (9th Cir. 1953) (“While the right to a trade-mark exists independently of the statute, and is not created by it, the courts have recognized that registration creates a rebuttable presumption of validity...”). *See also id.* (“Upon registration the presumption as to date of first use by the registrant has been held to extend back to the filing date...”); *see also* 15 U.S.C. § 1115(a) (“[A] mark registered on the principal register . . . shall be prima facie evidence of the validity . . . of the registrant’s

exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the registration.”).

Headspace seems to argue that its general advertising “in print periodicals, social media channels, and online” should count as lawful use of THE CLEAR “for its services including licensing the mark THE CLEAR in Washington State.” Apt. Br. at 8 (quoting CP002-003 at ¶¶4-6). The problem with this argument, however, is that Headspace fails to allege what lawful services it advertised or offered to Washington consumers.

For good reason, general use of a trademark online for advertising and promotional activity does not create trademark rights for all goods and services in all states. Instead, trademark rights are only created through bona fide use of the mark in connection with particular goods and services. *Chance v. Pac-Tel Teletrac Inc.*, 242 F.3d 1151, 1158 (9th Cir. 2001) (stating that “...mere advertising by itself may not establish priority of use”). *See also Lens.com, Inc. v. 1-800 Contacts, Inc.*, 686 F.3d 1376, 1382 (Fed. Cir. 2012) (“the LENS mark is used only in connection with the sale and transportation of contact lenses via the Internet. Although the ordering service is facilitated through software, the record does not indicate that consumers have any reason to be aware of any connection between the LENS mark and Lens.com’s software.”). In other words, at no point has

Headspace alleged (nor could it allege) that it provides its services (whatever those might be) directly over the internet. As a result, Headspace’s website is largely irrelevant for establishing trademark rights in Washington.

In this case, the only allegations of use made by Headspace are for “refined essential plant oils including cannabis concentrates.” CP003 at ¶6. Additionally, Headspace sought and obtained a state trademark registration for THE CLEAR on “cannabis concentrates.” CP089 and CP114. No allegations were made anywhere regarding specific *services* provided by Headspace. Moreover, Headspace fails to allege whether services (whatever they might be) were sold or offered for sale in Washington or whether those services were lawfully provided or advertised in Washington.

Headspace seems to argue that it need not allege use of THE CLEAR in connection with specific services. Aplt. Br. at 9 n.3 (asserting that Washington’s Controlled Substances Act, RCW 69.50, does not require service vendors to obtain a license from Washington State’s Liquor and Cannabis Board). According to Headspace, any service it provided relating to Washington’s cannabis industry would be “lawful.” But this is simply not true. As noted above, Headspace’s alleged use in Washington amounted to several per se violations of Washington’s statutory regime for its cannabis

industry. As further clarification, the Explanatory Statement of Initiative 502 clarified that “[i]t is also a misdemeanor to make, possess, or deliver any paraphernalia used to grow, store, conceal, or use marijuana” and that “Federal marijuana laws could still be enforced in Washington.” Initiative Measure No. 502, (Wa. 2012), Explanatory Statement, *available* <https://weiapplets.sos.wa.gov/MyVoteOLVR/onlinevotersguide/Measures?language=en&electionId=46&countyCode=xx&ismyVote=False&electionTitle=2012%20General%20Election%20#ososTop> (last visited November 21, 2017). Absent licensure, even advertising cannabis paraphernalia in Washington State by an out-of-state entity would amount to at least a misdemeanor and would therefore not constitute lawful use for trademark purposes.

Even if Headspace had adequately alleged use of THE CLEAR in Washington on specific services, that allegation would still not have saved Headspace’s claims from dismissal. This is because Headspace’s cause of action for infringement claims damages and seeks injunctive relief for Podworks’ use of the mark on cannabis concentrates. No allegation is made in the Complaint that Podworks used the accused trademark to identify services in competition with Headspace, nor is there any allegation by Headspace that use by Podworks on cannabis concentrates is likely to cause

confusion with Headspace’s Washington-based service business, whatever that Washington-based service business might be. Thus, had Headspace alleged trademark rights based on its use of THE CLEAR on services in Washington, it likely could not have stated a valid claim for infringement based on Podworks’ use of the accused mark on cannabis concentrates. In such a case, the consumers would be too different and the services too unrelated for a plausible finding of likelihood of confusion. *See generally Murray v. Cable NBC*, 86 F.3d 858, 860 (9th Cir. 1996) (affirming district court’s grant of motion to dismiss because “as a matter of law that the services provided by CNBC and Murray were unrelated and there was no likelihood of consumer confusion.”); *Brookfield Communs. Inc. v. W. Coast Entm’t Corp.*, No. CV 98-9074 CM, 1999 U.S. Dist. LEXIS 23251, at *18 (C.D. Cal. June 10, 1999) (granting motion to dismiss cancellation claim for failure to adequately plead likelihood of confusion on the relevant goods).

