IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

MILLERCOORS LLC,	)	
	)	
Plaintiff,	)	
	)	
v.	)	**Case No. 2:12-cv-00530-MSD-LRL**
	)	
CHESBAY DISTRIBUTING CO., INC.,	)	
	)	
Defendant.	)	

MILLERCOORS' OPPOSITION TO CHESBAY'S MOTION TO DISMISS

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Plaintiff MillerCoors LLC ("MillerCoors"), by counsel, in opposition to the Motion to Dismiss (Docket No. 17) and accompanying Memorandum in Support (Docket No. 18)[1] (collectively, "Chesbay's MTD") filed by Defendant Chesbay Distributing Co., Inc. ("Chesbay"), respectfully submits that dismissal is improper. On its face, MillerCoors' Complaint[2] states a claim for breach of contract. Chesbay's MTD raises the ***affirmative defense*** that the contract is invalid under Virginia law. Merely raising this affirmative defense does not entitle Chesbay to dismissal under Rule 12(b)(6). At trial, Chesbay would have the burden of proving a conflict between the contract provision at issue and the Virginia statute upon which Chesbay's affirmative defense is based. The alleged conflict that Chesbay claims is not apparent from the plain language of either the contract or the statute. Chesbay's MTD cites no precedent—because there is none—for the construction of Virginia law that Chesbay asks this Court to adopt. There is, however, precedent construing similar statutes that Chesbay's MTD neglects to cite. This precedent includes a decision in which a U.S. Court of Appeals—after analyzing an argument much like that upon which Chesbay's MTD is based—rejected it. For the reasons that follow, Chesbay has established no grounds for dismissing MillerCoors' breach of contract and related claims as a matter of law.

I. INTRODUCTION

The contract at issue is the Distributor Agreement[3] whereby MillerCoors granted Chesbay, a beer wholesaler, the right to distribute to retailers certain brands of beer and to use certain trademarks owned by MillerCoors in a defined territory in the Tidewater area. This

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[1] Chesbay's Memorandum in Support is cited herein by page number as "MTD Mem."

[2] MillerCoors' First Amended Complaint (Docket No. 4) is referred to herein as the "Complaint" and cited by paragraph and exhibit number as "1st Am. Compl."

[3] Pertinent provisions of the Distributor Agreement (which was filed as Exhibit A to MillerCoors' First Amended Complaint) are cited herein by section number as "Distr. Agr."

dispute arose because Chesbay entered into a binding Asset Purchase Agreement (the "APA") for the sale of its business to another beer wholesaler.[4] The "assets" that are the subject of the APA are not limited to Chesbay's business, however. The APA also contemplates the transfer of assets that do not belong to Chesbay. These include the distribution rights and trademark license granted by MillerCoors. If consummated, the APA would effectively rewrite the Distributor Agreement so as to deprive MillerCoors of the benefit of its bargain. In particular, Chesbay seeks to deprive MillerCoors of its right of first refusal (the "ROFR" or "MillerCoors ROFR") if Chesbay wishes to sell its business to another beer wholesaler. The ROFR requires Chesbay—***before*** entering into a binding agreement for the sale of its business—to first negotiate a non-binding letter of intent and then afford MillerCoors or its assignee the opportunity to match the proposed terms and conditions of sale.

The ROFR ensures that Chesbay receives full and fair value for its business, the very same value offered to Chesbay by the Purchaser under the APA. The ROFR also allows MillerCoors to protect and promote the competitive position of its brands in Chesbay's territory by ensuring that the distribution rights to MillerCoors' products and the license to use MillerCoors trademarks end up with the distributor that—in MillerCoors' business judgment—is best positioned to promote its brands in the territory. By ensuring full compensation for Chesbay and stronger promotion of MillerCoors' brands, the ROFR enhances competition to the ultimate

[4] A redacted copy of the APA referenced in the Complaint is attached as **Exhibit A**. The Complaint identifies the other party to the APA merely as the "Purchaser." In subsequent filings with this Court, Reyes Holdings, L.L.C. ("Reyes") has identified itself as the "Purchaser." (Docket No. 24, pp. 7-8, and Docket No. 27, pp. 1-2). In fact, the "Purchaser" to which Chesbay has agreed to sell its business and transfer its beer distribution and trademark license rights is a newly formed entity in which Reyes has an ownership interest, Chesbay Acquisition, L.L.C. ("Chesbay Acquisition").

benefit of retailers and consumers in Tidewater Virginia. This *quid pro quo* is reflected in Section 8.5 of the Distributor Agreement, which states as follows:

> MillerCoors recognizes that Distributor has a legitimate interest in realizing fair value upon the sale or transfer of its business, and Distributor recognizes that MillerCoors has a legitimate interest in the identity of any successor to Distributor's distribution rights with respect to the Products.

(1st Am. Compl., Ex. A).

To defend its complete disregard of MillerCoors' contract rights, Chesbay attempts to rely upon one provision of the Virginia Beer Franchise Act, Va. Code §§ 4.1-500–4.1-517 (the "BFA"). But nothing in the BFA provision cited by Chesbay, Va. Code § 4.1-507A ("BFA Section 4.1-507A"), prohibits MillerCoors from having a ROFR. Rather, BFA Section 4.1-507A prohibits only certain conduct by a brewery in granting or withholding consent to a proposed transfer of a wholesaler. It does ***not*** address the exercise of a ROFR, which is distinct from—and arises before—the issue of consent would ever arise. On its face, BFA Section 4.1-507A simply does not apply to the MillerCoors ROFR. A federal appellate court analyzing a nearly identical statute and circumstances held that the statute did not apply to a ROFR because "the meaningful and clear dissimilarities between a consent requirement and a [ROFR]" logically mean "that the exercise of a [ROFR] is not a withholding of consent." *Crivelli v. Gen. Motors Corp.*, 215 F.3d 386, 394 (3d Cir. 2000).

Even if BFA Section 4.1-507A somehow applied, Chesbay does not—and cannot—establish as a matter of law that the ROFR constitutes the ***unreasonable*** withholding or delay of consent prohibited by the statute. To accept Chesbay's interpretation, the Court would have to ignore the statutory prohibition against only ***unreasonably*** withholding or delaying consent. If anything, the MillerCoors ROFR is reasonable *per se* for at least two reasons. First, the ROFR promotes the statute's principal purpose, *i.e.*, to ensure that Chesbay receives full and fair value

for its business and is allowed to exit the market. Second, MillerCoors exercised the ROFR to protect its legitimate business interests—namely, to enhance its competitive position.

Notwithstanding the rhetoric in Chesbay's MTD about the ROFR causing MillerCoors to "control" wholesalers, the MillerCoors ROFR does not in any way undermine the "three tier system" of alcoholic beverage distribution. By exercising the ROFR in this case, MillerCoors will not end up owning and controlling a distributorship in Chesbay's territory. Instead, another beer wholesaler—OHMC LLC—will own, control, and operate the distributorship.[5] And, most importantly, the distributor put in place by the ROFR will be the beer wholesaler that MillerCoors believes is best to compete in the area. This result will undeniably strengthen MillerCoors' "second tier" of distribution, the beer wholesaler in the territory now served by Chesbay. In short, the ROFR promotes the three tier system and inures to the benefit of retailers and consumers by bolstering competition.

