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

MILLERCOORS LLC,

Plaintiff,

v. **Civil Action No.: 2:12-cv-530**

CHESBAY DISTRIBUTING CO., INC.

Defendant.

CHESBAY DISTRIBUTING CO., INC.'S
MEMORANDUM IN SUPPORT OF ITS MOTION TO DISMISS

Defendant, Chesbay Distributing Co., Inc. ("Chesbay"), by counsel and, pursuant to Fed. R. Civ. P. 12(b)(6), respectfully submits this Memorandum in Support of its Motion to Dismiss the Amended Complaint ("Complaint") filed by Plaintiff, MillerCoors LLC ("MillerCoors").

I. INTRODUCTION

This action arises from Chesbay's desire to sell its beer wholesale business. MillerCoors seeks to stop that transaction by relying on provisions of the parties' Distributor Agreement (Am. Compl., Exh. 1-4) that conflict with and are superseded by controlling provisions of the Virginia Beer Franchise Act. Apparently recognizing the folly in this argument, MillerCoors seeks to avoid application of the Virginia Beer Franchise Act based on a concocted Lanham Act preemption claim that likewise fails as a matter of law. Finally, MillerCoors' hypothetical future trademark infringement claim should also be dismissed. For these reasons, Chesbay respectfully requests that the Court dismiss the Complaint, with prejudice, and award other appropriate relief, including attorneys' fees and costs.

II. FACTUAL BACKGROUND

MillerCoors is a brewer of beer and other malt beverage products that it sells to a network of independent wholesale distributors, including Chesbay, across the United States. (Am. Compl., ¶ 13.) Pursuant to a March 2, 2009, Distributor Agreement between MillerCoors and Chesbay (the "Distributor Agreement"), Chesbay is the exclusive wholesale distributor of the MillerCoors Brands in the Cities of Chesapeake, Newport News, Norfolk, Poquoson, Portsmouth, Virginia Beach, and Williamsburg and the Counties of James City and York. (Am. Compl., ¶¶ 1, 14.) MillerCoors uses the same form distributor agreement for beer wholesalers throughout the United States, and that form was used to generate the subject Distributor Agreement between MillerCoors and Chesbay. (Am. Compl., ¶ 16.)

The Distributor Agreement explicitly incorporates the Virginia Beer Franchise Act (Va. Code Ann. Section 4.1-500 *et seq.*) (the "Beer Franchise Act") as well as all other applicable Virginia laws. Section 13.2 of the Distributor Agreement provides:

> This Agreement shall be governed by the valid applicable laws of [Virginia], without regard for any provisions regarding conflicts or choice of law. Except for any provisions prohibiting or restricting agreements to refer disputes to binding arbitration, ***the laws, rules, and regulations of such jurisdiction existing as of the effective date are incorporated in this Agreement only to the extent that such laws, rules, and regulations are lawfully required to be so incorporated, and to such extent shall supersede any conflicting provision of this agreement.***

Distributor Agreement, § 13.2 (emphasis added) (the "Virginia Law Provision").[1] In other words, the parties expressly incorporated applicable laws, including the Beer Franchise Act, into

[1] Under Virginia law, contracts are understood to incorporate those laws that exist at the time of formation. *See Buchanan v. Doe*, 246 Va. 67, 72, 431 S.E.2d 289, 292 (1993). In addition, the Beer Franchise Act expressly applies to "all agreements in effect on or after January 1, 1978." Virginia Code § 4.1-501. The parties entered into the Distributor Agreement in March of 2009. (Am. Compl., ¶ 1.) Accordingly, the Beer Franchise Act is required by law to be incorporated into the Distributor Agreement, is expressly incorporated into the Distributor Agreement by

the Distributor Agreement just as if the parties had written the language in the Distribution Agreement, and these grafted provisions supersede any conflicting terms of the Distributor Agreement.

Of particular importance to this motion is Section 507A of the Beer Franchise Act (the "Limited Right to Withhold Consent"), which is made part of the Distributor Agreement by virtue of the Virginia Law Provision:

> ***No brewery shall unreasonably withhold or delay consent to any transfer of the wholesaler's business, or transfer of the stock or other interest in the wholesalership, whenever the wholesaler to be substituted meets the material and reasonable qualifications and standards required of its wholesalers.*** Whenever a transfer of a wholesaler's business occurs, the purchaser shall assume all the obligations imposed on and succeed to all the rights held by the selling wholesaler by virtue of any agreement between the selling wholesaler and one or more breweries entered into prior to the transfer.

Virginia Code § 4.1-507A (emphasis added). The Distributor Agreement also expressly incorporates other Virginia laws, such as Virginia Code §§ 4.1-223 and 4.1-208(1) (together, the "Statutory Prohibitions on Brewery Control of a Beer Wholesaler").