4. Headspace’s “Secondary Source” Argument is Misplaced

Headspace argues that its mark, as placed on cannabis concentrates marketed and sold by XTL, serves as a “secondary source” identifier. Aplt. Br. at 11. By making this argument, Headspace likens its trademark to a narrow class of marks capable of serving two purposes, the first is to signify

the source, origin, sponsorship, or approval of the goods and the second is to provide aesthetic ornamentation. These marks are commonly used on apparel, such as hats, shirts, and like items printed with designs, words, or sayings. If the use of an alleged trademark in such a manner is deemed purely ornamental, trademark rights are not established. *In re Astro-Gods Inc.*, No. 313,740, 1984 TTAB LEXIS 68 *8, 223 USPQ 621, 624 (TTAB decided August 10, 1984) (affirming refusal to register the mark ASTRO GODS and design for T-shirts, despite applicant's ornamental use of the proposed mark on other goods and the appearance of applicant's trade name "Astro Gods Inc." on the T-shirt as part of a copyright notice). On the other hand, when use of the mark serves both an ornamental and a source-identifying purpose, trademark rights may be established upon a showing of sufficient evidence that the use is not purely ornamental. *See In re Olin Corp.*, 181 USPQ 182 (TTAB 1973) (finding stylized "O" design registerable for T-shirts, when applicant had previously registered the "O" design for skis).

It is a matter of common knowledge that T-shirts are "ornamented" with various insignia . . . or . . . various sayings such as "Swallow Your Leader." In that sense what is sought to be registered could be construed to be ornamental. If such ornamentation is without any meaning other than as mere ornamentation it is apparent that the ornamentation could not and would not serve as an indicia of source. Thus, to use our

own example, “Swallow Your Leader” probably would not be considered as an indication of source.

Id. at 182.

Headspace cites *University of Pittsburg v. Champion Products, Inc.*, 686 F.2d 1040, 1047 (3rd Cir. 1982), where the University succeeded in enforcing trademark rights on printed soft goods, like hats and T-shirts, even though the goods were made by another entity, Champion. In that case, the Court found that use of the University’s mark on T-shirts adequately served to identify the University as a source, even though the University had no control or involvement in the manufacture or approval of the quality of the goods. *Id.* (reasoning “With negligible exception, a consumer does not desire a ‘Champion’ T-shirt, he (or she) desires a ‘Pitt’ T-shirt.”).

Headspace’s mark is unlike the class of marks discussed above because THE CLEAR as used on cannabis concentrates does not serve an ornamental function. Accordingly, the cases cited by Headspace, all evidencing marks protected as “secondary source identifiers,” are inapplicable.⁵ What Headspace seems to argue in reliance on these cases is that its mark may be protected where it does not serve as the “primary” source-identifier. Not only does this argument misread the cases, but it

⁵ Without exception, all of the cases cited by Headspace on page 12, footnotes 4-6, deal with marks that serve both an ornamental and source-identifying function, which is not the case here.

ignores the fact that in order to establish trademark rights, THE CLEAR must have been used in Washington to identify Headspace as the source of the goods. Yet for a variety of reasons as explained *supra* at § IV.B.2, Headspace, as an out-of-state entity, was not legally permitted to participate in the sale of recreational cannabis in Washington.

5. The Change in Washington’s Cannabis Law Supports a Finding that Headspace Could Not Have used Lawfully during the Relevant Time Period

Headspace argues that the change in Washington’s cannabis law, permitting out-of-state entities to license use of trademarks within Washington, somehow shows that under the prior law, the Legislature “intended [out-of-state] trademark licensing to be lawful.” *Aplt. Br. 14* (citing SB 5131, 65th Legislature, Chapter 317 (2017)). But the legislative change shows the opposite: trademark licensing by an out-of-state entity such as Headspace was not expressly permitted and required enactment of a new law before it could be considered “lawful.” This is particularly true given the fact that what is considered “lawful” under Washington cannabis law remains illegal under the Federal Controlled Substances Act.

V. CONCLUSION

For all the foregoing reasons, the judgment below should be affirmed.

Dated: November 27, 2017.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that I caused to be mailed via U.S. mail, postage prepaid, and/or emailed, a copy of the foregoing on the 27th day of November, 2017 to the following counsel of record at the following addresses:

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Superior Court Case Number: 17-2-01751-5

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