

# Lingering Questions After 9th Circ.'s Delta-8 TM Ruling

By **Jennifer Fisher, Brett Schuman and Kelsey Middleton** (June 16, 2022)

Delta-8 THC, one of the 100-plus cannabinoids produced in the cannabis plant, has recently attracted attention due to its ability to deliver psychoactive effects similar to, but milder than, those delivered by Delta-9 THC,[1] and because it can be sold in several states outside of the regulated cannabis marketplace in retail outlets like CBD shops.

While legal controversy has swirled around Delta-8, the U.S. Court of Appeals for the Ninth Circuit has recently ruled that it is federally legal. No other federal appellate court has weighed in on the legality of Delta-8.

Hemp is federally legal while cannabis is not.[2] The Agricultural Improvement Act of 2018, more commonly referred as the 2018 Farm Bill, removed hemp — including its derivatives, extracts and cannabinoids, among other things, with a Delta-9 THC concentration of no more than 0.3% — from the definition of "marihuana" in the Controlled Substances Act.

Though Delta-8 THC naturally occurs in the cannabis plant in small amounts, it is most commonly synthesized from CBD for commercial purposes.

States have taken varying approaches to addressing Delta-8: Some have banned it outright, others have regulated it, and many have remained silent.

In *AK Futures LLC v. Boyd Street Distro LLC*, the court made the call for states in the Ninth Circuit and deemed it federally legal.

## The AK Futures Lawsuit

AK Futures sells Delta-8 vaping products under its Cake brand.

On June 10, 2021, after discovering that defendant Boyd Street was selling allegedly counterfeit Cake-branded Delta-8 products in its store, AK Futures filed a complaint against Boyd Street in the U.S. District Court for the Central District of California alleging copyright infringement, trademark infringement and violations of the California Business and Professions Code provisions prohibiting false advertising and unfair competition.

The complaint included seven exhibits: a certificate of copyright registration from the U.S. Copyright Office for AK Futures' Cake design logo dated effective April 14, 2021, with a date of first publication of Oct. 23, 2020, and six applications to the U.S. Patent and Trademark Office dated between December 2020 and March 2021 for various Cake brand marks. Notably, AK Futures had no federal trademark registrations for its Cake brand.

Shortly after Boyd Street filed its answer largely denying the allegations in the complaint, AK Futures filed a motion for preliminary injunction. In its motion, AK Futures requested that the court issue an order enjoining Boyd Street from further advertising, marketing, selling or distributing Cake products or using Cake marks, including its copyrighted Cake



Jennifer Fisher



Brett Schuman



Kelsey Middleton

logo.

AK Futures supported its motion with a declaration from AK Futures' CEO, James Clelland, attesting that the Cake-branded products are derived from federally legal hemp and the business is not engaged in the sale of Delta-9 products.[3]

Initially, Boyd Street failed to respond to the motion and the court granted the preliminary injunction. Boyd Street was subsequently permitted to file a response to the motion.

The primary argument advanced in Boyd Street's opposition is that federal trademark protection should not extend to AK Futures' Cake marks because Delta-8 is an illegal substance. Boyd Street argued that the Farm Bill made an exception to Schedule I of the CSA only for cannabis products containing no more than 0.3% Delta-9 THC.

The opposition included no declarations or exhibits to refute AK Futures' claims that its products are legal, and Boyd Street did not submit any evidence controverting the declaration from AK Futures' CEO in support of the motion.

After considering Boyd Street's responsive papers, Senior U.S. District Judge James Selna affirmed his prior order granting AK Future's motion for preliminary injunction.

The court found that AK Futures was likely to succeed on the merits of its copyright infringement claim, as it established ownership of the mark via registration and submitted evidence to show substantial similarities between the Cake products and the accused products being sold by Boyd Street.

The district court also found that AK Futures was likely to succeed on the merits of its federal trademark infringement claim even though AK Futures did not hold any federal registrations protecting its use of the Cake mark.[4]

The district court's analysis concerning whether the Cake-branded Delta-8 products are lawful was limited. The court found that based on the limited record before it, AK Futures' products were lawful under both the CSA and the Farm Bill, and therefore AK Futures holds protectable marks for its products.