Only if interpreted in the absurd and unprecedented way that Chesbay now advocates would BFA Section 4.1-507A conflict with the federal trademark statute, the Lanham Act. As drafted, the Beer Franchise Act regulates only the terms and conditions of trademark licenses that brewers have already granted. It was not intended to, and should not be interpreted to, permit wholesalers to use breweries' registered trademarks without a trademark license. Nor does the BFA purport to force breweries to enter into trademark licenses with any particular distributor. Rather, the Virginia statute—like the MillerCoors ROFR—recognizes the brewery's

[5] Although this fact is not alleged in the Complaint and is therefore not properly considered for purposes of Rule 12(b)(6), MillerCoors does anticipate having a minority interest in OHMC by becoming a limited partner of OHMC for a period not to exceed eight years to assist OHMC with financing its purchase of Chesbay's business. BFA Section 4.1-216 allows a brewery to have a non-controlling limited partner interest in a wholesaler for no more than eight years to participate in financing "a proposed new owner of an existing wholesale licensee." Va. Code § 4.1-216. Thus, this interest will be in complete conformity with BFA Section 4.1-216.

right to select in the first instance the wholesaler with which it wants to do business. In short, there is no basis for this Court to interpret Virginia law in a way that would present an irreconcilable conflict with the Lanham Act.

II. FACTUAL AND PROCEDURAL BACKGROUND

By entering into the Distributor Agreement, MillerCoors granted Chesbay the exclusive territorial right to distribute certain brands of beer to retailers and to use certain trademarks owned by MillerCoors in designated cities and counties in Tidewater Virginia (the "Licensed Territory"). *See* Distr. Agr. §§ 1.2, 2.1. (1st Am. Compl. ¶¶ 1, 16, Ex. A). The Distributor Agreement also licensed Chesbay to use the goodwill, names, logos, and trademarks owned by MillerCoors (collectively, the "MillerCoors Trademarks") associated with its portfolio of malt beverage brands (collectively, the "MillerCoors Brands") in connection with the wholesale distribution of those Brands in the Licensed Territory. *See* Distr. Agr. §§ 9.1, 9.2. (1st Am. Compl. ¶ 1, Ex. A). Chesbay's license is contingent upon Chesbay's compliance with its obligations under the Distributor Agreement, including the "MillerCoors Trademark Standards" set forth therein. *See* Distr. Agr. §§ 1.3, 9.2. (1st Am. Compl. ¶ 2, Ex. A).

It is undisputed that the beer market in Virginia and across the United States is extremely competitive. Brewers therefore vigorously compete with one another to grow their businesses by spending millions of dollars at the distributor, retailer, and consumer levels to ultimately attract consumers to their brands and retain those customers. As the exclusive MillerCoors distributor in the Licensed Territory, Chesbay is the "face" of MillerCoors in that area and is MillerCoors' only way of selling its products there. (1st Am. Compl. ¶ 15). The ability of MillerCoors to effectively compete in the beer market in the Licensed Territory is thus wholly dependent upon Chesbay's ability to competitively promote, market, and sell the MillerCoors Brands. (1st Am.

Compl. ¶ 15). As a result, MillerCoors has a significant interest in the identity of the distributor of its brands in the Licensed Territory (currently, Chesbay). (1st Am. Compl. ¶ 15). MillerCoors has an equally significant interest in the entity that assumes Chesbay's MillerCoors distribution rights when Chesbay transfers its business. (1st Am. Compl. ¶ 15).

Accordingly, Section 8.3 of the Distributor Agreement prohibits Chesbay from assigning or otherwise transferring its distribution rights to the MillerCoors Brands without the express prior written consent of MillerCoors. (1st Am. Compl. ¶ 2, Ex. A). The Distributor Agreement also expressly prohibits Chesbay from sublicensing the MillerCoors Trademarks and from assigning or otherwise transferring its license to use the MillerCoors Trademarks to third parties without the express prior written consent of MillerCoors. *See* Distr. Agr. § 9.2. (1st Am. Compl. ¶ 2, Ex. A). The brewery's interest in protecting and promoting its brands provided by the Distributor Agreement is recognized—and in fact required—by the BFA. Under the BFA, the "failure to obtain the consent of the brewery to a transfer of a wholesaler's business" is "good cause" for termination. Va. Code § 4.1-505(4).

The Distributor Agreement also provides MillerCoors a separate right that arises ***before*** MillerCoors is asked to consent to a proposed transfer of a wholesaler's business. That right is found in Section 8.8.3 of the Distributor Agreement and grants MillerCoors a ROFR if Chesbay decides to sell its business to a prospective purchaser. (1st Am. Compl. ¶ 2, Ex. A). Upon deciding to sell its business and negotiating a sale transaction with a third party, Chesbay is obligated under the Distributor Agreement to deliver a nonbinding letter of intent to MillerCoors within five days of signing the letter of intent and at least 90 days before the closing of the proposed transaction. *See* Distr. Agr. § 8.8. (1st Am. Compl. ¶ 28, Ex. A). Under Section 8.8.3, once MillerCoors receives that letter of intent, MillerCoors is vested with—and has 30 days to

exercise—its irrevocable ROFR. The ROFR gives MillerCoors (or its assignee) the right and option to match the same terms and conditions of Chesbay's deal with its prospective purchaser. Upon exercising the ROFR, MillerCoors (or, in this case, its assignee OHMC) can then proceed to closing the purchase of Chesbay's business—including distribution rights to the MillerCoors Brands and license rights to the MillerCoors Trademarks. *See* Distr. Agr. § 8.8.3. (1st Am. Compl. ¶ 29, Ex. A). Under the ROFR, Chesbay would thus stand to receive the same value for its business as if it sold to the original prospective Purchaser named in the APA. *See* Distr. Agr. § 8.8.3. (1st Am. Compl. ¶ 29, Ex. A). Once MillerCoors exercises its ROFR, Chesbay is obligated to promptly execute all documents reasonably required to complete the transfer of that portion of Chesbay's business subject to the MillerCoors ROFR. *See* Distr. Agr. § 8.8.3. (1st Am. Compl. ¶ 29, Ex. A). Section 8.11 of the Distributor Agreement permits MillerCoors to assign this ROFR to a wholesaler of its choice that may proceed to close the sales transaction with Chesbay and thereby become the new owner of Chesbay's business. *See* Distr. Agr. § 8.11. (1st Am. Compl. ¶ 30, Ex. A).

If, only if—and after—MillerCoors determines not to exercise its ROFR can Chesbay proceed with the proposed transaction by submitting a Distributor Application to MillerCoors and seeking MillerCoors' consent to the transaction under Section 8.9 of the Distributor Agreement. *See* Distr. Agr. § 8.9. (1st Am. Compl., Ex. A). The MillerCoors ROFR thus arises well before the time that MillerCoors must give or withhold consent to the proposed transaction.

Chesbay never provided MillerCoors with the non-binding letter of intent regarding its proposed sale of its business that is required by Section 8.8 of the Distributor Agreement. (1st Am. Compl. ¶ 28, Ex. A). Instead, Chesbay informed MillerCoors by letter dated August 30, 2012 (copy attached as **<u>Exhibit B</u>**) that it had already executed an agreement to sell its business

and that the sale would close in just 45 days. (1st Am. Compl. ¶ 34). In that same letter, Chesbay also informed MillerCoors—for the first time—that it had not negotiated or executed a non-binding letter of intent with Chesbay Acquisition before executing a binding purchase agreement, as it was expressly required to do under Section 8.8 of the Distributor Agreement. (1st Am. Compl. ¶ 34).