On August 28, 2012, Chesbay entered into an Asset Purchase Agreement (Exhibit A) to sell its assets to another wholesale beer distributing company. (Am. Compl., ¶ 34.) By letter dated September 6, 2012, MillerCoors asserted that by executing the Asset Purchase Agreement, Chesbay had breached the Distributor Agreement, specifically Sections 8.8, 8.8.3, 8.8.4, and 8.11. (Am. Compl., ¶¶ 41-42.)

MillerCoors asserts that Section 8.8 of the Distributor Agreement requires Chesbay to "deliver to MillerCoors a bona fide nonbinding letter of intent…" if it negotiates a sale of its distributorship to a third party. (*See* Am. Compl., ¶ 28.) Ignoring the Limited Right to Withhold

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virtue of the Virginia Law Provision, and "supersede[s] any conflicting provision of [the Distribution Agreement]."

Consent that is grafted into the Distributor Agreement by virtue of the Virginia Law Provision, Chesbay relies on Section 8.8.3 of the Distributor Agreement (the "Superseded Right of First Refusal"), which provides, "Upon receipt of the Letter of Intent, MillerCoors shall have the irrevocable right and option to purchase that portion of [Chesbay's] business that is subject of the Letter of Intent…." (*See also* Am. Compl., ¶ 29.) Section 8.8.4 purports to add consequences to the Superseded Right of First Refusal:

> [Chesbay] may not enter into any agreement with a third party that would have the effect of depriving MillerCoors of its right of exclusive negotiation under Section 8.7 or its right of first refusal under this Section 8.8 and shall promptly rescind or terminate any such agreement. Failure to comply with this provision shall subject [Chesbay] to action under Section 10.2.7.

Finally, Section 8.11 (the "Superseded Assignment Provision") purports to allow MillerCoors to assign both its alleged right of exclusive negotiation and its alleged right of first refusal to a third party of its choosing. These provisions, when read together, would effectively give MillerCoors complete control over the sale of Chesbay's business, in violation of controlling provisions of the Beer Franchise Act, including the Limited Right to Withhold Consent (Va. Code § 4.1-507A) and the Statutory Prohibitions on Brewery Control of a Beer Wholesaler (Va. Code §§ 4.1-223 and 208(1)). (*See also* Am. Compl., ¶ 30.)

By letter dated September 12, 2012, MillerCoors notified Chesbay that it would exercise its Superseded Right of First Refusal and assign to OHMC LLC its right to purchase the assets of Chesbay's business that were the subject of the Asset Purchase Agreement. (Am. Compl., ¶¶ 34, 43.) MillerCoors filed this action the same day.

MillerCoors' Complaint attempts to state three causes of action, two under the Lanham Act for infringement and preemption (Counts I and II, respectively) and one alleging breach of

the Distribution Agreement (Count III). MillerCoors has failed to state valid causes of action in all three counts.

III. ARGUMENT

A. Standard of Review

A motion to dismiss under Rule 12(b)(6) tests the legal sufficiency of a Complaint. *Giarratano v. Johnson*, 521 F.3d 298, 302 (4th Cir. 2008). To survive a 12(b)(6) motion, "a complaint must 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 Atlantic Corp. v. Twombly*, 550 U.S. 544, 570 (2007)). In deciding a motion to dismiss, a court "is not bound to accept as true a legal conclusion couched as a factual allegation." *Iqbal*, 556 U.S. at 679.

Courts may consider exhibits attached to the Complaint in deciding a Rule 12(b)(6) motion. *United States ex rel. Constructors. Inc. v. Gulf Ins. Co.*, 313 F. Supp. 2d 593, 596 (E.D. Va. 2004) (*citing* 5A Charles A. Wright & Arthur R. Miller, Federal Practice and Procedure § 1357, at 299 (2d ed. 1990), *cited with approval in Anheuser-Busch v. Schmoke*, 63 F.3d 1305, 1312 (4th Cir.1995)). A Court may dismiss a breach of contract claim pursuant to Rule 12(b)(6) if, having given due consideration to plaintiff's factual allegations, the Court finds that the contract is unambiguous with respect to all of plaintiff's breach of contract allegations. *Levinson v. Massachusetts Mutual Life Insurance Co.*, 2006 U.S. Dist. LEXIS 83397 (E.D.Va. 2006) (*applying Stewart v. Pension Trust of Bethlehem Steel Corp.*, 12 F.App'x 174 (4th Cir. 2001)); *accord Turbomin AB v. Base-X, Inc.*, 2009 U.S. Dist. LEXIS 33886, 5-6 (W.D. Va. Apr. 15, 2009). Moreover, where a conflict exists between "the bare allegations of the complaint and any attached exhibit, the exhibit prevails." *Gulf Ins. Co.*, 313 F. Supp. 2d. at 596 (*citing Fayetteville Investors v. Commercial Builders. Inc.*, 936 F.2d 1462, 1465 (4th Cir.1991)).