The court said that "while Boyd raises concerns about the legality of the product at issue here ... [o]n the record before the Court now, Futures' products fall within these parameters," citing the Clelland declaration.[5]

Boyd Street appealed the preliminary injunction order. The Ninth Circuit issued its opinion affirming the district court's preliminary injunction order on May 19.

On June 15, the court issued judgment in favor of AK Futures and against Boyd street, awarding AK Futures statutory damages for the willful infringement of its copyrighted Cake design, in addition to attorney fees. The court also permanently restrained and enjoined Boyd Street from using AKA Futures' Cake trademarks and copyrights.

The Ninth Circuit's opinion analyzed the legality of Delta-8 in more depth than the district court did and concluded that it is federally lawful per the plain text of the Farm Bill.

The court looked to the text of the Farm Bill, where it found "plain and unambiguous" language that "[compelled] the conclusion that ... delta-8 THC products are lawful," citing the Farm Bill's definition of "hemp" as limiting only the concentration of Delta-9 THC to

0.3% as opposed to Delta-8 THC or total THC — i.e., a THC calculation that is inclusive of other forms of THC, like THC-A and Delta-8 — and including the derivatives, extracts and cannabinoids therefrom.[6]

The court also considered and rejected Boyd Street's arguments that (1) the U.S. Drug Enforcement Administration has interpreted the Farm Bill as inapplicable to Delta-8 THC due to its method of manufacture and (2) Congress never intended to legalize a psychoactive substance like Delta-8.

Regarding the DEA's interpretation, Boyd Street asserted that Delta-8 THC is synthetically derived, due in part to it being concentrated and flavored, and thus remains a Schedule I substance, like all other synthetically derived forms of THC.

While the court struggled with harmonizing its ruling regarding the legality of Delta-8 with the DEA's position, ultimately the court ruled that even if the DEA's position was to the contrary, the court owed no deference to the agency because the Farm Bill was unambiguous regarding the legality Delta-8 derived from hemp.

The court was similarly unpersuaded by Boyd Street's assertion that Congress did not intend to legalize a psychoactive substance like Delta-8 THC.

Boyd Street argued that Congress intended to legalize only industrial hemp. The court considered excerpts from the Farm Bill's legislative history referring to industrial hemp, but ultimately concluded that congressional intent was not so limited.

The court also said that since the Farm Bill does not include a separate definition of industrial hemp, and a U.S. Code provision defining "industrial hemp" is even broader than the Farm Bill's definition of hemp, Congress likely did not intend to impose a requirement that legal hemp be produced exclusively for industrial purposes.

The court said that it would not allow "ambiguous legislative history, nor speculation about congressional intent" to supersede clear statutory language, and, "[r]egardless of the wisdom of legalizing Delta-8," it would not "substitute its own policy judgment for that of Congress." [7]

The court concluded that if Congress indeed did not intend to create a loophole for Delta-8, it should legislate accordingly.[8]

## **The Implications**

While the Ninth Circuit's ruling logically should lead to issuance of federal registrations for marks covering Delta-8 products and services, it is unclear what implications, if any, this decision will have on the USPTO or any other federal agency involved in the regulation of cannabis and hemp.

Though the court held that AK Futures would be likely to succeed on the merits of its trademark infringement claim, it remains unclear whether the USPTO will grant AK Futures' pending applications for trademark registration for its Cake mark, or whether it will grant any other applications to register marks for products or services related to Delta-8 for the foreseeable future.

The USPTO continues to deem Delta-8 an unlawful synthetic form of THC as prohibited under Schedule I of the CSA.

Cannabis brands have long struggled to obtain federal trademark protection due to federal prohibition, even as the vast majority of states have legalized cannabis in some capacity, and hemp is federally legal.

Tellingly, in all the Cake brand applications AK Futures submitted to the USPTO for registration, there is no mention of THC. The applications all describe the scope of goods and services as being related to e-cigarettes.

It also is unclear whether the Ninth Circuit's ruling will prompt the DEA or other federal agencies, such as the U.S. Food and Drug Administration, to clarify their views on Delta-8.

The DEA's current position on Delta-8 is muddled at best. Delta-8 THC appears on the DEA's Orange Book of controlled substances.[9]

But the DEA has also indicated more than once that some forms of Delta-8 may be lawful under the Farm Bill.