Chesbay also breached its obligations to MillerCoors under Section 8.8.3 of the Distributor Agreement by agreeing in Section 5.4 of the APA to deal exclusively with Reyes' affiliate, Chesbay Acquisition. That undertaking conflicts with Chesbay's duty under Section 8.8.3 of the Distributor Agreement to promptly execute all documents reasonably required for MillerCoors to exercise its ROFR and complete the transfer of that portion of Chesbay's business subject to the MillerCoors ROFR to an assignee of MillerCoors' choice. (1st Am. Compl. ¶¶ 38–41). By agreeing to the exclusivity obligation with Chesbay Acquisition in Section 5.4 of the Purchase Agreement, Chesbay effectively deprived MillerCoors of its ROFR and directly breached Section 8.8.4 of the Distributor Agreement, which expressly prohibits that very conduct. (1st Am. Compl. ¶¶ 31, 41).

On September 6, 2012, MillerCoors provided written notice to Chesbay that Chesbay had breached the Distributor Agreement by way of the correspondence attached as **Exhibit C**. (1st Am. Compl. ¶ 42). And on September 12, 2012, MillerCoors exercised its ROFR to match the deal that Chesbay has with Chesbay Acquisition and notified Chesbay that it had assigned to OHMC its right to purchase the assets of Chesbay's business that were the subject of the

Purchase Agreement on substantially the same terms, conditions, and purchase price set forth in the Purchase Agreement. (1st Am. Compl. ¶ 43).[6]

MillerCoors commenced this action on September 12, 2012. The complaint that MillerCoors originally filed in this Court (Docket No. 1) sought a declaratory judgment and other relief only for breach of contract. On September 18, 2012, however, Chesbay filed a complaint with the Virginia Department of Alcoholic Beverage Control (the "Virginia ABC Complaint")[7] alleging that the Distributor Agreement violates Virginia law. Thereafter, on September 21, 2012, MillerCoors filed its First Amended Complaint with this Court claiming that the interpretation of Virginia law advocated by Chesbay in its Virginia ABC Complaint would conflict with MillerCoors' rights as a trademark owner under the Lanham Act. Previously, Chesbay's Virginia ABC Complaint had been accompanied by correspondence requesting an expedited hearing because "[t]he question facing Chesbay Distributing Company is whether Virginia ABC is capable of resolving the state law issues or whether it would be better to let the federal court decide the state law issues." (Docket No. 24-3). On October 4, 2012, Virginia ABC informed Chesbay that it could not hear Chesbay's claims on a expedited basis.[8] The very next day, Chesbay instead asked this Court to "resolv[e] the state law issues promptly" by filing its Rule 12(b)(6) motion to dismiss. (Docket No. 17). Notwithstanding the pendency of Chesbay's MTD, Chesbay has since indicated that—regardless of how this Court decides the

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[6] A copy of MillerCoors' September 12, 2012 exercise of the ROFR is attached as **Exhibit D**.

[7] A copy of Chesbay's Virginia ABC Complaint is already on file with this Court. (Docket No. 24-3).

[8] A copy of an October 4, 2012 email from Virginia ABC on the subject "Chesbay Distributing Company v. MillerCoors LLC" is attached as **Exhibit E**.

issues of state law that it has raised in the Eastern District of Virginia—it will proceed with its efforts to get a "second opinion" from Virginia ABC.[9]

Under the APA, Chesbay was scheduled to close the sale of its business a week ago today, on October 12, 2012 (1st Am. Compl. ¶ 37; APA § 2.1). Since the filing of the Complaint, Chesbay has refused to stipulate not to proceed with the sale until this Court determines the enforceability of the ROFR and the alleged conflict with Virginia law that Chesbay now hypothesizes.[10] According to its counsel, however, Chesbay did not proceed with the closing as originally scheduled on October 12, 2012—while apparently reserving the right to do so at any time before the Court rules.[11]

III. <u>PROCEDURAL STANDARD</u>

To survive Chesbay's Rule 12(b)(6) motion to dismiss, MillerCoors' Complaint need only "contain sufficient factual matter, accepted as true, to 'state a claim to relief that is plausible on its face.'" *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007)). In evaluating the sufficiency of MillerCoors' allegations, the Court may consider not only the Complaint but also "documents incorporated into the complaint by reference, and matters of which a court may take judicial notice." *Tellabs, Inc. v. Makor Issues & Rights, Ltd.*, 551 U.S. 308, 322 (2007); *see also E.I. du Pont de Nemours & Co. v. Kolon Indus., Inc.*, 637 F.3d 435, 448 (4th Cir. 2011).

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[9] *See* October 17, 2012 exchange of emails on the subject "Draft scheduling order Chesbay v. MillerCoors" attached as **<u>Exhibit F</u>** and October 18, 2012 email on the subject "scheduling order" attached as **<u>Exhibit G</u>**.

[10] *See* October 1, 2012 exchange of emails on the subject "Activity in Case 3:12-cv-00659-HEHVAED MillerCoors LLC v. Chesbay Distributing Company Order" attached as **<u>Exhibit H</u>**.

[11] *See* October 12, 2012 exchange of emails on the subject "APA Closing Date" attached as **<u>Exhibit I</u>**.

IV. ARGUMENT

A. The Complaint States a Claim for Breach of Contract Because Chesbay Violated the ROFR and Attempted to Transfer the Distributor Agreement Without Consent.

MillerCoors has stated a valid breach of contract claim against Chesbay because it alleges violation of the ROFR provisions contained in Sections 8.8.3 and 8.8.4 of the Distributor Agreement. Chesbay's affirmative defense—that the ROFR is unenforceable because it conflicts with BFA Section 4.1-507A—is devoid of any merit. On its face, BFA Section 4.1-507A does not address ROFRs. Instead, it only refers to consent. Only if MillerCoors did not exercise the ROFR would the issue of consent even arise. So BFA Section 4.1-507A does not apply here. Even if it did, the factual allegations of the Complaint are insufficient to establish that MillerCoors unreasonably withheld or delayed consent in violation of BFA Section 4.1-507A.

1. The ROFR is not subject to BFA Section 4.1-507A because it arises before the time for consenting to a proposed transfer.

No provision of the BFA prohibits MillerCoors from having a ROFR. In particular, BFA Section 4.1-507A does not even address—much less purport to prohibit—any such right. This is entirely consistent with the very nature of a ROFR. The ROFR is exercised before the brewery would be required to either give or withhold its consent to a proposed transfer of a wholesaler's business. As the Third Circuit observed in assessing the enforceability of a ROFR under a nearly identical statute applicable to automobile dealerships, the "meaningful and clear dissimilarities between a consent requirement and a [ROFR]" logically mean "that the exercise of a [ROFR] is not a withholding of consent." *Crivelli*, 215 F.3d at 394. The court's analysis in *Crivelli* could not be more on point.

The *Crivelli* court recognized the critical distinction between ROFRs and consent statutes in addressing whether General Motors' exercise of a ROFR in a motor vehicle franchise agreement violated a Pennsylvania statute that—like the Virginia statute at issue here—provided

that a manufacturer shall not "unreasonably withhold consent to the sale, transfer or exchange of the franchise to a qualified buyer capable of being licensed as a new vehicle dealer in this Commonwealth." 215 F.3d at 390 (quoting Pa. Stat. Ann. tit. 63 § 818.9(b)(3) (1991)). After analyzing the history of state franchise laws, consent statutes, and rights of first refusal—and the purpose underlying each—the Third Circuit rejected the argument that General Motors' exercise of its right of first refusal constituted a withholding of consent under the Pennsylvania statute. *Id.* at 389-92. Because the Board of Vehicles Act contained no reference to rights of first refusal, the court concluded there was "little reason to believe that the Pennsylvania legislature intended the Act to effect a marked change" from the traditionally authorized rights of first refusal. *Id.* at 391. The court also observed "there are legitimate reasons why a manufacturer would exercise its right of first refusal." *Id.* These include "protect[ing] the manufacturer from being forced into a business relationship with a franchisee who it believes may not represent it in the manner it desires, may not expend sufficient effort to promote its products, and may not have the loyalty to it and its business that it believes necessary to be an integral part of its operation." *Id.* The court refused to "turn away from the common law principle of freedom of contract and impose a reasonableness standard on aspects of a private contract between the manufacturer and dealer that, like the exercise of a right of first refusal, presents little, if any, likelihood of harm to the dealer." *Id.* at 392. "Given the meaningful and clear dissimilarities between a consent requirement and a right of first refusal . . . the exercise of a right of first refusal is not a withholding of consent." *Id.* at 394.

