



# Brand Protection



APRIL 2018

## **Grumpy Cat Limited v. Grenade Beverage LLC, et al.** *USDC, C.D. California, January 23, 2018*

Grumpy Cat, a cat with a perpetual scowl, has reason to smile. Grumpy Cat, also known as Tardar Sauce, became an internet sensation in 2012 when a photograph of her went viral, leading to appearances by Grumpy Cat on morning television shows and in national newspapers. Her owners, through their company Grumpy Cat Limited (“GCL”), registered GRUMPY CAT as a trademark, obtained copyright registrations for photographs and illustrations of Grumpy Cat, and began to license the Grumpy Cat trademark and copyrighted content.

One such license granted Grenade Beverage LLC (“Grenade”) rights to use the Grumpy Cat intellectual property in connection with “a line of Grumpy Cat-branded coffee products.” When Grenade owners Paul and Nick Sandford expanded their Grumpy Cat-branded offering from iced-coffee beverages to ground coffee without GCL’s approval, GCL commenced an infringement action in the Central District of California.

Following a five-day trial, the jury awarded GCL over \$700,000 in damages. That award is significant for two reasons. First, the plaintiff trademark and copyright owners were eligible for such a large award without proof of lost profits because they proactively registered their intellectual property. Second, it highlights the importance for trademark licensors of precise drafting in license agreements to define the scope of the licensed products and services as well as the scope of the licensor’s approval rights over new products and new product lines.

### **The License Agreement**

In May 2013, GCL, owner of the name, image and likeness of “Grumpy Cat,” granted a limited license to Grenade to use the Grumpy Cat trademark and copyright-protected image and depiction of Tardar Sauce (i.e., Grumpy Cat) for “a line of Grumpy Cat-branded coffee products, or other additional products within the Product Category [defined as ‘non-alcoholic beverages’] that may, upon the Parties’ mutual approval, be marketed hereunder.” Although GCL alleged that it was the “mutually understood intent” of the parties that the license covered a line of “Grumpy Cat” branded iced-coffee beverages called “Grumpy Cat Grumppuccino,” this limitation was not expressly set forth in the agreement. Pursuant to the license agreement, all uses of the “Grumpy Cat” licensed properties required GCL’s prior approval, including on products, advertising and marketing materials, as well as visual depictions, interpretations and adaptations of the licensed properties created by or for Grenade. GCL’s “final discretionary approval” was required for all marketing and advertising efforts and materials, including “the messaging involved and the presentation” and frequency thereof. All right, title and interest in and to the “Grumpy Cat” licensed properties, including any derivative works created by the licensee, were expressly and exclusively retained by GCL.

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In October 2015, the Sandfords sought GCL's approval of a line of Grumpy Cat-branded ground roasted coffee products. GCL refused to authorize the Sandfords' proposed use and exploitation of the Grumpy Cat licensed properties, and confirmed in several written communications that Grenade sub-licensee Grumpy Beverage LLC ("GB") was not authorized to proceed with a line of Grumpy Cat-branded ground coffee products.

Notwithstanding GCL's refusal to approve, GB and the Sandfords began advertising and selling ground coffee products under the name "Grumpy Cat Roasted Coffee." The product packaging and marketing materials displayed a Grumpy Cat illustration as well as the Grumpy Cat brand name. Without GCL's authorization, GB registered the domain name [www.grumpycat.com](http://www.grumpycat.com) and created a website through which GB marketed and sold the unauthorized Grumpy Cat ground coffee products as well as unauthorized "Grumppuccino" t-shirts.

## Litigation

In December 2015, GCL filed suit against Grenade and the Sandfords, claiming infringement of GCL's intellectual property rights and breach of contract based on the unauthorized use of the Grumpy Cat mark, image and likeness for a line of "Grumpy Cat" ground roasted coffee products. In the lawsuit, GCL asserted claims of trademark infringement, false designation of origin and dilution under the Lanham Act, copyright infringement, cybersquatting of the domain name [www.grumpycat.com](http://www.grumpycat.com) and breach of contract. GCL sought damages, treble damages, injunctive relief, interest, attorneys' fees and costs.