For example, during a town hall between the DEA and the U.S. Department of Agriculture, hosted by the Florida Department of Agriculture and Consumer Services in June 2021, DEA Chief of Intergovernmental Affairs Sean Mitchell replied, when asked whether the DEA deems Delta-8 lawful:

What I want to say, and I'll be very, very deliberate and clear, at this time — I repeat again, at this time — per the Farm Bill, the only thing that is a controlled substance is Delta-9 THC greater than 0.3% on a dry-weight basis.[10]

Then, in a Sept. 15, 2021, letter to the Alabama Board of Pharmacy, the DEA stated that naturally occurring Delta-8 is lawful, whereas Delta-8 synthetically produced from noncannabis materials is not.[11]

So, notwithstanding the Ninth Circuit's clear legal holding in AK Futures' case, the lack of clarity from the DEA on the legality of Delta-8 will likely continue to cause at least some uncertainty regarding the risks associated with making or selling Delta-8 products, even in the states within the Ninth Circuit. And the FDA's recent warning letters targeting Delta-8 products provide additional regulatory uncertainty.

Perhaps the Ninth Circuit's ruling will cause either the DEA or the FDA to clarify their positions in this issue, but that is far from guaranteed. Clarity may not come until a future case directly challenges the DEA or FDA's position on this issue.[12]

It is important to note that the Ninth Circuit was limited by the district court record. The court noted several times in its opinion that the declaration from AK Futures' CEO, attesting that the Cake-branded Delta-8 products were all derived from federally legal hemp, was "uncontradicted" by the defendant in the case.

The court also suggested that AK Futures' victory could be fleeting if, following remand, the evidence suggested that the Cake products were not in fact derived from federally legal hemp.

So, the factual issue of whether the Cake marks were associated with lawful use in commerce and thus entitled to trademark protection is not finally resolved.

The court acknowledged this limitation, writing:

The conclusion that AK Futures' Delta-8 THC products are lawful necessarily depends on the veracity of the company's claim that these products contain no more than 0.3 percent Delta-9 THC. A showing that AK Futures' products contain more than the permitted threshold level of Delta-9 THC would defeat AK Futures' entitlement to trademark protection. ... So it is entirely possible that AK Futures may ultimately fail to show that its products stay within acceptable Delta-9 THC limitations.[13]

Cannabis and hemp are not distinguishable upon plain sight, especially when converted to distillate form. To distinguish a lawful Delta-8 product from an unlawful one generally requires analytical laboratory testing and knowledge of the product's method of manufacture.

The Ninth Circuit's opinion does not confirm whether AK Futures' products were verified to contain no more than 0.3% Delta-9 THC or manufactured in a manner that renders them nonsynthetic.

The AK Futures case also does not involve potential issues under state law. As noted above, some states have moved to limit or ban Delta-8 as a matter of state law.

For example, under A.B. 45, California's regulatory framework for hemp-derivative products, hemp products containing more than 0.3% of any form of THC — defined to encompass Delta-8, Delta-9, Delta-10 THC and other comparable cannabinoids — do not fall within the definition of hemp products. So, under California law, AK Futures' Cake-branded products may be illegal.[14]

The Ninth Circuit's opinion also acknowledges that the Farm Bill's loophole for Delta-8 likely was not intended by Congress, and questions the wisdom of Congress' failure to enact legislation that closes it.

Indeed, it is possible that Congress passes legislation clarifying federal law regarding Delta-8 — although, given the patchwork of state laws and regulations specifically addressing Delta-8 since 2018, Congress may not see any urgent need to address the issue.

Finally, it is ironic that the Ninth Circuit's opinion flips the usual federal-state cannabis divide on its head. While cannabis remains illegal under federal law, nearly 40 states have legalized it for either medical or recreational purposes or both.

But for Delta-8, that federal-state divide is now inverted: Delta-8 is legal under federal law but illegal under state law in California and in several other states in the Ninth Circuit.[15] So, operators will need to continue to navigate the differences between federal and state laws.