The same is true here. The BFA does not prohibit rights of first refusal. It therefore does not affect the traditional enforceability of ROFRs under common law contract principles. And it would not be expected to do so, because the ROFR does not prejudice the existing distributor.

Moreover, the MillerCoors ROFR is distinct and separate from the consent requirement of BFA Section 4.1-507A and the Distributor Agreement. As set forth in Sections 8.8 and 8.9 of the Distributor Agreement, the ROFR arose before the time for MillerCoors to give or withhold its consent to Chesbay's proposed transfer to Chesbay Acquisition. *See* Distr. Agr. §§ 8.8–8.9. (1st Am. Compl. ¶¶ 28–29, Ex. A). MillerCoors complied with the procedures under the Distributor Agreement for exercising its ROFR, then assigned the ROFR to OHMC, and promptly notified Chesbay of the exercise and assignment to OHMC of its right to purchase Chesbay's assets on the same terms and conditions set forth in the APA. *See* Distr. Agr. §§ 8.8, 8.9, 8.11 (1st Am. Compl. ¶¶ 28–29, 42–43, Ex. A). Thus, Chesbay's obligation under the Distributor Agreement to proceed to close the proposed transfer of Chesbay's assets to OHMC—the very issue that MillerCoors has raised to this Court by filing its Complaint—arose before, and is unconnected to, the question of whether MillerCoors would consent to a proposed transfer to Chesbay Acquisition. Therefore, as in *Crivelli*, the MillerCoors ROFR "is not a withholding of consent." As such, it is outside the scope of the limited prohibitions of BFA Section 4.1-507A. *See Crivelli*, 215 F.3d at 392; *Hand v. Chrysler Corp.*, 30 F. Supp. 2d 667, 672–73 (D. Vt. 1998).

The MillerCoors ROFR is also not subject to BFA Section 4.1-507A because it does not result in the wholesaler being unable to transfer its brands for fair value, and thus does not violate—but actually supports—the primary purpose underlying consent statutes: to protect selling wholesalers. *See Crivelli*, 215 F.3d at 389–92 (discussing the rationale for consent statutes); *Hand*, 30 F. Supp. 2d at 672 (determining that a consent statute was intended to protect a dealer, not a prospective purchaser). *See also* Distr. Agr. §§ 8.8.3, 8.11 (1st Am. Compl. ¶¶ 29–30, Ex. A). Consistent with the objective of BFA Section 4.1-507A, the MillerCoors ROFR permits Chesbay to transfer its brands for the full value that it has negotiated with the

proposed purchaser, and on the same terms. *See Crivelli*, 215 F.3d at 391-92; *Hand*, 30 F. Supp. 2d at 672-73. *See* Distr. Agr. §§ 8.8.3, 8.11 (1st Am. Compl. ¶¶ 29–30, Ex. A). Accordingly, as the Third Circuit further explained in *Crivelli*, a wholesaler like Chesbay "interested in selling its operation is not significantly threatened by the manufacturer's exercise of a right of first refusal, so long as the [wholesaler] receives at least the same compensation as it would have received from the prospective buyer. Unlike termination or the manufacturer's refusal to consent to the sale of the [distributor]ship, a right of first refusal does not destroy the [wholesaler]'s ability to recover its investment should its relationship with the manufacturer turn sour, should it encounter financial difficulties, or should it decide for personal reasons to go elsewhere. In most instances, the [wholesaler] would be largely indifferent to the identity of the new owner." *Crivelli*, 215 F.3d at 392. And this is entirely consistent with the purpose of franchise statutes pertaining to transfers like BFA Section 4.1-507A: to protect a franchisee (*i.e.*, in this case, a wholesaler like Chesbay) that has substantially invested capital into its franchise from being susceptible to unreasonable and unfair conduct by its franchisor. *Id.* at 390–91; *Hand*, 30 F. Supp. 2d at 671–72.

Here, if Chesbay honors the ROFR as it is contractually obligated to do, OHMC will purchase the assets of Chesbay's business on substantially the same terms, conditions, and purchase price set forth in the APA. The MillerCoors ROFR thus avoids the very situation that BFA Section 4.1-507A is designed to prevent: a wholesaler being unable to sell its business at the value negotiated with a prospective purchaser. The prohibitions that BFA Section 4.1-507A impose on a brewery's conduct when giving or withholding consent therefore do not apply here. *See Crivelli*, 215 F.3d at 392; *Hand*, 30 F. Supp. 2d at 672-73.

2. Chesbay cannot establish as a matter of law that the ROFR results in unreasonably withholding or delaying consent.

Even if—under some tortured interpretation—BFA Section 4.1-507A were to apply to the MillerCoors ROFR, Chesbay cannot establish that the ROFR is "unreasonable" as a matter of law within the meaning of the statute. BFA Section 4.1-507A plainly declares that a brewery shall not "***unreasonably*** withhold or delay consent to any transfer of the wholesaler's business . . . whenever the wholesaler to be substituted meets the material and reasonable qualifications and standards required of its wholesalers." Va. Code § 4.1-507A (emphasis added). This unambiguous language does not absolutely prohibit a brewery from withholding or delaying[12] consent to a wholesaler's transfer of business if a distributor is qualified, as Chesbay contends. *See* MTD Mem., p. 7 (MillerCoors "cannot withhold consent . . . if the proposed new wholesaler meets its material and reasonable qualifications and standards"). Rather, BFA Section 4.1-507A bars only a brewery's "unreasonabl[e]" withholding or delay of consent upon a showing that the proposed new wholesaler meets the brewery's reasonable qualifications and standards. Va. Code § 4.1-507A. Chesbay completely ignores the "unreasonabl[e]" term to reach its incorrect conclusion.[13]

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[12] Because the ROFR is on substantially the same terms and conditions as the proposed transaction, OHMC would close on substantially the same closing date as the proposed transaction. Thus, Chesbay cannot show that, as a matter of law, the ROFR is an unreasonable delay under BFA Section 4.1-507A.

