

**Jim Beam Brands Co. v Tequila Cuervo La Rojeña
S.A. de C.V.**

2011 NY Slip Op 34181(U)

July 12, 2011

Supreme Court, New York County

Docket Number: 600122/2008

Judge: Melvin L. Schweitzer

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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK : PART 45

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JIM BEAM BRANDS CO.,	:
	:
Plaintiffs,	:
	:
- against -	:
	:
TEQUILA CUERVO LA ROJEÑA S.A. DE C.V.,	:
	:
Defendants.	:
-----X	

Index No. 600122/2008
DECISION AND ORDER
Sequence Nos. 12, 13 and 16

MELVIN L. SCHWEITZER, J.:

Background

Since the 19th century, plaintiff, Jim Beam Brands Co. (“Jim Beam”), has used a crow icon to identify its “Old Crow” bourbon. Jim Beam holds the trademarks (U.S. Registration Nos. 42, 919; 333,907; 333,908; 382,554 and 1,880,804) for the names “Old Crow” and “Crow,” and for various crow designs for whiskey and bourbon. *See* Justice Lowe’s Decision & Order, dated January 27, 2011, in this case (the “January 27 Decision and Order”) at 1.

In the 19th century, defendant, Tequila Cuervo La Rojeña S.A. de C.V. (“Cuervo”), also began using a crow symbol on both the neck of its tequila bottle and its crest. *Id.* at 3. Indeed, “Cuervo” is the Spanish word for “crow.”

In 1993, Jim Beam began objecting to Cuervo’s use of the word “crow” in its advertising and the crow symbol on its products and on April 28, 1997 the parties entered into a settlement agreement to resolve the trademark dispute brought before the U.S. Patent and Trademark Office (the “Agreement”). *Id.*¹

¹ In addition, Cuervo brought a federal declaratory judgment action against Jim Beam. Judge Stein dismissed the action for lack of a case or controversy after Jim Beam proffered a stipulation releasing Cuervo from all past and future liability for trademark infringement. Jim Beam’s stipulation, however, reserves its breach of contract claim against Cuervo. *Tequila Cuervo v Jim Beam*, 2011 WL 407938, 3 (SDNY, February 8, 2011).

Jim Beam's first amended complaint here pleads a single breach of contract cause of action against Cuervo, *i.e.* that Cuervo's use of the Cuervo Bird Design, a design of a crow, raven or similar bird violates Paragraph 2 of the Agreement. *See id.* at 5. Paragraph 2 of the agreement provides:

Cuervo has ceased and will not resume use of the bird design shown in exhibit B hereto, which is of its Application Serial No. 74-380,933 ("Cuervo Bird Design"), of any other design of a crow, raven or other similar bird, alone or in combination with other design elements and/or words, on or in communication with alcoholic beverages or related products or services, or the advertising or promotion thereof; provided however that:

- (a) Cuervo may continue to use the heraldic crest design as shown in Exhibit C hereto, as has been used by Cuervo in either identical or substantially similar form since 1912; and
- (b) Cuervo may continue to use the Cuervo Bird Design on both (i) the neck and back labels of bottles of JOSE CUERVO TRADICIONAL and (ii) on advertising and promotional materials incorporating photographs and/or other accurate likenesses of the bottle of JOSE CUERVO TRADICIONAL tequila, examples of which such promotional materials are shown in Exhibit E hereto, subject to the condition that the use of said Cuervo Bird Design on the neck and back label of JOSE CUERVO TRADICIONAL tequila shall not increase in proportion or prominence to the rest of the label and dress of goods shown in Exhibit D hereto and that use of the said Cuervo Birds Design on advertising and promotional materials shall not increase in proportion or prominence in the JOSE CUERVO TRADICIONAL bottles depicted in such materials from the manner of use shown in Exhibit E hereto.