B. MillerCoors Fails to State a Claim for Breach of the Distributor Agreement (Count III)

1. The Beer Franchise Act is Incorporated into and Supersedes Any Conflicting Provisions in the Distributor Agreement

As a Virginia statute governing the subject matter of the Distributor Agreement, the Beer Franchise Act is incorporated into the Distributor Agreement as a matter of law. *See, e.g., Maxey v. Am. Casualty Co. of Reading, Pa.*, 180 Va. 285, 290, 23 S.E.2d 221, 223 (1942).[2] Moreover, the Beer Franchise Act is also incorporated by virtue of the Virginia Law Provision as if the Beer Franchise Act were grafted verbatim into the Distributor Agreement. *See, e.g., Gibbs v. PFS Invs., Inc.*, 209 F. Supp. 2d 620, 624, n.1 (E.D. Va. 2002) (language incorporated by reference into agreement has same effect as if it were actually included in agreement). Thus, the Beer Franchise Act is binding on the parties as both a Virginia statute governing their business relationship and as a contractual provision. Moreover, pursuant to the Virginia Law Provision, the Beer Franchise Act expressly supersedes any conflicting provision of the Distributor Agreement.

2. MillerCoors Fails to State a Claim for Breach of Contract Because It Has Not Alleged that Chesbay Has Failed to Meet the Requirements of the Act

The Beer Franchise Act, specifically the Limited Right to Withhold Consent (Va. Code § 4.1-507A), limits a brewery's rights with regard to any transfer of a wholesaler's business,

[2] In *Goldin v. Goldin*, 538 S.E.2d 326 (Va. Ct. App. 2000), the Virginia Court of Appeals applied a child support statute for a support argument, holding that "[o]ne of the basic rules of construction of contracts is that the law in force at the date of making a contract determines the rights of the parties under the contract." *Id.* at 331 (citing *Paul v. Paul*, 203 S.E.2d 123, 125 (1974)); *see also Smith v. Smith*, 589 S.E.2d 439, 443 (Va. Ct. App. 2003); *Wright v. Commonwealth*, 636 S.E.2d 489, 491 (Va. Ct. App. 2006). Statutes in force at the time of contract formation have likewise been enforced upon business-related contracts. *See, e.g.*, *Marriott v. Harris*, 368 S.E.2d 225 (Va. 1988) (imposing statutorily created obligations in a conflict between subdivision lot purchasers, developers, and lenders); *S.H. Hawes & Co. v. Wm. R. Trigg Co.*, 65 S.E. 538 (Va. 1909) (regarding creditors' rights in a foreclosure sale).

providing that the brewery, in this case MillerCoors, shall not "unreasonably withhold consent to any transfer … Whenever the wholesaler to be substituted [i.e., the purchaser] meets the material and reasonable qualifications and standards required of [the brewery's] wholesalers." In other words, MillerCoors is obligated to give prompt, fair, and reasonable consideration to the qualifications of the proposed new wholesaler, and cannot withhold consent to the transfer if the proposed new wholesaler meets its material and reasonable qualifications and standards. *See id.* Accordingly, Chesbay's ***only*** statutory obligation under the Beer Franchise Act and ***only*** contractual obligation under the Distributor Agreement in connection with its proposed sale of its business was to provide MillerCoors with information necessary to evaluate the qualifications of the new wholesaler to which it proposed to transfer its business. There is no allegation that Chesbay failed to provide MillerCoors such information. To the contrary, MillerCoors acknowledges that by letter dated August 30, 2012, Chesbay notified MillerCoors that it had entered into the Asset Purchase Agreement and provided MillerCoors with a copy of the Asset Purchase Agreement (Am. Compl., ¶ 34.). In response to Chesbay's August 30 letter, on September 6, 2012, MillerCoors notified Chesbay of its position that the Asset Purchase Agreement breached the Distributor Agreement and that MillerCoors was considering whether to exercise its alleged right of first refusal. (Am. Compl., ¶42.) MillerCoors then purported to exercise its alleged right of first refusal to assign the contract to OHMC, LLC on September 12, 2012. (Am. Compl., ¶ 43.) There is no allegation that MillerCoors questioned, challenged, or otherwise considered whether the proposed purchaser met the material and responsible qualifications and standards MillerCoors requires of its wholesalers in the five weeks since Chesbay gave notice. Therefore, MillerCoors has failed to state a claim for breach of the Distributor Agreement.

3. MillerCoors' Claim of Breach is Based on Superseded Provisions and Fails As a Matter of Law

To state a claim for breach of contract under Virginia law,[3] MillerCoors must assert: (a) a legally enforceable obligation of defendant to plaintiff; (b) defendant's violation of that obligation; and (c) injury or damage to the plaintiff caused by the breach of that obligation. *Filak v. George*, 267 Va. 612, 594 S.E.2d 610, 614 (2004). MillerCoors does not allege that Chesbay violated any legally enforceable obligation with regard to the proposed sale.