[13] There would be no reason for the Virginia General Assembly to have included "reasonableness" in two different places within § 4.1-507A—once pertaining to a brewery's qualifications and standards, and once pertaining to a brewery's withholding or delay of consent—if it actually intended to force a brewery to automatically consenting to a proposed transaction once a proposed purchaser is shown to meet the brewery's material and reasonable qualifications and standards. Thus, because "the words of a statute are chosen with care," and courts "will not read a legislative enactment in a manner that renders any portion of that enactment useless," the only permissible reading of § 4.1-507A that gives meaning to every term is one that allows a brewery to *reasonably* withhold or delay its consent to a transfer of a wholesaler's business, even if the proposed purchaser is qualified. *Riverside Owner, L.L.C. v.*

By giving a brewer this reasonable discretion, the Virginia General Assembly implicitly recognizes the substantial interest a brewer has in the wholesaler that purchases its brands because that wholesaler plays a crucial role in the ability of a brewery like MillerCoors to effectively compete in a given territory. At the critical time when a brewery is determining which distributor will own the rights to distribute ***its own*** brands, a brewery ***should*** have the "unrestricted power to determine those with whom it will deal," and the discretion to determine which wholesaler is best equipped to competitively promote, market, and sell its brands. *See Hand*, 30 F. Supp. 2d at 671.[14]

The case law interpreting analogous statutes fully supports this reading of BFA Section 4.1-507A.[15] For example, in *Eastern of Maine, Inc. v. Vintners Group Ltd.*, 455 A.2d 936, 942-43 (Me. 1983), the court applied a statute nearly identical to BFA Section 4.1-507A and found that a franchisor did not unreasonably withhold consent by refusing consent based on its legitimate business reasons, even though all the proposed purchasers were qualified under the statute. *See also Lubbock Beverage Co. v. Miller Brewing Co.*, No. CIV.A.5:01-CV-124-C, 2002 WL 31011266 (N.D. Tex. 2002) (interpreting a statute similar to BFA Section 4.1-507A and holding a brewer did not unreasonably withhold its consent because the brewer "enumerated

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City of Richmond, 711 S.E.2d 533, 537 (Va. 2011) (quoting *Antisdel v. Ashby*, 688 S.E.2d 163, 166 (Va. 2010) (internal quotation marks omitted)).

[14] This discretion granted a brewery under BFA Section 4.1-507A stands in stark contrast to the much higher standard of "good cause" that a brewery must satisfy to amend, cancel, terminate, or refuse to continue to renew an agreement with a wholesaler once distribution rights have already been established. Va. Code § 4.1-505. Thus, the General Assembly understandably granted a brewery the ability to reasonably determine the identity of the wholesaler with which it would rather deal based on the brewery's determination as to which wholesaler would best protect and distribute its brands. This discretion in appointing a beer distributor is particularly important because of the high burden required to later change that designation.

[15] No Virginia court opinion was found interpreting the meaning of "unreasonabl[e]" in the context of BFA Section 4.1-507A.

several legitimate business reasons for withholding its approval of [the] asset sale to [the buyer], any one of which was sufficient" to withhold consent). Thus, because the exercise of the ROFR is for the purpose of having in place the wholesaler that MillerCoors believes is the best to protect and promote its brands, and therefore to strengthen the competitiveness of MillerCoors brands in the market, thereby inuring ultimately to the benefit of retailers and consumers, it is not unreasonable as § 4.1-507A requires to establish a violation. In fact, it is reasonable *per se*.

The MillerCoors ROFR is also reasonable because it fulfills the purpose of BFA Section 4.1-507A, to protect a wholesaler's investment in its business, by ensuring that Chesbay receives full and fair value when it sells its business. *See Crivelli*, 215 F.3d at 392. Chesbay should "be largely indifferent to the identity of [its] new owner." *Crivelli*, 215 F.3d at 392. Accordingly, because Chesbay will, in fact, sell its assets to OHMC when it complies with the ROFR, MillerCoors "did not unreasonably withhold consent to the sale" of Chesbay's business. *See Hand*, 30 F. Supp. 2d at 672–73.[16]

The Court should deny Chesbay's motion to dismiss MillerCoors' breach of contract claim because Chesbay does not—and cannot—establish that BFA Section 4.1-507A applies to the MillerCoors ROFR. Even if the statute did apply, Chesbay does not—and cannot—show that, as a matter of law, the MillerCoors ROFR constitutes an unreasonable withholding or delay of consent to the transfer of Chesbay's business prohibited by BFA Section 4.1-507A.

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[16] In *Hand*, a U.S. district court assessed an automobile dealer act prohibiting a manufacturer from "unreasonably withhold[ing] consent to the sale, transfer or exchange of" the franchise to a qualified buyer capable of being licensed as a new motor vehicle dealer. 30 F. Supp. 2d at 672–73. It found that an automobile manufacturer's exercise of its right of first refusal was not an unreasonable withholding of consent because it did not prevent the dealer from receiving fair compensation for its business when the dealer in fact sold its business to the manufacturer's assignee chosen after the exercise of the right of first refusal. *Id.*

3. MillerCoors' exercise and assignment of the ROFR will not result in unlawful ownership or control of a beer wholesaler.

Nor is there any conflict between the ROFR and BFA Section 4.1-223(2), to which Chesbay's MTD refers—along with Section 4.1-208(1)[17]—as the "Statutory Prohibitions on Brewery Control of a Wholesaler." (MTD Mem., p. 4). Whenever a brewery appoints a new beer wholesaler, it "controls" who that wholesaler will be. By exercising the ROFR, MillerCoors merely selects which wholesaler will purchase Chesbay's business and be the assignee of the valuable distribution and trademark license rights granted by the Distributor Agreement. In exchange for the valuable distribution rights and trademark licenses granted by MillerCoors, Chesbay acknowledged in Section 8.5 of the Distributor Agreement that "MillerCoors has a legitimate interest in the identity of any successor to Distributor's distribution rights with respect to the Products." (1st Am. Compl., Ex. A).

No provision of the BFA precludes MillerCoors from deciding with whom it will do business in the first instance. Rather, the BFA governs MillerCoors' relationships with its beer wholesalers once they have been appointed. The ROFR does not give MillerCoors the ability to affect any other aspect of the sale—such as forcing Chesbay to sell its business or dictating the terms of any such sale. Moreover, the ROFR does not result in MillerCoors owning a controlling interest in the distributorship because OHMC—not MillerCoors—will own and control Chesbay's business after it is sold. MillerCoors' exercise of the ROFR and assignment of its rights to OHMC therefore will ***not*** result in the "grant [of] any . . . wholesale beer license . . . to any entity owned . . . by a manufacturer . . ." (Va. Code § 4.1-223(2)) except as permitted by Va.

[17] Section 4.1-208(1) addresses the grant of brewery licenses. Section 4.1-208(3) addresses the grant of wholesale beer licenses. Neither provision has any application to MillerCoors' exercise of the ROFR.

Code § 4.1-216. OHMC, not MillerCoors, will be the applicant for and holder of any such wholesale beer license.

B. Chesbay's Unprecedented Interpretation of the BFA Would Create an Unwarranted and Unnecessary Conflict With Federal Trademark Law.

If interpreted in accordance with its plain language, BFA Section 4.1-507A does not conflict with the MillerCoors ROFR or any other provision of the Distributor Agreement for the reasons previously discussed. And if BFA Section 4.1-507A is interpreted in accordance with its plain language, the Virginia statute also does not conflict with federal trademark law. Only if this Court were to adopt Chesbay's unprecedented interpretation of BFA Section 4.1-507A would this Court even need to reach the issue of Lanham Act preemption. Because Chesbay's interpretation of BFA Section 4.1-507A finds no support in the statute itself, this Court can and should avoid "seeking out conflicts between state and federal regulation where none clearly exists." *Huron Portland Cement Co. v. City of Detroit*, 362 U.S. 440, 446 (1960).

Although the Court may not and should not even need to reach the Lanham Act issues raised by the Complaint, dismissal at this juncture would be inappropriate for at least three reasons. First, if Chesbay were to proceed with the transaction contemplated by the APA, both Chesbay and the "Purchaser" identified in the APA would be violating the Lanham Act. The fact that certain affiliates of the Purchaser may be licensed to use the MillerCoors Trademarks elsewhere does not mean that the Purchaser is entitled to use them in Chesbay's "Licensed Territory"—where MillerCoors has never licensed the newly formed Purchaser or any of its affiliates to use these trademarks. By proceeding with the transaction contemplated by the APA, Chesbay would also be liable for contributory infringement in violation of Section 32(1) of the Lanham Act. Under that scenario, MillerCoors would be entitled not only to a declaratory

judgment but also to all the other remedies afforded by the Lanham Act. These include an award of damages, injunctive relief, costs, and attorneys' fees against Chesbay.

