

AK Futures, LLC v. Boyd Street Distro, LLC

35 F.4th 682 (9th Cir. 2022)

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BACKGROUND

In October 2020, plaintiff AK Futures, LLC (“AK Futures”) created the “Cake” brand to advertise its new Delta-8 THC products, each of which features a logo depicting a two-tier cake overlaid with a stylized letter “C.” AK Futures alleged that, over the course of nine months, Cake products were responsible for \$60 million in earnings.

In addition to registering the Cake logo with the U.S. Copyright Office, AK Futures had six pending trademark applications in connection to its e-cigarette products and services. The marks consisted of four treatments of the word “Cake” and two versions of the Cake brand logo.

In the summer of 2021, AK Futures discovered that defendant Boyd Street Distro, LLC (“Boyd Street”) sold e-cigarette products with similar packaging to their Cake product. AK Futures hired a private investigator to purchase the counterfeit Cake products after which their packaging manufacturing team determined that the Boyd Street packaging design was an imitation of the AK Futures Cake packaging. Boyd Street asserted that these products were counterfeits obtained from third parties.

AK Futures brought a claim against Boyd Street for copyright and trademark infringement alleging that Boyd Street sold counterfeit Cake-branded vaping products.

The Agricultural Improvement Act (“Farm Act”)¹ regulates products with a Delta-9 concentration, including AK Futures’s Cake products which included, Delta-8 THC, a chemical compound that occurs naturally in cannabis plants that can be grown into hemp or marijuana depending on the cultivation method utilized.²

Per the plain text interpretation of the Farm Act by the U.S. District Court for the Central District of California, AK Futures’s Delta-8 products do not exceed the Delta-9 THC concentration threshold of 0.3 percent and are therefore lawful.

Boyd Street argued that AK Futures cannot trademark these products because federal law prohibits the sale of delta-8 THC.

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1. Agricultural Improvement Act, 7 U.S.C. § 1639o(1).
2. *5 Things to Know about Delta-8 Tetrahydrocannabinol—Delta-8 THC*, U.S. FOOD & DRUG ADMIN. (Sept.14, 2021).

PROCEDURAL HISTORY

AK Futures filed suit in the U.S. District Court for the Central District of California. Plaintiff moved for a preliminary injunction to protect its federally trademarked Delta-8 THC products and to prevent Boyd Street from selling and distributing such counterfeit goods—which the district court initially granted without a hearing after Boyd Street failed to file a motion in opposition.

The district court later granted Boyd Street leave to file; however, they affirmed the preliminary injunction, reasoning that it was appropriate since AK Futures had a valid trademark and copyright and was likely to succeed on its merits in showing infringement of both. Pursuant to the Farm Act, the district court reasoned that the sale of AK Futures’s Delta-8 products was legal and thus could be entitled to trademark protection.

Boyd Street appealed. The United States Court of Appeals for the Ninth Circuit reviewed the lower court’s decision to grant a preliminary injunction and reviewed the underlying legal conclusions de novo and factual findings for clear error.

ISSUE

Are the Cake products that contain Delta-8 THC protected by federal trademark provisions pursuant to 17 U.S.C. § 101 and the Lanham Act, 15 U.S.C. § 1125(a)? If so, did the district court err in granting a preliminary injunction to AK Futures?

DECISION

The Ninth Circuit affirmed the holding of the district court, holding that the unambiguous text of the Farm Act establishes that products containing Delta-8 THC are lawful and thus can obtain federal trademark protection. Therefore, the district court properly granted AK Futures’s request for a preliminary injunction. The case was remanded for further proceedings.

REASONING

To issue a preliminary injunction, the claimant must prove all four of the following elements: (1) a likelihood of success on the merits, (2) irreparable harm without preliminary relief, (3) a balance of the hardships in favor of their interests, and (4) the public interest favors an injunction.³ In its appeal, Boyd Street—in conjunction with its claims regarding Delta-8 THC’s legality—argued that the district court’s decision on the irreparable harm and public interest elements were incorrect. Boyd Street asserted that the injunction granted by the district court would not prevent unsafe, counterfeit goods from being in the market since “Cake” products are not tested.

3. FED. R. CIV. P. 65(d).

First, in analyzing AK Futures’s likelihood to succeed on the merits, the court clarified that AK Futures owned one registered copyright in one version of the Cake logo design and six pending trademark applications. The Ninth Circuit explained that the trademark infringement claim and the copyright infringement claim should be assessed separately under the preliminary injunction framework because registration for a copyright and trademark are inherently different.

Boyd Street stipulated that AK Futures would likely succeed on the merits for its copyright infringement claim since it was registered; however, they argued that the district court incorrectly applied trademark infringement to the six pending trademarks and AK Futures would fail on their trademark infringement claim. As such, the court focused its analysis on the merits of AK Futures’s trademark infringement claim.