MillerCoors relies entirely on superseded provisions of the Distributor Agreement in support of its breach of contract claim. (*See* Am. Compl., ¶¶ 28-31 (citing to Distributor Agreement §§ 8.8, 8.8.3, 8.11, and 8.8.4.)) Specifically, MillerCoors asserts that Chesbay was obligated to present MillerCoors with a non-binding letter of intent within five days of signing and at least 90 days prior to the proposed closing (Am. Compl., ¶ 28 (referencing Distributor Agreement § 8.8)); that MillerCoors had an irrevocable right and option to purchase that portion of Chesbay's business subject to the letter of intent on the terms stated in the letter of intent (Am. Compl., ¶ 29 (referencing Distributor Agreement § 8.8.3)); that MillerCoors could assign its rights under Sections 8.6, 8.7, and 8.8 to a third party of its choosing (Am. Compl., ¶ 30 (referencing Distributor Agreement § 8.11)); and that Chesbay was not entitled to enter into an agreement that would have the effect of depriving MillerCoors of its right of first refusal under Section 8.8 of the Distributor Agreement (Am. Compl., ¶ 31 (referencing Distributor Agreement § 8.8.4)). *See also* Am. Compl., ¶ 41 (alleging that Chesbay breached the Distributor Agreement by entering into a binding Asset Purchase Agreement, which, MillerCoors contends, "deprives MillerCoors of its [right of first refusal] under Section 8.8.3 of the Distributor Agreement.").

[3] Virginia law applies to claims under the Distributor Agreement pursuant to a choice of law provision contained in Section 13.2.

MillerCoors does not allege that the proposed purchaser failed to meet the material and reasonable qualifications required of MillerCoors' wholesalers. *See* Va. Code § 4.1-507A. Instead, the provisions on which MillerCoors relies are inconsistent with and go well beyond the Limited Right to Withhold Consent (Va. Code § 4.1-507A), and would effectively grant MillerCoors complete control over the identity of the purchaser, notwithstanding the qualifications of Chesbay's proposed buyer. Such an attempt to gain control over the identity of the proposed new wholesaler is an exercise of power far in excess of that granted by the Limited Right to Withhold Consent and is therefore directly in conflict with the Beer Franchise Act and Virginia law. Since the provisions MillerCoors cites directly conflict with controlling Virginia law, under Section 13.2 of the Distributor Agreement, the cited provisions are of no effect and cannot support MillerCoors' breach of contract claim. Therefore, the Court should dismiss Count III, with prejudice.

C. MillerCoors' Lanham Act Preemption Claim (Count II) Fails as a Matter of Law

Apparently recognizing the fatal implications of the Beer Franchise Act, as grafted into the Distributor Agreement, MillerCoors seeks to void the Beer Franchise Act with a one-sentence claim that the Lanham Act, 15 U.S.C. §1051 *et seq*., and the Supremacy Clause of the United States Constitution would preempt *any* state law that restricts MillerCoors' absolute right to exercise unfettered control over its distributors. (Am. Compl., ¶ 52) Federal courts considering this argument have uniformly rejected it as a matter of law. The Beer Franchise Act is consistent with the Lanham Act, but even if the two acts were considered to be in conflict, the Twenty-First Amendment to the United States Constitution preserves the states' rights to regulate who distributes alcohol within their borders. Further, MillerCoors' Count II does not

state a claim upon which relief can be granted, but rather seeks an advisory opinion on a matter not properly put before this Court.

1. MillerCoors' Single-Sentence Preemption Claim Fails to State Claim for Which Relief May Be Granted and Should Be Dismissed.

MillerCoors' claim in Count II for preemption of "any state law" (Am. Compl., ¶¶ 51-52) cannot survive the requirements of Rule 12(b)(6), and therefore should be dismissed. For the Court's convenience, Chesbay sets forth Count II, in its entirety:

> 51. MillerCoors hereby incorporates by reference the allegations of ¶¶ 1 through 50.
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> 52. Any state law requirement that MillerCoors permit Chesbay to assign its license to use the MillerCoors Trademarks without the prior written consent of MillerCoors would be preempted by the Supremacy Clause and the Lanham Act.

(Am. Compl., ¶¶ 51-52.)

As a threshold matter, Count II does not set forth a separate claim entitling MillerCoors to any relief. In contrast to the requirements of *Iqbal* and *Twombly*, Count II is devoid of *any* allegation of misconduct, but rather seeks broad preemption of any unidentified state law that would be impacted. (Am. Compl., ¶ 52.) This statement is neither factual in nature, nor a legal claim, but merely MillerCoors' opinion as to a potential legal question. As such, Count II is insufficient to state a claim and must be dismissed as a matter of law. *Boy Blue, Inc. v. Zomba Recording, LLC et al*, No. 3:09-CV-483, 2009 U.S. Dist. LEXIS 84988, at *7 (E.D. Va. Sept. 16, 2009) (holding that plaintiff's "allegations are simply sterile legal conclusions that 'are not entitled to the assumption of truth,'" and granting motion to dismiss) (quoting *Iqbal*, 129 S. Ct. at 1950)).