The second reason that dismissal would be improper is that such forced licensing of the MillerCoors trademarks would be preempted by the Lanham Act. The case for Lanham Act preemption was articulated by Chesbay's own counsel in recent proceedings at Virginia ABC. This conclusion is supported by the plain language of the Lanham Act and by the rationale of various decisions of the Fourth Circuit, the Second Circuit, the Third Circuit, and the Seventh Circuit—which actually reversed one of the lower court decisions upon which Chesbay's MTD attempts to rely.

The third reason that dismissal would be improper is that the Twenty-First Amendment does not immunize all state regulation of the distribution of alcoholic beverages. The U.S. Supreme Court, the Fourth Circuit, and the Virginia Supreme Court have all invalidated various alcoholic beverage statutes because they conflicted with constitutional and statutory provisions. Chesbay's MTD cites no authority—because there is none—for the proposition that the repeal of Prohibition somehow authorized states to confiscate and commandeer the intellectual property rights of manufacturers of alcoholic beverages.

An expanded description of the reasons that dismissal of MillerCoors' Lanham Act claims would be improper follows. As a preliminary matter, however, there is no merit to the suggestion that MillerCoors' Lanham Act preemption claim is limited to two short paragraphs or that Chesbay is unsure of the basis for that claim.

1. Chesbay has full and fair notice as to the basis upon which MillerCoors claims Lanham Act preemption.

In attacking the sufficiency of Count II, Chesbay's MTD neglects to address the factual and legal allegations that ¶ 51 of the Complaint incorporates by reference. These include the following:

- allegations of fact regarding MillerCoors' licensing to Chesbay of the MillerCoors Trademarks in connection with the distribution of the MillerCoors Brands in the Licensed Territory pursuant to the Distributor Agreement (1st Am. Compl. ¶¶ 1, 2, 13-17);
- identification of provisions of the Lanham Act and cases construing it that restrict the use of registered trademarks to the trademark owner and its licensees and permit the trademark owner to control the use of its trademarks by licensees—and in fact require the trademark owner to do so (1st Am. Compl. ¶¶ 18-21);
- allegations of fact regarding the specific provisions of the Distributor Agreement by which Chesbay agreed to respect the rights of MillerCoors as the owner of the MillerCoors Trademarks (1st Am. Compl. ¶¶ 22-23);
- identification of provisions of the Lanham Act and cases construing it that grant MillerCoors the right to control the identity of licensees (or refuse to license its trademarks altogether) (1st Am. Compl. ¶ 24);
- allegations of fact regarding the specific provisions of the Distributor Agreement whereby Chesbay acknowledged that its licensed to use the MillerCoors Trademarks was "limited, non-assignable and non-transferable" (Section 9.2) and agreed not to assign or transfer the license without following the procedures set forth in Section 8 (1st Am. Compl. ¶¶ 25-33); and
- allegations of fact regarding the ways in which, by entering into the APA, Chesbay breached its contractual obligations to MillerCoors and violated MillerCoors' rights under the Lanham Act (1st Am. Compl. ¶¶ 34-43).

The foregoing allegations, along with the allegations of Count I ("Lanham Act Trademark Infringement and Unfair Competition") (1st Am. Compl. ¶¶ 45-50), set forth the factual and legal predicate for Count II's allegations of Lanham Act preemption.

While ignoring the foregoing allegations of the Complaint, Chesbay's MTD also feigns uncertainty as to exactly which provision of state law would—if interpreted in the way that

Chesbay advocates—conflict with the Lanham Act. Both in fact and as a matter of law, Chesbay is on notice that the provision of Virginia law at issue is BFA Section 4.1-507A. Chesbay itself identified this statutory provision in the August 30, 2012 correspondence to which ¶ 34 of the Complaint refers as "Chesbay's Admission of Breach."[18] This August 30, 2012 correspondence from Chesbay stated that "[o]ur attorney, Walter Marston, has advised that the portions of the MillerCoors distributor agreement to which your recent communication made reference are fundamentally contrary to Virginia law" and identified the statute in question as BFA Section 4.1-507A. BFA Section 4.1-507A is also identified in Chesbay's own September 18, 2012 Virginia ABC Complaint, the filing that prompted the September 21, 2012 amendment whereby MillerCoors added its Lanham Act claims. Last but not least, the provision of Virginia law at issue is specifically identified in Chesbay's MTD. Under the circumstances, it strains credulity for Chesbay's MTD to suggest that the Complaint fails to provide "'fair notice of what the . . . [Lanham Act] claim is and the grounds upon which it rests.'" *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555 (2007) (quoting *Conley* v. *Gibson*, 355 U.S. 41, 47 (1957)). But if Chesbay is truly unsure as to exactly which provision of the BFA is at issue here, the appropriate remedy would be amendment—not the dismissal that Chesbay now seeks. *See generally* 5A Charles Allen Wright & Arthur R. Miller, *Federal Practice & Procedure* § 1357, at 733–43 (3d ed. 2004).

Chesbay's MTD also professes to see no apparent conflict between BFA Section 4.1-507A and the rights afforded Lanham Act owners. Chesbay's own counsel saw the obvious conflict earlier this year, however, in a Virginia ABC proceeding involving a virtually identical

[18] Pursuant to Rule 12(b)(6), this document that the Complaint incorporates by reference is properly considered for purposes of Chesbay's MTD. *Tellabs*, 551 U.S. at 308.

provision of the Virginia Wine Franchise Act, Va. Code §§ 4-1-400 – 4.1-418 (the "WFA").[19] In that Virginia ABC proceeding—*Cobblestone Cellars, LLC v. Cantine Riondo, S.p.a., Grape Solutions, Inc., and Riondo USA, LLC*—a Virginia wine wholesaler contended that the WFA provided for the transfer of its distribution rights notwithstanding the winery's objection. The winery's counsel, counsel for Chesbay in its Virginia ABC Complaint, responded that "[i]f that contention had any merit, it would raise fundamental constitutional issues and pose a substantial likelihood of conflict with the federal Lanham Act which protects the rights of trademark holders . . . ."[20] If BFA Section 41-507A deprived MillerCoors of the ability to control who is permitted to use its federally registered trademarks, it too would conflict with the Lanham Act as Chesbay's counsel recently argued. And if Chesbay and its Purchaser were to proceed with the transaction contemplated by the APA, both would be liable under the Lanham Act.

2. <u>The Purchaser's unlicensed use of the MillerCoors Trademarks would constitute trademark infringement and unfair competition.</u>

The fact that the Purchaser of Chesbay's beer distribution business identified in the APA is under common ownership with beer distributorships owned by Reyes is irrelevant to the issues before the Court. Equally irrelevant is Reyes' commentary that it has more than $19 billion in annual sales—making it roughly twice the size of MillerCoors. (<u>Docket No. 24</u>) (p. 5 of 19). For purposes of the Lanham Act, the issue is ***not*** whether Reyes' might makes right. Rather, the

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[19] BFA Section 41.-507A is identical to a provision of the WFA, Va. Code § 4.1-408A, except for the substitution of the word(s) "winery(ies)" for "brewery(ies)."