In Justice's Lowe's January 27 Decision and Order, he granted Jim Beam summary judgment on the issue of liability, finding that Cuervo had breached paragraph 2 of the Agreement, by "[u]se[ing] the Cuervo Bird Design on the top of the cork, the foil neck wrap, the side foil neck wrap and the shoulder of the bottle, as well as in advertising and promotional materials for Jose Cuervo Traditional." The parties continue to dispute how damages, if any, are to be determined, and whether Jim Beam is entitled to an injunction to halt continuing and future

breaches of the Agreement. After the court's finding of liability, the parties conducted additional discovery, Jim Beam filed a note of issue, the parties agreed to a trial without a jury, and submitted in a draft pre-trial order lists of witnesses, proposed deposition testimony and a list of expert witnesses on the issue of damages. At the same time, both parties made various motions *in limine*. At a June 1, 2011 scheduling conference, the parties agreed the court should first address motion sequence numbers 12 and 16, relating to proposed expert testimony in connection with damages issues and motion sequence number 13, relating to the issue of injunctive relief, to evaluate the necessity of a trial, and if a trial were to be conducted, its scope.

Jim Beam claims damages under two theories that traditionally have been used in the context of patent or trademark infringement. The first theory is known as "reasonable royalty" and the other theory is referred to as "disgorgement." Historically, the reasonable royalty theory has been used in patent infringement cases, and is based on the following patent code provision:

Whoever during the term of a patent for a design, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any article of manufacture for the purpose of sale, or (2) sells or exposes for sale any article of manufacture to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit, but not less than \$250, recoverable in any United States district court having jurisdiction of the parties.
35 U.S.C.A. § 289.

Several courts have recognized that under patent law, a court may impose a "reasonable royalty" as a remedy for infringement if in the absence of prior licensing arrangements, as a hypothetical negotiated license between the two parties. *See* John Gladstone Mills III, Donald C. Reiley III, Robert C. Highley 6 Pat. L. Fundamentals § 20:59. A reasonable royalty is a tool used to approximate what the manufacturer of a patented product would be willing to pay the patentee during a hypothetical negotiation. A patentee plaintiff is then permitted to recover this approximate amount. *Id.* "Disgorgement," on the other hand, is an equitable remedy intended to

“restore to the proper [intellectual property] owner profits made by the infringer’s use of another’s property.” Irwin Aisenberg, *Modern Patent Law Precedent*, at D1100 [West 2007].

Cuervo contends that neither theory is applicable under New York Law as a measure of damages in a breach of contract case, which, as noted, is the only cause of action at issue here. Cuervo further asserts that Jim Beam’s damages theories (particularly with respect to the disgorgement theory) suffer from a lack of causation, pointing out there is no proof that Cuervo earned a profit or unfair benefit due to a breach of the Agreement, or that Jim Beam suffered any economic detriment due to the breach. (Opposition Memorandum on No.16, 4-6).

In Motion Sequence No. 12 Cuervo moves to preclude the testimony of plaintiff’s expert witness, Mark Gallagher, because his testimony and opinion is premised on his applying either a reasonable royalty or disgorgement theory to calculate damages. (Opposition Memorandum on No.12, 6). In Motion Sequence No. 16 Jim Beam moves to preclude Cuervo from offering evidence on “product-versus-product” competition between Jim Beam’s and Cuervo’s products. (Memorandum in Support of No.16, 1). Jim Beam argues that given Justice Lowe’s ruling in his January 27 Decision and Order that Cuervo is liable for breach of the Agreement, no further evidence is needed for a damages analysis as a matter of law beyond what Jim Beam already submitted to Justice Lowe. *Id.* at 2. Cuervo counters that the “absence of head-to-head competition” (or the lack of direct competition between Old Crow and Jose Cuervo Tradicional given that they are not substitute goods that consumers will be willing to replace one with the other) *is* relevant to counter Jim Beam’s reasonable royalty or disgorgement theories given the likelihood of an absence of consumer confusion. (Opposition Memorandum on No. 16, 2).

Jim Beam also claims it is entitled to mandatory injunction compelling specific performance of the Agreement in advance of trial. (Opposition Memorandum on No. 13, 1-2).

