

# NINTH CIRCUIT REPORT

## *Ninth Circuit Holds Use in Commerce Only Creates Trademark Rights When the Use is Lawful*



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**CREAGRI, INC. V. USANA HEALTH SCIENCES, INC., (474 F.3D 626, 81 USPQ 2D 1592 (9TH CIR. 2007))**

IN A CASE OF ADMITTED FIRST impression in the Ninth Circuit, the Court holds that use of a trademark in commerce only creates trademark rights when that use is a lawful use.

The Lanham Act, and the California trademark law, require “use in commerce in order to establish trademark rights.” *See* 15 U.S.C. §§ 1051(a)(1), 1127; Cal. Bus. & Prof. Code §§ 14207, 14209.

In the Spring of 2001 the plaintiff began selling OLIVENOL brand of a dietary supplement containing an apparently beneficial antioxidant found in olives. At that time, OLIVENOL’s label indicated that each tablet contained 25 mg of hydroxytyrosol, the product’s primary active ingredient, based upon the plaintiff’s own testing and testing done by two outside com-

panies. At that time, there was no standardized method to accurately measure the substance’s hydroxytyrosol content. A year later, the plaintiff learned that its measurement might be in error, and it ordered further testing, which suggested that each OLIVENOL tablet contained only 5 mg of hydroxytyrosol. The plaintiff then changed its labeling to reflect this amount. As it turns out, each tablet contains at most 3 mg of hydroxytyrosol and therefore OLIVENOL was inaccurately labeled in both instances. Only after the lawsuit did the plaintiff’s label accurately reflect the product’s content.

Meanwhile, in June of 2002, before the plaintiff had accurately labeled its contents, the defendant independently filed an intent-to-use trademark application with the United States Patent and Trademark Office for a similar product under the name “OLIVOL.” This application was ultimately allowed, and the mark registered to defendant. Thus, unless the plaintiff can establish priority of use before June 2002, the constructive date of use of the defendant, the defendant prevails on priority.

The plaintiff had originally sought to register OLIVENOL, based upon use, and when its application was rejected for descriptiveness, it had its registration on the Principal Register of the Patent and Trademark Office converted to an application to register the trademark on the Supplemental Register. The Supplemental Register is for marks capable of distinguishing the applicant’s goods, with limited evidentiary presumptions.

The District Court and the Court of Appeals concluded that the marks OLIVENOL and OLIVOL were confus-

ingly similar, that the products were similar, and thus had to determine whether the plaintiff’s earlier use could be sustained where the products sold by plaintiff under its mark prior to defendant’s constructive use priority date, bore the inaccurate content labeling.

The Northern District of California District Court stated that for the plaintiff to prevail on its trademark infringement claims, “it must have acquired trademark rights to OLIVENOL before [the defendant] had acquired trademark rights to OLIVOL.” The District Court found that plaintiff’s use in commerce was not lawful, because of the, albeit mistaken, content quantity labeling, and thus did not support priority of use for plaintiff. The court thus granted summary judgment for the defendant. The plaintiff appealed.

The Ninth Circuit noted that it had long been the policy of the Patent and Trademark Office Trademark Trial and Appeal Board, and the Tenth Circuit, to hold that use in commerce creates trademark rights only when the use is lawful. Noting that this was a question of first impression in the Ninth Circuit, the Court agreed, and held that “only *lawful* use in commerce can give rise to trademark priority.”

The Ninth Circuit noted the rationale for this rule is twofold: “First, as 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.<sup>1</sup> Second, 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.”

Here, the plaintiff's labels were not in compliance with the labeling requirement of the Food and Drug Law, which prohibited sale of misbranded food, and required that the actual amount of nutrient ingredients be “at least equal to the value for that nutrient declared on the label.”