Even if construed as a separate claim seeking a declaratory judgment, Count II still fails as a matter of law. The Fourth Circuit recently emphasized that the Declaratory Judgments Act,

28 U.S.C. § 2201, "is remedial only and neither extends federal courts' jurisdiction nor creates any substantive rights." *CGM, LLC v. BellSouth Telcoms., Inc.*, 664 F.3d 46, 55-56 (4th Cir. 2011) (citing *Skelly Oil Co. v. Phillips Petroleum Co.*, 339 U.S. 667, 671-72 (1950)); *accord Volvo GM Heavy Truck Corp. v. U.S. Dep't of Labor*, 118 F.3d 205, 210 (4th Cir. 1997). The Court in *CGM* further held that "'a request for declaratory relief is barred to the same extent that the claim for substantive relief on which it is based would be barred.'" *CGM, LLC*, 664 F.3d 55-56 (quoting *Int'l Ass'n of Machinists & Aerospace Workers v. Tenn. Valley Auth.*, 108 F.3d 658, 668 (6th Cir. 1997)). Thus, in *CGM*, the Fourth Circuit affirmed the district court's dismissal of Plaintiff's claims, stating that as the "substantive claims fail … so must [the] Declaratory Judgments Act claim." *CGM, LLC*, 664 F.3d at 56.

2. MillerCoors' Legal Conclusion as to Lanham Act Preemption Is Without Merit and Should Be Dismissed.

Although not directly stated, it appears MillerCoors hopes to preempt the Limited Right to Withhold Consent (Va. Code § 4.1-507A) in order to save the conflicting provisions of the Distributor Agreement upon which it relies in Count III, and thereby to salvage its breach of contract claim. This effort is unavailing because the the Beer Franchise Act does not conflict with the trademark protections afforded by the Lanham Act.

Federal law preempts state law only when Congress intends to "occupy the field" at issue, when a federal statute expressly provides for preemption, or when the federal and state laws are in conflict. *See Cox v. Shalala*, 112 F.3d 151, 154 (4th Cir. 1997). Neither field nor express preemption is at issue in this case and MillerCoors confines its allegation to conflict preemption.[4]

[4] It is "settled" that the Lanham Act does not occupy the field of trademarks. *Attrezzi, LLC v. Maytag Corp.*, 436 F.3d 32, 41 (1st Cir. 2006); *see Mariniello v. Shell Oil Co.*, 511 F.2d 853,

In analyzing whether a state law conflicts with and thus is preempted by a federal statute, the "'starting presumption' is that 'Congress does not intend to supplant state law.'" *Coyne Delany Co. v. Selman*, 98 F.3d 1457, 1467 (4th Cir. 1996) (quoting *NY State Conference of Blue Cross Blue Shield Plans v. Travelers*, 514 U.S. 645, 654–655 (1995)); *accord College Loan Corp. v. SLM Corp.*, 396 F.3d 588, 597 (4th Cir. Va. 2005). Further, "[i]n the area of trademark law, preemption is the exception rather than the rule." *JCW Invs., Inc. v. Novelty, Inc.*, 482 F.3d 910, 919 (7th Cir. 2007); *see Mobil Oil Corp. v. Virginia Gasoline Marketers & Automotive Repair Ass'n*, 34 F.3d 220, 227 (4th Cir. 1994) (applying presumption against preemption in Lanham Act case).

Courts in the Fourth Circuit have validated and applied state laws that, while they may curtail certain rights of a trademark owner, "do[] not govern the appearance of, the ownership of, or the right to use [trademarks]." *Mobil Oil Corp.*, 34 F.3d at 226; *see API v. Cooper*, 681 F.Supp.2d 635, 648 (E.D.N.C. 2010) (finding unpersuasive any argument that Lanham Act preempts state law because challenged state law "erodes the quality control necessary for a mark owner to protect his trademark image"). In contrast, the Lanham Act preempts only those state

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857 (3d Cir. 1975) (finding "unpersuasive" a franchisor's contention that states are "prohibited by the mere existence of the Lanham Act from all lawmaking relating to trademarks"); *see also La Chemise Lacoste v. Alligator Co., Inc.*, 506 F.2d 339, 346 (3rd Cir. 1974) ("[T]he Lanham Act generally does not preempt state regulation of trademarks … ."). And courts have consistently rejected efforts to read the Lanham Act's general statement of purpose, 15 U.S.C. § 1127, as manifesting Congress's intent to preempt state law. *See Mobil Oil Corp. v. Virginia Gasoline Marketers & Automotive Repair Ass'n*, 34 F.3d 220, 226 (4th Cir. 1994); *Mariniello v. Shell Oil Co.*, 511 F.2d 853, 858 (3d Cir. 1975); *Am. Petroleum Inst. v. Cooper*, 681 F. Supp. 2d 635, 648 n.9 (E.D.N.C. 2010). The only Lanham Act provision that expressly preempts state law is 15 U.S.C. § 1121, which explicitly precludes states from requiring alteration of a registered mark or its display from the manner contemplated in the certificate of registration. *Mobil Oil*, 34 F.3d at 226 n.3.

laws that are "inconsistent with or would frustrate the objectives of the federal law." *See Mobil Oil Corp.*, 34 F.3d at 226.

