

Grumpy Cat wins \$700K, but is she happy?

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Coffee addicts and meme fanatics are slightly less caffeinated and slightly less entertained after a California federal district court recently ruled that Grenade Beverage, LLC infringed the intellectual property rights of viral meme sensation Grumpy Cat, when Grenade Beverage sold ground coffee using her name and image in violation of its license agreement with Grumpy Cat's owners.

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The case began back in 2012 when Tardar Sauce was just a newborn kitten with an underbite and feline dwarfism that caused her to look perpetually grumpy. Thanks to the internet's obsession with all things "cat," Tardar Sauce found herself at the center of a meme storm after one of her photos appeared on Reddit. Thereafter, Grumpy Cat was

born, and the world started to learn about the many things she dislikes: being awake, neighbors and intellectual property infringement being just a few examples.

Grumpy Cat Limited, started by Miss Sauce's owners, seeks to promote the Grumpy Cat brand and owns several trademarks and copyrights related to the Grumpy Cat name and image, with over 1,000 products for sale on the website www.grumpycats.com. Notably, the company has collaborated with television and movie behemoths like Fox Broadcasting and Lifetime Television to exploit this valuable intellectual property.

However, not all collaborations have come to a happy conclusion. In 2013, Grenade Beverage entered into a license agreement with Grumpy Cat Limited for the exclusive rights to use Grumpy Cat's name and image on a line of coffee products. The line started with iced coffee products, but when Grenade Beverage expanded into ground coffee, Grumpy Cat Limited sued for copyright and trademark infringement.

The case had a complicated procedural history: a jury trial was held in January 2018, but in accordance with a Final Pretrial Conference Order in December 2017, the parties agreed that the court would decide Grumpy Cat Limited's cybersquatting and accounting claims and Grenade Beverage's counterclaims for declaratory relief of non-infringement of copyright and trademark rights. Also prior to the jury trial, the court had held at the summary judgment stage that there was an issue of fact for the jury to decide as to whether, based on the intent of the parties, a "line of ... coffee products" included or excluded coffee products other than iced coffee."

After a four-day trial, the jury found that the scope of "a line of Grumpy Cat-branded coffee products" was limited to iced coffee and awarded over \$700,000 in favor of Grumpy Cat Limited. Grenade Beverage then sought a declaratory judgment that a licensor cannot sue a licensee for infringement under an exclusive license or, alternatively, that Grumpy Cat Limited could only sue for breach of contract, not infringement. The court held that an exclusive licensee cannot infringe upon the copyrights licensed under the contract, but that it *can* infringe upon copyrights that fall outside the scope of the exclusive license. To decide what products fell within or outside the scope of the license granted, the court needed to determine whether Grenade Beverage had breached a covenant or condition of the contract.

Covenants are promises to do or refrain from doing a specific act. Under California contract law, breach of a covenant will only support a claim for contract damages. On the other hand, conditions limit the scope of an agreed-upon right, and breach of a condition places the licensee outside the scope of that right. This in turn constitutes infringement of the licensor's reserved rights and supports an infringement claim on top of contract damages.

In this case, the jury had determined that the sale of coffee products other than iced coffee went beyond the scope of the exclusive license for a "line of Grumpy Cat-branded coffee products." However, the court then needed to decide whether the phrase "additional products within the Product Category ... that may, upon the Parties' mutual approval, be marketed hereunder" is a covenant or condition. To answer that question, the court reviewed the "four corners" of the agreement to ascertain the mutual intention of the parties. In particular, the court placed weight on the parties' use of the word "in" instead of "to." Under the contract, Grenade Beverage had the right to use the licensed

intellectual property “in” the specified product category as opposed to the right “to” the product category. According to the court, the use of “in” suggested a limited right, whereas “to” would have suggested an all-encompassing right. Therefore, “additional products” was a condition that excluded products other than iced coffee from the scope of the license grant absent mutual approval, which Grenade Beverage had not obtained for ground coffee.

While this case turned on a close reading of the preposition used in one provision in one particular license agreement, California law governs many licensing agreements, so the potential impact of the general holding is broader. This should serve as a strong reminder to those in the licensing field that precise language matters. Grumpy Cat Limited and Grenade Beverage may not have intended to accord product definitional significance to the choice of the word “in” instead of “to.” But that word selection persuaded the court that the parties’ mutual intention was clear from the “four corners” of the agreement, when in fact it might not have reflected Grenade Beverage’s true desire and understanding. As it turns out, the risk of utilizing one preposition instead of another cost Grenade Beverage over \$700,000.

As of June 25, Grumpy Cat Limited filed a motion for an award of approximately \$320,000 in attorneys’ fees based on their successful lawsuit against Grenade Beverage. The TCMA will continue to update you on any significant developments in the case.