Cuervo counters that Jim Beam's claim for injunctive relief is a matter to be determined at trial, and that, in any event, Jim Beam fails to point to evidence showing its entitlement to such relief. (Reply Memorandum In Support of No.13, 4-6). In Motion Sequence No. 13, Cuervo moves to preclude evidence relating to Jim Beam's claim for injunctive relief. Cuervo contends that Jim Beam is not entitled to injunctive relief as a matter of law, as the four requirements² for injunctive relief have not been, and cannot be met. *Id.* at 5-8. Cuervo also argues that Jim Beam's actions during discovery preclude the admittance of certain evidence at trial. *Id.* at 5. Jim Beam counters it is entitled to injunctive relief as a matter of law and that it has provided sufficient evidence in support of such relief. (Opposition Memorandum on No.13, 6-11).

Discussion

The Court grants Motion Sequence No. 12, and denies Motion Sequence No. 16 and Motion Sequence No.13. The Court finds injunctive relief to be appropriate as a matter of law.

Jim Beam does not contend it suffered a tangible detriment, and therefore it concedes it cannot recover traditional damages, such as lost sales, arising from Cuervo's breach. Since Jim Beam alleges a single breach of contract cause of action, only remedies available for breach of contract are applicable. As noted, Mr. Gallagher, Jim Beam's expert, relies on two theories of damages: reasonable royalty and disgorgement. Mr. Gallagher calculates damages by measuring a hypothetical reasonable royalty on Tradicional sales and an apportionment of the defendant's profits attributable to the "violative use of the Cuervo bird design." *See* Motion Sequence No.16,

² The four requirements a party seeking injunctive relief must satisfy are that: (1) it has suffered an irreparable injury; (2) remedies available at law are inadequate to compensate for that injury; (3) considering the balance of hardship between the plaintiff and the defendant, a remedy in equity is warranted; and (4) the public interest would not be disserved by an injunction. (*Aetna Ins. Co. v Capasso*, 75 NY2d 860 (1990); *Little India Stores, Inc. v Singh*, 101 AD2d 727 (1st Dept,1984)).

Exhibit F, Expert Report of Mark Gallagher P.20. Mr. Gallagher acknowledges that these measures of damages are used in cases involving the unauthorized use of intellectual property. He then proceeds on the assumption that liability was proven based on trademark law. As a result, his estimate of damages is premised on the assumption that this is the equivalent of a trademark infringement case. The court finds that given this is a breach of contract case, Mr. Gallagher's expert opinions and estimates are inadmissible as they are premised on a trademark infringement, an issue not before this court.

Jim Beam's reliance on *Georgia-Pacific Corp. v United States Playwood Corp.*, 318 F Supp 1116 (SDNY 2008) is misplaced. *Georgia-Pacific* involved a claim for infringement of patent, proof of infringement and licensing of the patent. The theories relied upon by Jim Beam would only be appropriate were the court to determine that Jim Beam's valid rights to intellectual property are being infringed, which is not an issue before this court. *See also Dynacore Holdings Corp. v U.S. Philips Corp.*, 363 F3d 1263, 1274 (Fed. Cir. 2004). ("Plaintiffs who identify *individual* acts of direct infringement must restrict their theories of vicarious liability—and tie their claims for damages or injunctive relief—to *the identified act*.) As noted, Jim Beam brings only one claim, a claim, for breach of contract. In fact, Jim Beam is precluded from bringing a trademark claim under a stipulation in the U.S. Patent and Trademark Office's proceedings to release Cuervo from past and future trademark infringement presumably made in connection with the parties entering into the Agreement. Therefore, the *Georgia Pacific* factors Jim Beam relies on for the reasonable royalty theory are inapplicable here. *See also Montblanc-Simplo v Aurora Due S.r.L.*, 363 F Supp 2d 467, 477 (EDNY) ("In order to establish claims for trademark infringement, unfair competition and false designation of origin under the Lanham Act and New York common law, a party must demonstrate the ownership of a valid

enforceable trademark, and a likelihood of confusion among an appreciable number of consumers.") Jim Beam has not provided any precedent to support an award for reasonable royalty damages in a breach of contract case. In short, breach of the Agreement is insufficient for recovery on the basis of reasonable royalty damages for Cuervo's "additional use of birds" on its Jose Cuervo Tradicional bottles.

