

SUPREME COURT OF THE STATE OF NEW YORK — NEW YORK COUNTY

PRESENT: ON. RICHARD B. LOWE, III
Justice

PART 56

Jim Beam Brands

INDEX NO. 600122/08

- v -

MOTION DATE 11/17/10

Tequila Cuervo

MOTION SEQ. NO. 009

MOTION CAL. NO. _____

The following papers, numbered 1 to _____ were read on this motion to/for _____

PAPERS NUMBERED

Notice of Motion/ Order to Show Cause — Affidavits — Exhibits ...

Answering Affidavits — Exhibits _____

Replying Affidavits _____

Cross-Motion: Yes No

Upon the foregoing papers, it is ordered that this motion

MOTION/CASE IS RESPECTFULLY REFERRED TO JUSTICE FOR THE FOLLOWING REASON(S):

MOTION IS DECIDED IN ACCORDANCE WITH ACCOMPANYING MEMORANDUM

RECEIVED

JAN 31 2011

MOTION SUPPORT OFFICE
NYS SUPREME COURT - CIVIL

Dated: 1/27/11

ON. RICHARD B. LOWE, III
J.S.C.

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION

Check if appropriate: DO NOT POST REFERENCE

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 56

-----X
JIM BEAM BRANDS CO.,

Plaintiffs,

Index No.: 600122/08

-against-

DECISION AND ORDER

TEQUILA CUERVO LA ROJENA S.A. DE C.V.,
JOSE CUERVO INTERNATIONAL, INC.,
DIAGEO NORTH AMERICA, INC., and
HEUBLEIN, INC.,

Defendants.

-----X
Hon. Richard B. Lowe, III:

Plaintiff Jim Beam Brands Co. (Jim Beam) moves, pursuant to CPLR 3212, for summary judgment on Claim I of the amended complaint for breach of contract as against defendant Tequila Cuervo La Rojena S.A. de C.V. (Cuervo) on the ground that there is no defense to the amended complaint, and granting Jim Beam an injunction against Cuervo's further breach of the April 28, 1997 agreement between the parties.

Oral argument on this matter was held on November 17, 2010, and the court directed the parties to brief the framed issue of liability in order to streamline the issues for trial.

BACKGROUND

Both Jim Beam and Cuervo are global leaders in the international spirits industry and, as such, are competitors of each other. One of Jim Beam's products is "Old Crow" bourbon and, since 1863, Jim Beam has used a crow icon to identify this product (Beam Crow Design), for which 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 (Motion, Ex. B).

Beginning in 1993, Jim Beam began objecting to Cuervo’s use of a crow design (Cuervo Bird Design) and the word “crow” in advertising a Cuervo product (*id.*, Ex. C, Protest Letter dated February 26, 1993). Eventually, this protest led to a proceeding in the U.S. Patent and Trademark Office (*id.*, Ex. D), which was subsequently resolved by an agreement between the parties on April 28, 1997 (*id.*, Ex. D).¹ In the present action, Jim Beam asserts that Cuervo has breached this agreement.

Paragraph 2 of the agreement executed between Jim Beam and Cuervo states:

“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 tequila, as shown in Exhibit D hereto, 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 the said Cuervo Bird Design on the neck and back label for bottles of JOSE CUERVO TRADICIONAL tequila shall not increase in

¹ In 2005, Cuervo contacted Jim Beam, seeking to modify this agreement, but the agreement was never modified (Motion, Ex. G).

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 Bird 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 response to Jim Beam’s first notice to admit, Cuervo admitted that, since approximately 2002 and continuing through 2009, it has variously used 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 Tradicional (Marsh Aff. in Support, Ex. H). In addition, Cuervo has admitted that, through its affiliate, Jose Cuervo International, Inc., and its licensee, Diageo North America, it has used the Cuervo Bird Design in connection with marketing its entire line of Cuervo products on its promotional web sites (*id.*, Exs. H and L), on gift boxes of Jose Cuervo Tradicional (*id.*, Exs. H and M), on shipping boxes and other point-of-sale materials (*id.*, Exs. H and N), as the central graphic identity system for its 2007 advertising campaign (*id.*, Exs. H and O), in its branding manuals and guidelines for its Tradicional product line (*id.*, Ex. O), in television commercials (*id.*, Ex. O), and on promotional tee-shirts (*id.*, Ex. P).

According to Jim Beam, during this period of the alleged breach of the agreement, Cuervo sold at least five million bottles of Tradicional tequila, which generated over \$100 million dollars in sales (*id.*, Ex. Q).

Jim Beam contends that Cuervo’s extended use of the Cuervo Bird Design constitutes a material breach of the parties’ 1997 agreement.