In its attempt to gin up a conflict between the Lanham Act and the Beer Franchise Act, MillerCoors asserts incorrectly that the Lanham Act gives it the unilateral, unconditional, and unfettered right to control the identity of the distributor of its products and thus to block any sale of an alcoholic beverage distribution franchise *for any reason*—even when the purchaser otherwise meets the material and reasonable standards and qualifications required of MillerCoors' distributors. *See* Am. Compl., ¶¶ 24, 52. MillerCoors erroneously conflates the rights provided by the Lanham Act to *control the quality* of goods and services in connection with its trademarks, with an alleged right to control *all aspects* of the supply chain and its Distributor Agreement. That is not the law.

MillerCoors incorrectly claims that 15 U.S.C. §§ 1051 and 1055 "prohibit[] any use of the MillerCoors Registered Trademarks by anyone except the registrant, *i.e.*, MillerCoors, and a 'related company.'" Am. Compl., ¶ 19. Notwithstanding MillerCoors' argument, Section 1051 only explains how to apply for a trademark, and Section 1055 only states that the use of a trademark by a "related company" shall inure to the benefit of a registrant and does not invalidate the mark. Neither provision explicitly or impliedly grants trademark holders an absolute right to determine who distributes their trademarked products.

Undaunted, MillerCoors cites to Section 1127, asserting that "[t]he Lanham Act grants MillerCoors the right to refuse to license the MillerCoors Trademarks altogether and to control use of the MillerCoors Trademarks by licensees." (Am. Compl., ¶ 24.) Nothing in this definitional section gives trademark holders an unlimited right to control licensees, as MillerCoors contends. Am. Compl., ¶ 20. If anything, it implies that trademark owners can

control licensees only "with respect to the nature and quality of goods or services." The Fourth Circuit in *Mobil Oil Corp.* expressed its doubt about this section having *any* preemptive effect at all, and further held that "[e]ven if we assume that § 1127 is an expression of intent to preclude state law, rather than a general statement of purpose, protection of 'registered marks' does not encompass a statute … which does not govern the appearance of, the ownership of, or the right to use franchisors' registered marks." 34 F.3d at 226. As the Beer Franchise Act governs none of these aspects of trademark law, it is not inconsistent with or frustrating to the objective of the Lanham Act.

When considering similar laws, the court in *Mariniello v. Shell Oil Co.* explained that "[i]f state law would permit confusing or deceptive trademarks to operate, 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 853, 858 (3d Cir. 1975). Applying this standard, the *Mariniello* court rejected Lanham Act preemption arguments and upheld New Jersey's law requiring "good cause" for franchise termination as a valid and proper exercise of state power. *Id.* Importantly, the court upheld this provision "even though the freedom of a trademark holder to dictate the terms of its licensing arrangement would thereby be curtailed to some degree." *Id.* As the court explained in *Mariniello*:

> Once the state court has declared a clause invalid as violating the public policy of the state, a federal court may not enforce such a term solely because a contract entails the licensing of a federally protected trademark. Thus, Shell could not insert in its dealer agreement or lease a clause otherwise unenforceable under state law -- such as a disclaimer of warranty, a forfeiture, or a usurious interest rate -- and then assert a right to enforce such provision based on its status as a registered trademark owner.

Mariniello, 511 F.2d at 858.

Similarly, other courts have held that "state laws are not preempted even if they operate to compel a mark owner to license its mark, so long as the mark continues to be associated with

the owner's product." *Storer Cable Comm'ns v. City of Montgomery*, 806 F. Supp. 1518, 1540 (M.D. Ala. 1992) (finding no Lanham Act preemption of a cable television ordinance requiring programmers such as ESPN to license programming—including trademarks—to cable companies). Other courts considering analogous state laws giving franchisee-distributors certain rights to operate their businesses contrary to franchisor-manufacturers' whims have been upheld against the same arguments MillerCoors raises here. *See Mobil Oil*, 34 F.3d at 226–27 (statutory prohibitions on minimum hours, maximum stations, and quotas did not prevent Mobil from maintaining quality of its products and services); *API,* 835 F.Supp.2d at 63 (upholding state statute governing products sold by franchisees because it left manufacturers with power to engage in quality control and bring suit to enforce their trademarks); *FMS, Inc. v. Volvo Const. Equipment North America*, 2007 U.S. Dist. LEXIS 19517 at *18 (N.D. Ill. Mar. 20, 2007) (holding that Lanham Act did not preempt state franchise law requiring franchisor to have "good cause" before terminating the franchise agreement);[5] *Kiwanis Intern. v. Ridgewood Kiwanis Club*, 627 F. Supp. 1381 (D.N.J. 1986), *rev'd on other grounds*, 806 F.2d 468 (3rd Cir. 1986) (holding that Lanham Act did not preempt state antidiscrimination law).