Jim Beam's expert's reliance on a disgorgement theory also fails because there is no causal link between any increase in profits during the period of the breach, which is still continuing. The evidence presented in Motion Sequence No. 16 demonstrates that even though Jim Beam and Cuervo are in the "same line of business," their products at issue here – Old Crow bourbon and Jose Cuervo Tradicional tequila, are not direct competitors. The court finds the lack of direct competition between Cuervo's tequila and Jim Beam's bourbon is relevant to the determination that Jim Beam was not deprived of any benefits bargained for in the Agreement due to Cuervo's excessive use of the crow symbol on its Jose Cuervo Tradicional tequila in violation of the Agreement, and, accordingly, the court denies Jim Beam's motion to preclude evidence of the lack of competition between Old Crow and Jose Cuervo Tradicional. Jim Beam's theory of damages based on Cuervo's tequila profits does not translate into a benefit that Jim Beam would have received had the Agreement not been breached. Jim Beam does not offer evidence that it lost any sales (or profits) as a result of Cuervo's breach of the Agreement. Therefore, the court concludes there is no evidence that Jim Beam suffered any tangible loss as a result of Cuervo's breach of the Agreement that can be measured in dollars. In short, the court concludes that neither of the damage theories of Jim Beam's expert's is applicable here. Thus, despite Cuervo's engaging in activities the Agreement precludes, Jim Beam fails to show that money damages are an appropriate means to redress its claim.

The court now turns to the issue of whether injunctive relief may be appropriate. In Motion Sequence No. 13, Cuervo moves to preclude evidence relating to Jim Beam's claim for injunctive relief on the grounds that Jim Beam cannot point to evidence of irreparable harm to support its claim for injunctive relief. Cuervo's argument misses the point. As Justice Lowe noted in his January 27 Decision and Order granting Jim Beam summary judgment on the issue of liability for breach of the Agreement, there is no dispute that Cuervo's increase of the use of the crow symbol on its Jose Cuervo Tradicional tequila bottles was in violation of the Agreement. The issue Justice Lowe had to address was whether the admitted breach was so immaterial as to not amount to an actionable cause of action for breach of contract. Justice Lowe concluded that Jim Beam established that Cuervo breached the Agreement and established an actionable breach of contract cause of action as a matter of law. More precisely, the court found that Cuervo had breached the Agreement by placing the black crow symbol on the top of the cork, the foil neck rap, the side neck rap, the shoulder of the Jose Cuervo Tradicional bottle and in Jose Cuervo Tradicional advertising and promotional materials. There is no dispute that Cuervo is continuing to do this in its recent bottle designs and distribution materials.

Thus, the issue is whether Jim Beam has the right to enjoin Cuervo from continuing to breach the Agreement. Put another way, can Jim Beam enforce the negative covenant³ contained in the Agreement precluding Cuervo from "increase[ing] in proportion or prominence" the use of the crow symbol on its Jose Cuervo Tradicional bottles. The court concludes that given that it already has found Cuervo liable for breach of contract, Jim Beam is entitled to specific performance of Cuervo's negative covenant in the Agreement to avoid continuing and future

³ A negative covenant is a "promise of forbearance" or promise to refrain from doing anything else but some specific act. 25 Williston on Contracts § 67:55 (4th ed.)

circumvention of these terms. Motion Sequence No. 13 seeking to preclude Jim Beam from an injunction for failing to produce evidence is thus denied.

