

## **Label fable**

### ***Trademark's "use in commerce" must be lawful***

The Lanham Act requires applicants to use their trademark "in commerce" to acquire priority trademark rights. And the "use in commerce" must be lawful. That's what a would-be trademark holder learned the hard way in *CreAgri, Inc. v. USANA Health Sciences*.

## **Listing lapse**

In Spring 2001, CreAgri began selling Olivenol, a dietary supplement with an allegedly beneficial antioxidant found in olives called hydroxytyrosol. The label indicated each tablet held 25 mg of the substance.

The scientist who developed the product claimed that a standardized method to measure the content accurately wasn't yet available. But neither he nor CreAgri applied for an exemption from federal labeling requirements. The Food and Drug Administration (FDA) has discretion to grant exemptions when it believes compliance would be impracticable under the circumstances.

A year later, after new testing suggested each tablet had only 5 mg of the substance, the label was changed, but still no exemption was sought. By the time the trademark case reached the Ninth U.S. Circuit Court of Appeals, CreAgri admitted each tablet contained at most 3 mg. The label had been changed to indicate each tablet had 5 mg of polyphenols, of which hydroxytyrosol is one variety, although it made no claim about the product's hydroxytyrosol content.

In the meantime, CreAgri had applied to the Patent and Trademark Office (PTO) to federally register "Olivenol" as a trademark. Its application was denied because the term was "deceptively misdescriptive." It was, however, listed on the supplemental register. The supplemental register (the PTO's secondary trademark register) allows for registration of certain marks that aren't eligible for registration on the principal register, but are capable of distinguishing an applicant's goods or services.

In June 2002, USANA filed an intent-to-use application and began selling vitamins, minerals and nutritional supplements with an ingredient called Olivol. Like Olivenol, Olivol is an olive extract with apparently beneficial polyphenols. CreAgri brought a trademark infringement action, claiming it had acquired rights by using Olivenol in commerce before USANA filed its application. The district court found for USANA and ordered Olivenol canceled from the supplemental register. CreAgri appealed.

## **Not just any use will do**

The case pivoted on whether CreAgri had acquired trademark rights to "Olivenol" prior to June 18, 2002. "Use in commerce" required by the Lanham Act isn't the sole

requirement for acquiring priority trademark rights. The Ninth Circuit held that the use only creates trademark rights when the use is lawful.

The court gave a twofold rationale. First, holding otherwise would place the government in a position of giving trademark protection to a seller based on actions it took in violation of the law. And granting priority to a seller who rushes to market without taking steps to carefully comply with relevant regulations would “reward the hasty at the expense of the diligent.”

### **Three defense arguments**

The court then turned to CreAgri’s actions. CreAgri didn’t dispute that its labels weren’t in compliance with applicable labeling requirements during the pertinent period. But the company made three arguments to avoid the consequences of noncompliance:

**1. The name nexus.** Under Trademark Trial and Appeal Board (TTAB) decisions, unlawfulness of a sale won’t result in trademark invalidity unless a nexus exists between the trademark’s use and the alleged violation. CreAgri asserted that its labeling violation was collateral to its use of the trademark.

But the court found that the “nexus between a misbranded product and that product’s name, particularly one designed for human consumption,” is sufficiently close to withhold trademark protection for that name until the misbranding is cured. In this case, the labeling defect was sufficiently related to the Olivenol mark to satisfy the nexus requirement.

**2. Exemption exempted.** The court also rejected CreAgri’s argument that it was exempt from labeling requirements because no accepted method for determining the hydroxytyrosol content was available. The court acknowledged that it was unclear as to whether the appropriate testing was unfeasible at the time, but the court held this irrelevant because the exemption wasn’t automatic — the statute expressly requires sellers to apply for and receive the FDA exemption. CreAgri didn’t present any evidence that it had applied for the exemption. Thus, the sale of Olivenol was unlawful and not excused by hypothetical eligibility for an exemption.

**3. Material mislabeling.** Finally, CreAgri argued that the labeling defect was so harmless that it should be excused as immaterial. It cited an earlier case that held a labeling defect is material only if it’s “of such gravity and significance that the usage must be considered unlawful.”

The court distinguished the case before it as “categorically different.” The plaintiff in the previous case corrected its labeling error before its competitor’s priority date and sold only 18 mislabeled items. CreAgri, however, didn’t correct its error before USANA’s priority date, and thus there wasn’t a single instance of “lawful use in commerce” prior to June 18, 2002. By any definition, the court said, the label defect was material.

## **Lawful or awful**

The Ninth Circuit observed that CreAgri would have had an easier path if “use in commerce” were the only prerequisite for acquiring trademark rights. Not surprisingly, though, unlawful use reaps no trademark protection in that circuit.

### **Sidebar: Different standard of use to oppose registration**

In *First Niagara Insurance Brokers, Inc. v. First Niagara Financial Grp., Inc.*, the U.S. Court of Appeals for the Federal Circuit held that a party can oppose a trademark without first showing “use in commerce.” First Niagara Insurance operates entirely out of Canada, with no physical presence in the United States. It uses several unregistered trademarks in advertising that spills over into the United States and on correspondence. First Niagara Financial is an American insurance broker that uses several trademarks similar to the Canadian company’s.

When First Niagara Financial filed intent-to-use applications for the trademarks, First Niagara Insurance filed oppositions. The Trademark Trial and Appeal Board found in favor of First Niagara Financial, based on the assumption that an “opposer’s claim of prior use can succeed only if it has proved use of its marks in connection with services rendered in commerce lawfully regulated by Congress,” as required under the Lanham Act.

The Federal Circuit found this assumption unwarranted. It focused instead on a section of the Lanham Act that denies registration to marks previously “used in the United States by another.” The court ruled that the statute requires only “mere use” in the United States, not use in commerce, to oppose a trademark.

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