To succeed on a trademark infringement claim, AK Futures must prove that: (1) they have a valid, protectable trademark, and (2) Boyd Street’s use of the mark is likely to cause confusion as to the source of the relevant goods.⁴

The court concluded that AK Futures had a valid, protectable trademark. The validity of AK Futures’s trademark turned to the lawfulness of selling Delta-8 THC because trademark protection is not afforded to marks in connection with illegal activities.⁵

To determine if the sale of Delta-8 THC products is permitted under federal law, the Ninth Circuit referred to the Farm Act which was intended to legalize the possession and growth of hemp.

Though the Farm Act does not discuss Delta-8 THC, it did create a new legal standard for certain concentrations of THC products to be considered legal. The Farm Act defined “hemp” as the “plant *Cannabis sativa L.* and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts of isomers, whether growing or not with a delta-9 [THC] concentration of not more than 0.3 percent on a dry weight basis.”⁶ The court determined that “all derivatives, extracts [and] cannabinoids”⁷ extended to products and substances so long as their Delta-9 THC concentration did not exceed 0.3 percent.

AK Futures asserted that its Cake products were hemp-derived and legal under the Farm Act because the products contained Delta-8 THC, and AK Futures advertised that its products contain less than 0.3 percent concentration as defined by the Delta-9 THC threshold. AK Futures described its Delta-8 THC products as cannabinoids produced by the cannabis plant which the court considered when finding that AK Futures’s Delta-8 THC were a derivative, extract, or cannabinoid with less than 0.3 percent Delta-9 THC concentration.

4. *AK Futures, LLC v. Boyd Street Distro, LLC*, 35 F.4th 682, 690 (9th Cir. 2022).

5. *Id.* at 689.

6. § 1639o(1).

7. *Id.*

The court found AK Futures’s products to be lawful hemp; however, Boyd Street disagreed, arguing that the court’s interpretation of hemp goes against congressional intent. Boyd Street asserted that the Drug Enforcement Administration (“DEA”) considered Delta-8 THC an unlawful synthetic cannabinoid. The court disagreed, finding that the language of the Farm Act and the DEA’s stance made no distinction regarding the production of AK Futures’s products. Rather, the Farm Act and the DEA focused on the threshold percentage of Delta-9 THC and the source of the product in categorizing unlawful synthetic cannabinoids. The court reasoned that statutory text was more authoritative than a federal agency’s interpretation of the law.

Next, the court concluded that Boyd Street’s use of the mark was likely to cause confusion as to the source of the relevant goods because Boyd Street’s packaging was a “virtually identical counterfeit”⁸ of AK Futures’s packaging, and this would naturally lead to consumer confusion.

The court did not accept Boyd Street’s argument that they had only two interactions with the Cake products: once when someone approached Boyd Street’s Los Angeles store selling the products on consignment, and another when Boyd Street bought the product from an authorized distributor of the product. The court held that AK Futures was the first to create and use the Cake logo in commerce, giving AK Futures priority. As such, AK Futures was likely to succeed on the merits of its trademark infringement claim.

Second, in its analysis, the court determined that AK Futures would likely suffer irreparable harm without a preliminary injunction. Though Boyd Street contended it had stopped selling the counterfeit Cake products and did not plan on selling them in the future, they failed to raise this issue in district court and therefore waived this contention.

However, even without a waiver, the court reasoned here that it was dubious this presumption would be rebutted because there was a question as to Boyd Street’s ability to adequately control the flow of its own products. Boyd Street conducts most of its business in cash without a clear and true record of sales which, according to the court, is an indication of a business that cannot ensure it will not sell these counterfeit products again.

Third, the court conducted a weighing of the harms to each party if the injunction were to be implemented and found in favor of AK Futures, noting that Boyd Street’s arguments failed to rebut the presumption in AK Futures’s favor.

Last, the court addressed the public’s interest in applying an injunction. Boyd Street asserted that an injunction would not allow consumers to avoid unsafe goods in the market because the original Cake products were not tested. However, AK Futures implemented several testing measures to ensure the safety of its customers. The Cake products were “regularly tested for

8. *Id.* at 687.

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potency and regulatory compliance purposes.”⁹ AK Futures also screened the products it sold for heavy metals, pesticides, and other possible contaminants.¹⁰

The court reasoned that the injunction was in the public interest because having products in the same stream of commerce would cause consumer confusion if a safer, more trusted product could be confused with an extremely harmful product. Accordingly, the court reasoned that a decision in Boyd Street’s favor “would let a store continue to sell counterfeit versions of unknown origin.”¹¹

Thus, the court determined that the public is aided by a decrease in counterfeit products on the market, and the court granted AK Futures’s request for injunction.

9. *AK Futures, LLC*, 35 F.4th at 686.

10. *Id.* at 686.

11. *Id.* at 695.