Similar to the decisions in *Mobil Oil Corp.* and *Marinello* analyzing state franchise laws, the Beer Franchise Act is a lawful exercise of state power, with the goal of protecting the three-

[5] In *FMS*, the court held:

> Forcing Volvo to license the Volvo mark to FMS, Volvo contended, would run afoul of the Lanham Act because it would interfere with Volvo's right, pursuant to Section 45 of the Lanham Act, to control its registered trademarks. This is simply not true. In order to show discontinuation and good cause, Volvo need only show that the product bearing the Volvo mark is distinct from the Samsung branded excavator. … Volvo's interpretation of the meaning of its trademark would turn trademark law on its head. … [O]ur independent research reveals … that state franchise laws do not directly regulate the same subject matter as the Lanham Act and are therefore not preempted by the Act.

tiered system and preventing a brewery from arbitrarily cancelling its distributor agreements upon transfer by the brewery to another qualified distributor. *See Brooks v. Vassar*, 462 F.3d 341 (4th Cir. 2006) ("Through its ABC Act, ... Virginia regulates the distribution and sale of alcoholic beverages under a three-tier structure. Under this structure, producers and sellers of alcoholic beverages may sell in Virginia only to Virginia-licensed wholesalers, who in turn may sell only to Virginia-licensed retailers, who may then sell to consumers."); Va. Code Ann. § 4.1-507A ("No brewery shall 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."). Indeed, as transfer of Chesbay's assets in conformity with the Beer Franchise Act will maintain the existence of a license that has already been negotiated by the parties,[6] the goods to be sold to the public will maintain the quality control provisions established *by MillerCoors* in the license. Thus, the Beer Franchise Act neither acts to increase the likelihood of consumer confusion, nor governs the appearance of, ownership of, or MillerCoors' right to use its trademarks in such a way that conflicts with the trademark protections afforded by the Lanham Act. MillerCoors' claims to the contrary reflect a misapplication of the Lanham Act, manufactured to distract from the fact that MillerCoors' objections to Chesbay's sale of its assets fail as a matter of law because of Section 507A of the Beer Franchise Act which was grafted into the Distributor Agreement by virtue of the Virginia Law Provision.

[6] Virginia Code § 4.1-507A provides, in pertinent part, "Whenever a transfer of a wholesaler's business occurs, the purchaser shall assume all the obligations imposed on and succeed to all the rights held by the selling wholesaler by virtue of any agreement between the selling wholesaler and one or more breweries entered into prior to the transfer."

3. As a Constitutional Construction of the Lanham Act Is a Viable Option, This Court Should Avoid the Difficult Constitutional Question Whether the Lanham Act is in Conflict with the Twenty-First Amendment of the United States.

The consistent, clear, and reasonable interpretation of the Lanham Act is one that holds that the Beer Franchise Act exists in harmony with its purpose. However, if this Court were to find the statutes in conflict, the Court would then have to tackle the question of whether the Lanham Act is unconstitutional in light of the Twenty-First Amendment of the United States Constitution. The Court should avoid this serious constitutional concern if possible. *See Harris v. United States*, 536 U.S. 545, 555 (2002) ("[W]hen a statute is susceptible of two constructions, by one of which grave and doubtful constitutional questions arise and by the other of which such questions are avoided, [the court's] duty is to adopt the latter.") (quotations omitted); *Norfolk So. Ry. Co. v. City of Alexandria*, 608 F.3d 150, 156–57 (4th Cir. 2010) ("[T]he principle of constitutional avoidance … requires the federal courts to strive to avoid rendering constitutional rulings unless absolutely necessary.") Because a constitutional construction of the Lanham Act is a viable option, based both on precedent and reason, this Court should adopt such an interpretation and dismiss MillerCoors' preemption claims.

The Twenty-First Amendment, which ended Prohibition, was designed to protect certain "core interests" of the States in "'promoting temperance, ensuring orderly market conditions, and raising revenue'" through regulation of the manufacture, distribution, and sale of alcoholic beverages. *Beskind v. Easley*, 325 F.3d 506, 513 (4th Cir. 2003) (quoting *North Dakota v. United States*, 495 U.S. 423, 432 (1990)). Section 2 of the Twenty-First Amendment gives states "virtually complete control over the importation and sale of liquor and the structure of *the liquor distribution system*." *North Dakota*, 495 U.S. at 431 (internal citation omitted) (emphasis added); *see TFWS Inc. v. Franchot*, 572 F.3d 186, 189 n.4 (4th Cir. 2009) (Section 2 "has been

interpreted to give states very broad authority to regulate the sale and *distribution* of alcoholic beverages within their borders") (emphasis supplied).

