

New Questions Raised by Judge Rakoff: Misuse of the ® Symbol and Literal Falsity Examined

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Judge Rakoff is back at it in *Classic Liquor Importers, Ltd. v. Spirits International, B.V.* We previously [blogged](#) about the dangers inherent in sending a cease and desist letter without the concurrent appetite for litigation, a post that was prompted by Judge Rakoff's denial of defendant SPI's motion to dismiss. Most recently, in the same case, Judge Rakoff issued an order on plaintiff Classic Liquor's motion for summary judgment. Judge Rakoff's most recent order includes an interesting analysis of whether misuse of the ® symbol can support a Lanham Act claim, and also sheds further light on how

establishing literal falsity can be frustrated when a statement has more than one reasonable interpretation.

Classic Liquor sought declaratory relief regarding whether its use of the ROYAL ELITE mark infringes on SPI's trademark rights in variations of the term ELIT, which SPI uses in conjunction with its "elit by Stolichnaya" vodka brand.

SPI then counterclaimed for false advertising and unfair competition in violation of the Lanham Act, unfair competition in violation of New York common law, and deceptive trade practices and false advertising in violation of New York General Business Law Sections 349 and 350. All of SPI's counterclaims against Classic Liquor were premised on (1) the inclusion of the ® symbol next to the word "ROYAL" on Classic Liquor's Royal Elite vodka bottle (falsely indicating a trademark registration for ROYAL or ROYAL ELITE), and (2) the inclusion of the words "Since 1867" on the front of the bottle.

Judge Rakoff started with an analysis of whether Classic Liquor's misuse of the ® symbol on its vodka bottle violated the Lanham Act. According to Second Circuit

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precedent, a false advertising claim must reference both a false statement and the false statement must “*pertain to the inherent qualities or characteristics of the good or service in question.*” (Emphasis added.) Judge Rakoff noted that the purpose of federal registration is merely to put the public on notice of the registrant’s ownership of the mark. Based on this, Judge Rakoff held that misuse of the ® symbol “in no way relates to ‘an inherent quality or characteristic’ of its vodka,” and therefore was not actionable under Section 43(a)(1)(B) as a matter of law. For the same reason, Judge Rakoff also held that misuse of the ® symbol could not support the state law counterclaims premised on General Business Law §§ 349 and 350 because each of those claims required the deceptive act be “consumer-oriented.”

Judge Rakoff next considered whether inclusion of the words “Since 1867” in Classic Liquor’s vodka bottles could support SPI’s Lanham Act claims. SPI argued that use of the phrase “Since 1867” was literally false because it implied *either* that Classic Liquors had been making or selling vodka since 1867, *or* that this particular vodka product had been sold since 1867. Classic Liquor defended that the phrase was not literally false because it refers to the “Tashkent distillery” that manufactures its Royal Elite vodka, which has allegedly manufactured vodka since 1867. Relying on the fact that there were three different potential reasonable interpretations, Judge Rakoff noted that what was meant by the phrase “Since 1867” was not unambiguous, and thus could not be literally false. Absent literal falsity, SPI had the burden to establish consumer deception through extrinsic evidence. Because SPI could point to no extrinsic evidence of consumer deception – aside from a single statement from its employee that most consumers would believe the “Since 1867” designation signified that Royal Elite vodka had been sold since 1867 – Judge Rakoff concluded that SPI could not prevail on an “implied falsity” theory of liability, and granted Classic Liquor summary judgment on SPI’s Lanham Act counterclaim.

Significantly, however, relying on differences in the legal standards of liability under the Lanham Act as compared with New York’s General Business Law §§ 349 and 350, Judge Rakoff denied Classic Liquor’s request for summary judgment on those state statutory claims. In contrast to the Lanham Act, General Business Law §§ 349 and 350 do not require extrinsic evidence to demonstrate that consumers perceive an ambiguous statement as misleading. Instead, Sections 349 and 350 apply an objective test focused on whether the practice or advertisement is “likely to mislead a reasonable consumer acting reasonably under the circumstances.” Because extrinsic evidence is not required for the state statutory claims, Judge Rakoff concluded a jury would be entitled to determine whether the “Since 1867” statement on Classic Liquor’s vodka bottle is likely to mislead a reasonable consumer.

Judge Rakoff’s analysis and dismissal of the Lanham Act claims is particularly interesting. First, his holding that misuse of the ® symbol is not actionable under Section 43(a)(1)(B) as a matter of law is at odds with prior Southern District court precedent relied on by SPI (*Perfect Pearl Co. v. Majestic Pearl & Stone, Inc.*, 887 F. Supp. 2d 519 (S.D.N.Y. 2012)), in which the plaintiff sought injunctive relief, but not monetary damages, on the claim. The court in *Perfect Pearl* held the plaintiff was entitled to

injunctive relief under the Lanham Act for misuse of the ® symbol on a theory of literal falsity. The opinion in *Perfect Pearl* noted the requirement that a false statement pertain to an inherent quality or characteristic of the product at issue, but then never squarely addressed why misuse of the ® symbol satisfied this requirement, and even acknowledged that Perfect Pearl had not shown that misuse of the symbol played a substantial role in customers' purchasing decisions. Judge Rakoff first distinguished *Perfect Pearl* on the ground that SPI was seeking both injunctive relief and monetary damages. Further, Judge Rakoff held that to read *Perfect Pearl* as dispensing with the requirement that a literally false statement pertain to an inherent quality or characteristic of the good or service in question would be "inconsistent with the Second Circuit case law by which this Court is bound." At a minimum, after Judge Rakoff's decision there is ambiguity in the Southern District of New York about whether a party may seek purely injunctive relief under the Lanham Act to enjoin misuse of the ® symbol.

Second, Judge Rakoff's suggestion that the "Since 1867" statement could not be "literally false" merely because the statement was susceptible to more than one reasonable interpretation seems incomplete. For example, if each of the three potential reasonable interpretations were literally false, then it should not matter if there are three reasonable interpretations. Notwithstanding, Judge Rakoff's opinion, as drafted, suggests that if a statement is susceptible to more than one reasonable interpretation, the statement cannot be literally false, even if each reasonable interpretation is literally false. Only time will tell whether a finding of literal falsity is precluded any time a statement is susceptible to more than one reasonable interpretation, or whether literal falsity may still be found to exist in a statement susceptible to more than one reasonable interpretation so long as each reasonable interpretation would be literally false.