Grenade sub-licensee GB intervened in the action and, together with the Sandfords, brought 12 counterclaims against GCL; among other claims, GB sought declaratory relief with respect to GB's ownership of both the [www.grumpycat.com](http://www.grumpycat.com) domain name and the "Grumpy Cat" intellectual property that it created while performing under the license agreement,

as well as a declaration that GB did not infringe GCL's rights in the licensed properties.

GB moved for partial summary judgment on its breach of contract counterclaim based on allegations that GB had the pre-approved right to sell ground coffee under the license agreement, and that GCL's refusal to approve the ground coffee products without justification was a breach of the license. GB claimed that ground coffee products were included within the licensed products as they were part of "a line of Grumpy Cat-branded coffee products." The district court denied GB's motion, finding genuine issues of material fact as to whether the license term "a line of Grumpy Cat-branded coffee products" meant **a single product or a group of related coffee products**, and whether it included or excluded **ground coffee products**. Although the court found the agreement to be integrated based on the integration clause, the court nonetheless considered extrinsic evidence to resolve the ambiguity regarding the meaning of "a line of coffee products." However, the parties presented conflicting extrinsic evidence, which led the court to conclude that the issue could not be decided as a matter of law.

The court then, sua sponte, entered partial summary judgment in favor of GCL, finding that it did not breach the license agreement by denying GB's request to use Grumpy Cat's image for ground coffee products (assuming that the agreement did not pre-approve ground coffee products). The court reasoned that if the ground coffee products were not pre-approved in the agreement, then GCL's denial of GB's request was not a breach of the license agreement because GCL's prior approval was required for all uses of the Grumpy Cat properties and GCL had unrestricted rights to approve or disapprove new products.

## Verdict

In January 2018, following a five-day trial, the jury returned a verdict for Grumpy Cat Limited and assessed damages against Paul Sandford and GB

totaling \$710,001. Specifically, on the copyright infringement claim, the jury awarded \$200,000 against GB and \$30,000 against Paul Sandford; on the trademark infringement claim, the jury awarded \$450,000 against GB and \$30,000 against Paul Sandford; and on the breach of contract claim, the jury awarded nominal damages of \$1.00 against GB. The jury also found in favor of GCL on GB's counterclaims for breaches of the covenant of good faith and fair dealing and fiduciary duty, and negligent and intentional misrepresentation.

By agreement of the parties, GCL's cybersquatting and accounting claims and GB's counterclaims for declaratory relief were bifurcated for adjudication by the court following the jury verdict, and these claims are presently pending before the court.

### Lessons Learned

#### **Drafting Tip – Make your intentions clear.**

List out the initial permitted products/services specifically on a schedule to the license agreement, which can be amended from time to time by mutual agreement of the parties.

From the licensor's perspective, clearly defining the scope of the license minimizes the risk that ambiguities could be used to open the door to a broader interpretation than intended. The agreement should also provide that ambiguities must be resolved in favor of the narrowest interpretation.

From the licensee's perspective, specificity with respect to the licensed products allows the licensee to run its business within defined bounds without being at the whim of the licensor where pre-approval is required for new products, or faced with the looming threat of termination or costly litigation where the parties have conflicting interpretations.

#### **Drafting Tip – To approve or not to approve?**

As a licensor, reserve the right to withdraw approval of licensed products/services in certain circumstances.

As a licensee, impose limitations on approval rights. For example, specify a time frame for approvals/rejections, enumerate grounds for withholding approval, and require justification for disapprovals.

#### **Drafting Tip – Eliminate the guess work.**

Specify who retains rights to social media pages and handles as well as domain names incorporating the licensed mark.

As a licensor, determine whether it is mutually beneficial for the licensee to have direct control over any social media accounts or domain names incorporating the licensed marks. If that arrangement makes sense, require the licensee to transfer all domain registrations and accounts to licensor upon request, and, in any event, no later than termination or expiration of license. If transfer is not possible under the terms and conditions of any of the social media platforms, consider whether to require that the account handle be disabled, or whether it would be advantageous to require the licensee to post a link to the new page or other information on the existing page to redirect traffic and followers.

As a licensee, specify a time period following termination or expiration during which use of the social media handles and domain names may continue in a more limited manner in order to redirect followers or web traffic to new pages or sites.

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