Part of that control kept within the power of the states is the ability to mandate three-tier systems in accordance with the Twenty-First Amendment. *See Granholm v. Heald*, 544 U.S. 460, 488-89 (2005) (stating that three-tier system is "unquestionably legitimate") (citing *North Dakota*, 495 U.S. at 432)). In any preemption analysis relating to a state law regulating alcoholic beverages, the "court must balance the federal and state interests." *Lebamoff Enterps. Inc. v. Huskey*, 666 F.3d 455 (7th Cir. 2012). While any balancing of federal versus state interests would be a factual question that would not be appropriate for determination at the 12(b)(6) stage, there is a sensible construction of the Lanham Act that avoids such an analysis and constitutional concerns. The Court should adopt that construction and hold that the Lanham Act and Beer Franchise Act are complimentary and not in conflict. As such, this Court should dismiss Count II and find that the Beer Franchise Act is not preempted by the Lanham Act.

D. MillerCoors' Failure to Allege Any Likelihood of Confusion Resulting from Chesbay's Use Is Fatal to Its Lanham Act Infringement Claim (Count I)

The Lanham Act does not preempt the Beer Franchise Act, and MillerCoors has no right to interfere with Chesbay's proposed sale of its business. *See* Parts III.B. and III.C., *supra.* Thus, the Court should also dismiss MillerCoors' claim for trademark infringement and unfair competition set forth in Count I, as it is necessarily dependent on a finding that MillerCoors has a right to prevent Chesbay's sale of its business, including the Distributor Agreement. As explained above, MillerCoors has no such right.

To state a proper claim against Chesbay for trademark infringement under the Lanham Act, 15 U.S.C. § 1114(1) or 15 U.S.C. § 1125(a), MillerCoors must establish that: (1) it owns a valid mark; (2) Chesbay used the mark "in commerce" and without MillerCoors' authorization;

(3) Chesbay used the mark (or an imitation of it) in connection with the sale, offering for sale, distribution, or advertising of goods or services; and (4) Chesbay's use of the mark is likely to confuse consumers. *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 152 (4th Cir. Va. 2012); *see Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252, 259 (4th Cir. 2007). MillerCoors fails to set forth a cognizable infringement claim against Chesbay, because it operates under the licenses contained in the Distribution Agreement.

If, instead of a claim against Chesbay, MillerCoors is really seeking a declaratory judgment that the purchaser of Chesbay's business would be committing infringement if it distributed MillerCoors products following the sale, such a claim fails because (a) MillerCoors does not have the right to prevent the sale; and (b) the purchaser will operate under the same license after the sale. *See* Virginia Code § 4.1-507A ("Whenever a transfer of a wholesaler's business occurs, the purchaser shall assume all the obligations imposed on and succeed to all the rights held by the selling wholesaler by virtue of any agreement between the selling wholesaler and one or more breweries entered into prior to the transfer."). Thus, the Court should dismiss Count I, with prejudice.

This is not a Lanham Act issue, but instead arises under and is controlled by state contract law. "[T]rademark license contract disputes are governed by the general rules of contract interpretation." 3 McCarthy on Trademarks § 18:43 (4th ed. 2012); *Trace Minerals Research, L.C. v. Mineral Res. Int'l*, 505 F. Supp. 2d 1233, 1239 (D. Utah 2007); *McGraw-Hill Cos. v. Vanguard Index Trust*, 139 F. Supp. 2d 544, 552 (S.D.N.Y. 2001). The propriety of a party's contract assignment is not the province of the Lanham Act, and as such, the statute provides no cause of action for such a claim. *See Tap Publs. v. Chinese Yellow Pages*, 925 F. Supp. 212, 217 (S.D.N.Y. 1996) ("Whether Key … had the right to assign it to Tap involve

questions of contract interpretation. The mere fact that a trademark was the subject of the contract does not convert a state-law breach of contract issue into a federal Lanham Act claim.").

The rules for transfer or assignment of the Distribution Agreement are governed by the Distributor Agreement, including the incorporated Beer Franchise Act pursuant to Section 13.2. *See supra* Part III.B.; *Silverstar Enterprises, Inc. v. Aday*, 537 F. Supp. 236, 242 (S.D.N.Y. 1982) (holding that license "dispute should be determined by the principles of contract law, as it is the contract that defines the parties' relationship and provides mechanisms to address alleged breaches thereto. The Lanham Act, in contrast, establishes marketplace rules governing the conduct of parties not otherwise limited"). MillerCoors improperly seeks to stretch the boundaries of trademark law beyond their proper scope, and the Court should dismiss Count I, with prejudice.

IV. CONCLUSION

For the foregoing reasons, Chesbay respectfully requests that the Court enter an Order: (1) granting its Motion to Dismiss; (2) dismissing the Amended Complaint, with prejudice, in its entirety; (3) awarding Chesbay its costs and expenses, including reasonable attorneys' fees; and (4) granting such other, further, and additional relief as is appropriate.

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CERTIFICATE OF SERVICE

I hereby certify that on October 5, 2012, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the following:

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