Plaintiff's three arguments were rejected by the Court of Appeals: First, plaintiff argued that the nexus between its labeling violation and its use of the OLIVENOL mark is too attenuated to justify depriving its mark of trademark protection. The Ninth Circuit noted that a prior decision of the Trademark Trial and Appeal Board, *Satinine Societa in Nome Collettivo v. P.A.B. Produits*, 209 U.S.P.Q. 958, 967 (T.T.A.B. 1981), had required that there be some “nexus” between the use of a mark and an alleged violation before it could be said that the unlawfulness of a sale or shipment resulted in a trademark's invalidity. The Court did not need to either adopt or reject the *Satinine* rule, because it found that even if the rule were adopted, the plaintiff could not benefit from it. Since the product was one for human consumption, this was hardly a situation where a violation of law in conjunction with a trademark product would have no effect on the right inuring to the user of the trademark. The concurring opinion in the Trademark Board *Satinine* decision had hypothesized about purely collateral defects which might not justify the draconian loss of trademark rights, such as the use of a container which did not comply with a transportation regulation or the failure of a party to pay an excise tax. This was hardly such a situation. Here, the labeling defect was sufficiently related to the trademark to satisfy any nexus requirement.

Secondly, plaintiff argued that at the time when OLIVENOL was mislabeled it was apparently technologically infeasible for it to accurately measure the content of the hydroxytyrosol and that, because the regulations provide for an exemption in

such circumstances, sale of OLIVENOL was not actually unlawful. As to this argument of potential exemption, the Court noted that the FDCA's labeling requirements allowed a seller to apply for an exemption from the labeling regulations if it was technically infeasible or impractical to comply with them, but that such an exemption was not automatic. While in some cases, exemptions are automatic, this was not one of those situations, and the plaintiff had never applied to the Office of Nutritional Products for an exemption, supporting its hypothetical eligibility for an excuse from the labeling requirement. The mere possible exemption in the face of technological infeasibility, even if it existed, was not sufficient to excuse the use from being held to be unlawful.

Finally, defendant argued that the labeling defect was harmless or *de minimis* and should be excused as “immaterial” under trademark cases, which had excluded limited mislabeling, caught and promptly corrected before the defendant used its trademark. The court noted that this was hardly such a case, and here there was no instance of lawful use prior to the defendant's priority date, and the Court need not decide the test for materiality, but found that under the facts, the mislabeling was material here.

The case is a good lesson to trademark owners, who must understand that any trademark use, registered or not, which is materially unlawful and related to the trademark, will not count as trademark use in establishing priority or as a basis for use in support of an application to register a trademark on the principal or supplemental register. With a myriad of federal registrations governing food product labeling, insurance sales, alcoholic beverage labeling and sales, this case is a “wake-up call” to trademark lawyers to have their clients verify the lawful nature of the use claim to support trademark priority or registrations.

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Other states have adopted their own trade secrets act. These states, and some that have adopted the USTA, rely on the definition of a “trade secret” found in the Restatement of Torts. Under the Restatement, a trade secret includes any formula, pattern, device, or compilation of information which is used in one's business, and provides an opportunity to obtain an advantage over competitors. See Restatement of Torts, § 757, comment b (1939). In addition, there also exists the Federal Economic Espionage Act, 18 U.S.C. § 1839(3), and the Federal Trade Secrets Act, 18 U.S.C. § 1905, which applies to public officers, employees of government agencies, and employees of private sector companies that have contracted with government agencies.

52. See Z. Haskal, *Trade Secret Protection: Problems and Solutions*, as printed in *Protecting Trade Secrets Before & During Litigation*, p. 93 (Continuing Education of the Bar (“C.E.B.”), Jan. 1997); see also R. Kay, et. al., *Trade Secret Litigation and Protection in California*, p. 7-26 (State Bar of California, 2005); M. Chu, et al., *Educating the Judge and Jury in a Technical Trade Secrets Case—the Plaintiff's Perspective*, as printed in *Protecting Trade Secrets Before & During Litigation*, supra, at p. 85.
53. See R. Dorr, et al., *Protecting Trade Secrets, Patents, Copyrights, And Trademarks*, as printed in *Protecting Trade Secrets Before & During Litigation*, supra, at p. 44 (C.E.B., Jan. 1997).
54. Once the information is generally known in the trade, the trade secret protection is lost and cannot be recaptured. See J. Reinbolt, “*Intellectual Property Protection*,” p. 437, as printed in “*Capitalizing & Protecting New Businesses*” (C.E.B., Sept. 2004); see also C. Bagley, et al., *The Entrepreneur's Guide To Business Law*, pp. 488-498 (2d. ed. 2003) (trade secret policies should be written, made available and thoroughly discussed with all individuals who have access to trade secrets).
55. See V. Chiappetta, *Employee Blogs and Trade Secrets: Legal Response To Technological Change*, 11 NEXUS: A Jour. Of Public Opinion, 31 (2006)

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