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*Jennifer Fisher is a partner and co-chair of the cannabis practice at Goodwin Procter LLP.*

*Brett Schuman is a partner and chair of the firm's San Francisco office.*

*Kelsey Middleton is an associate at the firm.*

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[1] Delta-9 THC is the primary intoxicating cannabinoid in the cannabis plant. Both Delta-8 and Delta-9 naturally occur in the cannabis plant, but Delta-9 is abundant whereas Delta-8 occurs in only small amounts. Thus, manufacturers of Delta-8 products generally develop more highly-concentrated Delta-8 products by converting CBD to Delta-8. Delta-8 is known to have psychoactive effects that are similar to, but more measured than, Delta-9.

[2] Hemp and marijuana both belong to the plant species *Cannabis sativa* L., but are different varieties of the plant. In this article, the term "cannabis" is used to refer to the *Cannabis sativa* L. plant with a Delta-9 THC concentration exceeding 0.3% THC (sometimes referred to as "marijuana"). The term "hemp" is used to refer to the *Cannabis sativa* L. plant with a Delta-9 THC concentration of 0.3% or less.

[3] Declaration of Clelland in Support of Plaintiff's Motion for Preliminary Injunction and Leave to Immediately Commence Discovery at 1, *AK Futures LLC v. Boyd St. Distro, LLC*, No. 21-56133, 2022 WL 1574222, at \*1 (9th Cir. May 19, 2022).

[4] There was some confusion in the district court's order regarding the status of AK Futures' trademark applications. According to the Ninth Circuit, "the District Court's statement in its copyright discussion that AK Futures 'owns six [m]arks for its Cake product, all of which are registered,' was incorrect. AK Futures owns just one registered copyright, which covers a single version of the Cake logo design. It has applied for trademark registration for six marks, but these applications remain pending." *AK Futures LLC*, 2022 WL 1574222, at \*5. Ultimately, the Ninth Circuit concluded that the district court's mistake on this issue did not require reversal because the district court's preliminary injunction order "properly distinguished between trademark and copyright protection." *Id.* at \*5.

[5] *AK Futures LLC v. Boyd St. Distro, LLC*, No. 8:21-cv-01027-JVS-ADSx, 2021 WL 4860513, at \*5 (C.D. Cal. Sept. 15, 2021), *aff'd*, 2022 WL 1574222 (9th Cir. May 19, 2022).

[6] *AK Futures LLC*, 2022 WL 1574222, at \*5-6.

[7] *Id.* at \*9.

[8] *Id.* at \*8.

[9] U.S. Drug Enf't Agency, Controlled Substances — Alphabetical Order (2022), [https://www.deadiversion.usdoj.gov/schedules/orangebook/c\\_cs\\_alpha.pdf](https://www.deadiversion.usdoj.gov/schedules/orangebook/c_cs_alpha.pdf).

[10] Fla. Dep't of Agric. and Consumer Servs., Town Hall with USDA and DEA, YouTube (June 29, 2021), <https://www.youtube.com/watch?v=yt8oWWsoLD4&t=1460s/>.

[11] See Letter from Terrence Boos, Chief, U.S. Drug Enf't Agency, Drug & Chem. Evaluation Section Diversion Control Div., to Donna Yeatman, Exec. Sec'y, Alabama Board of Pharmacy (Sept. 15, 2021), <https://albop.com/ooodoardu/2021/10/ALBOP-synthetic-delta8-THC-21-7520-signed.pdf>.

[12] <https://www.fda.gov/news-events/press-announcements/fda-issues-warning-letters->

companies-illegally-selling-cbd-and-delta-8-thc-products.

[13] AK Futures LLC, 2022 WL 1574222, at \*7.

[14] Assemb. B. No. 45, 2021-2022 Reg. Sess. (Cal. 2021).

[15] Delta-8 is currently prohibited under the laws of the states of Alaska, Arizona, California, Hawaii, Idaho, Montana and Washington. In Nevada and Oregon, Delta-8 products may currently be sold under the states' cannabis programs. Beginning July 1, 2022, Oregon will ban synthetic cannabinoids, including Delta-8, citing concerns over the chemicals used in the production of such products, and beginning July 1, 2023, will permit Oregon Liquor and Cannabis Commission ("OLCC") licensees to sell synthetic cannabinoids but only if they are approved by the F.D.A. See <https://www.oregonlive.com/marijuana/2022/06/oregon-ban-on-synthetic-cannabis-products-will-be-nations-first.html>.