Courts have held that once a contract containing a negative covenant has been held reasonable, valid and enforceable, a plaintiff is entitled to injunctive relief enforcing its terms. “The power of a court of equity to enforce by injunction negative covenants contained in commercial contracts has long been recognized when reasonable limitation is exacted.” *Rosano v Sperber*, 64 NYS2d 35, 36 (NY Sup Ct 1946); *see also Diamond Match Company v Roeber*, 106 NY 473; *Markowitz v Tabakin*, 250 A.D. 768 (2d Dept 1937); *see also* 25 Williston on Contracts § 67:53. If a breach of a negative covenant cannot be adequately compensated in damages, the general basis for equitable relief is established because it is always possible for the defendant to refrain from doing something, and it involves no straining of equitable powers to compel the defendant to refrain. Williston § 67. Further, injunctive relief in this case is appropriate given the holdings in *Markowitz* and *L.I.R. Mgmt. Corp. v Mid-City Associates*, 184 AD2d 235, (1st Dept 1992). Both cases involve contracts that bound the defendant to a negative covenant not to engage in a particular business or form of employment.

In *Markowitz*, the court held that the plaintiff was entitled to specific performance of a negative covenant contained in an employment contract of a defendant, former employee, limiting the defendant’s business activities for five years after termination of his employment. *Id.* at 768. Similarly in *L.I.R. Mgmt*, the Plaintiff was entitled to an injunction preventing defendant from selling types of food specified in a clause of its lease. The defendant contravened the restrictive negative covenant in the plaintiff’s lease by selling food that could have resulted in the defendant competing directly with plaintiff’s fast-food establishments.

Since revenue gained by the defendant at the expense of the plaintiff would be difficult to determine and might be wholly speculative, a legal remedy was inadequate.

Similarly, in the case here, damages are unable to adequately compensate Jim Beam for Cuervo's breach of the Agreement. However, if Jim Beam were not to be able to enforce the terms of its Agreement, it would render the parties' contract meaningless, causing Jim Beam "irreparable harm." Therefore, following the finding of breach, the appropriate remedy is injunctive relief. As a result, more evidence in support of Jim Beam's claim for specific performance is unnecessary and Motion No. 13 is denied.

Conclusion

Neither damages theory proffered by plaintiff's expert is available as a measure of contract damages under New York law. Jim Beam concedes it did not suffer, and therefore cannot recover, actual damages from Cuervo's breach. Its attempt to recover damages by use of a reasonable royalty or disgorgement theory is to no avail. Jim Beam is precluded from offering evidence premised on reasonable royalty and disgorgement theories to posit a damage claim. Jim Beam's disgorgement theory further fails due to a lack of causation or proof that Cuervo increased its sales or earned any additional profits as a result of its breach of the Agreement. Since Jim Beam has not and cannot establish damages due to Cuervo's admitted breach of the Agreement, which Justice Lowe, in his January 27 Decision and Order, found to be a cognizable breach of contract cause of action, the court concludes equitable relief is appropriate here. The court enjoins Cuervo from continuing to breach the Agreement.

Based on the forgoing, it is hereby

ORDERED that defendant's motion (Motion Seq. No. 12) to preclude is granted; and it is further

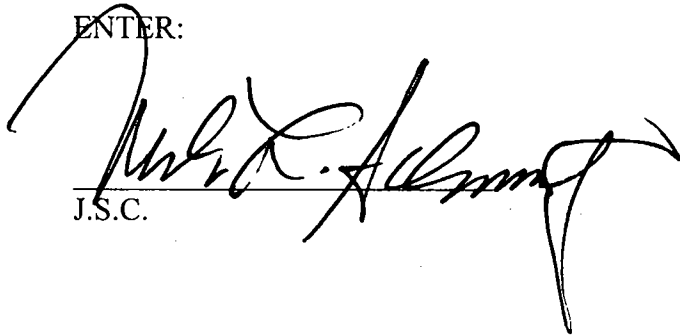
ORDERED that plaintiff's motion (Motion Seq. No. 16) to preclude is denied; and it is further

ORDERED that the defendant's motion to preclude (Motion Seq. No. 13) is denied and plaintiff's request for injunctive relief is granted.

ORDERED that plaintiff is to submit on order and judgment on notice to defendant within 30 days of the entry of this Decision and Order.

Dated: July 12, 2011

ENTER:



J.S.C.