[20] *See* May 21, 2012 correspondence entitled "Request for Urgent Hearing on Motion to Dismiss" attached as **<u>Exhibit J</u>**. In May 24, 2012 correspondence with the same title, attached as **<u>Exhibit K</u>**, counsel for the winery—counsel for Chesbay in the Virginia ABC Complaint—similarly stated that the wholesaler's "claim if accepted would in effect require the [Wine Franchise] Act to override Riondo's rights under the Lanham Act." And in a subsequent June 15, 2012 filing in the same proceeding, a copy of which is attached as **<u>Exhibit L</u>**, counsel for the winery argued that the wholesaler's interpretation of the WFA "would have section 408 overriding Riondo's property rights, which include those persons who wish to engage in commerce by selling the wineries [sic] products bearing the wineries [sic] trademarks."

issue is whether Reyes' newly formed affiliate has been authorized by MillerCoors to use the MillerCoors Trademarks in Chesbay's Licensed Territory. The fact that other affiliates of Reyes have been licensed to use the MillerCoors Trademarks elsewhere does ***not*** mean that Reyes' newly formed affiliate can do so wherever it wants without the express written consent of MillerCoors. In this regard, the Web site referenced in Reyes' recent court filing proclaims that "Reyes Beverage Group distributorships are among the leading distributors of Boston Beer,[21] Corona, Diageo-Guiness [sic],[22] Dogfish Head Craft Brewery, Heineken USA, MillerCoors, New Belgium, Pabst, Sierra Nevada, and Yuengling beer brands." (http://reyesholdings.com/beer_division.html). The fact that various Reyes affiliates have been granted these distribution rights elsewhere does not mean that—in the cities and counties of Tidewater that comprise Chesbay's Licensed Territory—Reyes is automatically entitled to distribute those brands and use the trademarks that identify them.

Chesbay's MTD disputes the allegation of ¶ 19 of the Complaint that the Lanham Act, 15 U.S.C. §§ 1051 and 1055, prohibits any use of a federally registered trademark by anyone except the registrant and a "related company." *See* MTD Mem., p. 13. This allegation is in fact true as a matter of law. If MillerCoors permitted the MillerCoors Trademarks to be used by those that have not been licensed to do so, or if MillerCoors licensed the MillerCoors Trademarks pursuant to so-called "naked licenses" that did not preserve its ability to control its licensees' use, MillerCoors' trademark rights would be deemed abandoned.[23] Conversely, use of the

[21] Boston Beer's flagship brand is SAMUEL ADAMS BOSTON LAGER®.

[22] The Diageo-Guinness brands that Reyes distributes include GUINNESS®, HARP®, SMITHWICK'S ALE®, and RED STRIPE®.

[23] *See, e.g.*, *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959); *Turner v. HMH Pub. Co.*, 380 F.2d 224 (5th Cir. 1967); *Ky. Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368, 387 (5th Cir. 1977); *Oberlin v. Marlin Am. Corp.*, 596 F.2d

MillerCoors Trademarks by anyone other than a licensee whose use is "controlled by" the trademark owner (15 U.S.C. § 1127) is infringing as a matter of law.[24]

It is hornbook law that, to distribute the MillerCoors Brands in Chesbay's Licensed Territory, Chesbay's Purchaser would need to be licensed by MillerCoors to use the MillerCoors Trademarks. Under the Lanham Act, "a [trademark] license [is] needed when the manufacturer of branded goods permits a dealer to hold itself out as an 'authorized' dealer, repair outlet, and the like." *See* 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 18:41 (4th ed. 2004). The right of any beer wholesaler to use the MillerCoors Trademarks is "defined by the valid terms of the trademark license." *Id.* at § 25:30 (footnotes omitted). "Any sales of goods or services under the mark which are outside the area of consent granted in the license are regarded as infringements of the mark." *Id.* Any use outside the scope of the license—just like unlicensed use—constitutes infringement. This basic proposition of trademark law is the subject of numerous reported decisions.[25] The Lanham Act jurisprudence is also clear that the trademark

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1322, 1327 (7th Cir. 1979); *Edwin K. Williams & Co. v. Edwin K. Williams & Co.-East*, 542 F.2d 1053, 1059–60 (9th Cir. 1976).

[24] *See, e.g.*, *Cobra Capital LLC v. LaSalle Bank Corp.*, 455 F. Supp. 2d 815, 820 (N.D. Ill. 2006); *CNB Fin. Corp. v. CNB Cmty. Bank (IO)*, No. 03-6945, 2004 U.S. Dist. LEXIS 21483, *18–19 (E.D. Pa. Sept. 29, 2004).

[25] *See, e.g., Brennan's Inc. v. Dickie Brennan & Co.*, 376 F.3d 356, 364 (5th Cir. 2004) ("With regard to licenses, the prevailing view is that one who exceeds the scope of the license is potentially liable not just for breach of the license agreement but also for trademark infringement."); *E.G.L. Gem Lab Ltd. v. Gem Quality Inst., Inc.*, 90 F. Supp. 2d 277, 293 (S.D.N.Y. 2000) ("[T]he use of a licensed mark beyond the scope of the license may deceive the public into thinking that the licensee is authorized to provide the goods or services offered under the mark when in truth it is not.") (footnote and citation omitted); *Bunn-O-Matic Corp. v. Bunn Coffee Serv.*, 88 F. Supp. 2d 914, 923 (C.D. Ill. 2000) ("A trademark license is the limited grant of a right to use another's property interest and is limited to the grant in the license."); *Hard Rock Café Int'l (USA) Inc. v. Morton*, No. 97 Civ. 9483, 1999 U.S. Dist. LEXIS 8340 (S.D.N.Y. June 2, 1999) ("Also weighing in favor of a finding of likelihood of confusion is the fact that infringement occurred as a result of conduct by a licensee beyond the scope of a license agreement.").

owner can legitimately prohibit a licensee from assigning its rights or selling a majority of its voting stock. *Superior Bedding Co. v. Serta Associates, Inc.*, 353 F. Supp. 1143 (N.D. Ill. 1972).[26]

These basic principles of federal trademark law explain why MillerCoors is entitled to the declaratory judgment that it seeks in Count I. Count I alleges that consummation of the transaction contemplated by the APA would make the Purchaser liable for trademark infringement in violation of Section 32(1) of the Lanham Act, 15 U.S.C. § 1114(1) and for unfair competition in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). (1st Am. Compl. ¶¶ 45, 47, 48). By distributing the MillerCoors Brands without a license from MillerCoors to use the MillerCoors Trademarks, the Purchaser would be causing confusion or mistake that it is authorized by MillerCoors to do so. Such confusion as to "authorization" is actionable under both Section 32(1) and Section 43(a) of the Lanham Act because "[t]he unauthorized use of a trademark … has the effect of misleading the public to believe that the user is sponsored or approved by the registrant can constitute infringement." *Burger King Corp. v. Mason*, 710 F.2d 1480, 1492 (11th Cir. 1983).[27] Both before and after consummation of the transaction contemplated by the APA, the Lanham Act entitles MillerCoors to preliminary and permanent injunctive relief pursuant to 15 U.S.C. § 1116. And if the Purchaser were to infringe the MillerCoors Trademarks, Chesbay would also be liable for contributory infringement in violation of Lanham Act Section 32(1), 15 U.S.C. § 1114(1). *See Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982); *Transdermal Prods. v. Performance Contract Packaging*,

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[26] *See also Miller v. Glenn Miller Prods.*, 454 F.3d 975, 992 (9th Cir. 2006); *CLT Logistics v. River West Brands*, 777 F. Supp. 2d 1052, 1066 (E.D. Mich. 2011); *Tap Publ'ns, Inc. v. Chinese Yellow Pages (New York) Inc.*, 925 F. Supp. 212 (S.D.N.Y. 1996).

[27] *See also 7-Eleven, Inc. v. Spear*, No. 10-cv-6697, 2011 U.S. Dist. LEXIS 21298, *16–17 (N.D. Ill. Mar. 3, 2011); *Bunn-O-Matic Corp.*, 88 F. Supp. 2d at 922.