In opposition, Cuervo states that, even if its use of the Cuervo Bird Design on occasional

advertising and promotional materials is considered to be a breach of the agreement, such breach is only a minor, not a material, breach. The thrust of Cuervo's opposition is that Cuervo's purported breach of the agreement did not undermine the import of the 1997 agreement, which was to avoid customer confusion, and that Jim Beam has not lost any sales as a result of such purported breach of the agreement.

In Cuervo's opposition memorandum of law, Cuervo admits that it added several Cuervo Bird Designs to its Tradicional label (Opp, Memo, at 8). However, Cuervo contends that such increased use of the graphic design would not and did not cause customer confusion, which, it maintains, is the importance of the 1997 agreement.

DISCUSSION

"The proponent of a summary judgment motion must make a prima facie showing of entitlement to judgment as a matter of law, tendering sufficient evidence to eliminate any material issues of fact from the case [internal quotation marks and citation omitted]" (*Santiago v Filstein*, 35 AD3d 184, 185-186 [1st Dept 2006]). The burden then shifts to the motion's opponent to "present evidentiary facts in admissible form sufficient to raise a genuine, triable issue of fact" (*Mazurek v Metropolitan Museum of Art*, 27 AD3d 227, 228 [1st Dept 2006]; see *Zuckerman v City of New York*, 49 NY2d 557, 562 [1980]). If there is any doubt as to the existence of a triable fact, the motion for summary judgment must be denied (*See Rotuba Extruders, Inc. v Ceppos*, 46 NY2d 223, 231 [1978]).

Although Cuervo argues that Jim Beam's motion for summary judgment should be denied as untimely, pursuant to CPLR 3212 (a), as stated above, the court is not deciding the motion but, rather, has requested the parties to submit briefs on the limited issue of liability in

order to limit the issues to be tried on the adjourned trial date. As a consequence, the court need not rule on the issue of the timeliness of the motion at this juncture.

The court also notes that Cuervo has argued other issues, such as Jim Beam's request for injunctive relief, which were not part of this court's directive and, therefore, will not be addressed in this decision.

The court finds that Cuervo is liable to Jim Beam for violation of the 1997 agreement between the parties.

Cuervo has admitted that it has violated the provisions of the agreement as quoted above, but asserts that such violations are minor breaches of the agreement and, therefore, do not subject Cuervo to liability. The court disagrees with Cuervo's conclusion.

Williston on Contracts (4th ed.), § 63:3 states, in pertinent part:

“if a breach is relatively minor and not of the essence, the plaintiff is still bound by the contract and may not abandon performance and obtain damages for a total breach by the defendant, though the nonbreaching party is entitled to damages caused even by the immaterial breach, albeit that these may be nominal in amount. Otherwise stated, a non-performing party is liable for any breach of contract, but the other party is discharged from further performance, and is entitled to substantial damages only when there is a material breach”

The New York courts routinely allow a nonbreaching party to seek damages, not only for a material breach (*Texter v Trotta*, 48 AD3d 455 [2d Dept 2008]), but also for a minor, or immaterial, breach as well (*Seidlitz v Auerbach*, 230 NY 167 [1920]).

The materiality or non-materiality of a breach of contract only goes to the question of the type of remedy that may be allowed, not to the issue of liability. In order to be entitled to

nonmonetary relief for breach of a contract, the non-breaching party must demonstrate that the breach was material.

“The right to rescission generally exists as an alternative remedy to an action for damages where there has been a *material breach of a contract* [emphasis added] (*Manning v Manning*, 97 AD2d 910, 911 [3d Dept 1983]); *Richard A. Hutchens CC, L.L.C. v State of New York*, 59 AD3d 766 [3d Dept 2009] [a material breach entitles injured party to seek rescission]); *Jones v Jones*, 232 AD2d 313 [1st Dept 1996] [material breach entitles non-breaching party to seek rescission]).

However, even a minor breach allows the innocent party some measure of damages to put it in the same position that it would have been in if no breach had occurred.

Cuervo has both admitted to violating the terms of the agreement, and has failed to provide any legal support for its contention that a minor breach of contract does not entitle the nonbreaching party to seek damages. Consequently, the court determines that the question of liability is resolved in favor of Jim Beam.

CONCLUSION


Based on the foregoing, it is hereby

ORDERED that the issue of liability for breach of the 1997 agreement between the parties is resolved in favor of plaintiff; and it is further

ORDERED that the issues of damages and other relief sought in this matter are to be determined at trial.

Dated: January 27, 2011

ENTER


RICHARD B. LOWE, III