943 F. Supp. 551, 552-54 (E.D. Pa. 1996); *Power Test Petroleum Distributors, Inc. v. Manhattan & Queens Fuel Corp.*, 556 F. Supp. 392, 394 (E.D.N.Y. 1982). Chesbay would thus be liable for damages, costs, and attorneys' fees pursuant to 15 U.S.C. §§ 1114 and 1117.

3. **Section 45 of the Lanham Act does not permit Virginia to force MillerCoors to license its trademarks to Chesbay's Purchaser.**

Section 45 of the Lanham Act also contains language that expresses congressional intent to preempt inconsistent state laws. Specifically, Section 45 states that among the purposes of the Lanham Act is "to protect registered marks used in interstate commerce from interference by State, or territorial legislation." 15 U.S.C. § 1127. Chesbay's MTD questions whether Section 45 of the Lanham Act ***really*** preempts inconsistent state law. The Fourth Circuit, however, is among the federal courts that have recognized that "[t]he express terms of § 45 of the [Lanham] Act . . . provide for its preemption of state law." *Spartan Food Systems, Inc. v. HFS Corp.*, 813 F.2d 1279, 1284 (4th Cir. 1987).[28]

Ignoring *Spartan Food Systems* and similar cases, Chesbay's MTD instead seeks to rely upon a "sound bite" from the Fourth Circuit's decision in *Mobil Oil Corp. v. Virginia Gasoline Marketers & Automotive Repair Ass'n*, 34 F.3d 220 (4th Cir. 1994). In *Mobil Oil*, the Fourth Circuit held that certain provisions of the Virginia Petroleum Product Franchise Act known as "S.B. 235" ***were*** preempted by the federal Petroleum Marketing Practices Act (the "PMPA"). *Id.* at 225–26. Having already found PMPA preemption, the Fourth Circuit thus did not need to decide the merits of Mobil's Lanham Act claim. The *dicta* in which the Fourth Circuit did

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[28] *See also Am. Auto. Ass'n v. AAA Ins. Agency, Inc.*, 618 F. Supp. 787, 798 (W.D. Tex. 1985) ("[S]tate law cannot defeat or limit in any way the protection given to federally registered marks under the Lanham Act."); *Davidoff Extension S.A. v. Davidoff Comercio E Industria Ltda.*, 747 F. Supp. 122, 127 (D.P.R. 1990) ("Through 15 U.S.C. § 1127, Congress has established the policy of prohibiting state interference with those rights afforded to federally registered trademarks.").

address Mobil's Lanham Act claim, at least in passing, are not really helpful to Chesbay's cause. To the contrary, the Fourth Circuit found that S.B. 235 did not conflict with the Lanham Act because it did ***not*** govern, *inter alia*, "the right to use franchisors' registered marks." *Id.* at 226. In this case, there is no question that—if interpreted in the manner that Chesbay now advocates—BFA Section 4.1-507A ***would*** govern "the right to use franchisors' registered marks." The conflict with federal trademark law that the Fourth Circuit found missing in *Mobil Oil* is unquestionably present here—as it was in *Spartan Food Systems*.

Equally unhelpful to its cause is Chesbay's reliance on the Third Circuit's decision in *Mariniello v. Shell Oil Co.*, 511 F.2d 853 (3d Cir. 1975). In *Mariniello*, the Third Circuit found no Lanham Act preemption of a New Jersey common law requirement of "good cause" for franchise termination. Consistent with the scope of permissible state regulation recognized in *Mariniello*, the BFA requires "good cause" for termination. Va. Code § 4.1-508. That provision presents no conflict with but instead preserves MillerCoors' right to enforce quality control standards. On its face, BFA Section 4.1-507A contains no provision that forces MillerCoors to license its trademarks to Chesbay's "Purchaser" or to permit distribution of its products without a trademark license. But if interpreted in the way that Chesbay now advocates, BFA Section 4.1-507A would be preempted under the very standard articulated by the Third Circuit in *Mariniello*: "If state law would permit … infringing on the guarantee of exclusive use to federal trademark holders, then the state law would, under the Supremacy Clause, be invalid." 511 F.2d at 858.

Last but not least, Chesbay's MTD attempts to rely upon the district court's decision in *FMS, Inc. v. Volvo Construction Equipment North America, Inc.*, No. 00 C 8143, 2007 U.S. Dist. LEXIS 19517 at *18 (N.D. Ill. Mar. 20, 2007). In *FMS*, the district court found no Lanham Act preemption of a state statute that effectively forced the manufacturer to license a dealer to use a

trademark that it had not previously been authorized to use. Chesbay's MTD neglects to mention, however, that this decision was reversed on appeal.[29] Instead, the Seventh Circuit held the scope of any protected franchise was limited to the previously granted trademark license. *FMS, Inc. v. Volvo Constr. Equipment N. Am., Inc.*, 557 F.3d 758 (7th Cir. 2009).

4. Virginia law should be interpreted to reconcile the Twenty-First Amendment and the Lanham Act.

As Justice Powell pointed out in *California Liquor Dealers v. Midcal Aluminum*, 445 U.S. 97 (1980), "there is no bright line between federal and state powers over liquor . . . . The competing state and federal interests can be reconciled only after careful scrutiny of those concerns in a 'concrete case.'" *Id.* at 110 (citation omitted). Rule 12(b)(6) obviously does not permit the "careful scrutiny" and evidentiary record necessary to reconcile the "competing state and federal interests" about which Justice Powell spoke.

Even in the context of alcoholic beverage regulation, the Supremacy Clause means that federal intellectual property law preempts inconsistent state law—if, for example, an unwarranted interpretation of state law necessitates such preemption. In *Capital Cities Cable v. Crisp*, 467 U.S. 691 (1984), the Supreme Court invalidated an Oklahoma statute that required cable television operators to delete alcoholic beverage advertisements before retransmitting the signals to subscribers. The basis for the Supreme Court's holding in *Capital Cities Cable* was preemption by federal communications and copyright law. *Id.* at 694.

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[29] In another decision cited in Chesbay's MTD—which was later vacated—the district court, having found preemption by the Copyright Act, found no Lanham Act preemption. *Storer Cable Comm'ns v. City of Montgomery*, 806 F. Supp. 1518 (M.D. Ala. 1992), *vacated*, 866 F. Supp. 1376 (M.D. Ala. 1993).

Here in Virginia, federal and state courts have found certain state alcoholic beverage control laws to be preempted or otherwise inconsistent with federal law.[30] In this case, however, the Court need not reach such a conclusion—unless Chesbay's attempt to expand the scope of BFA Section 4.1-507A makes consideration of preemption necessary.

V. CONCLUSION

The alleged conflict between the ROFR and BFA Section 4.1-507A upon which Chesbay's MTD is based finds no support in the plain language of either the contract or the statute. It has not been recognized in any reported decisions. And similar arguments have been rejected under similar circumstances. This Court should reach the same result by denying Chesbay's MTD.

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[30] *See*, *e.g.*, *TFWS, Inc. v. Franchot*, 572 F.3d 186 (4th Cir. 2009); *Heublein, Inc. v. Va. Dept. of Alcoholic Beverage Control*, 376 S.E.2d 77, 79–81 (Va. 1989).

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 19th day of October 2012, a true and accurate copy of the foregoing MILLERCOORS' OPPOSITION TO CHESBAY'S MOTION TO DISMISS was filed with the Clerk of Court using the CM/ECF system, which will send a notification of such filing (NEF) to the following counsel of record:

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