ESTTA Tracking number: **ESTTA61952**

Filing date: **01/13/2006**

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

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| Proceeding | 91167196 |
| Party | Plaintiff<br>Spirits International, N.V.<br><br>Spirits International, N.V.<br>Worldtrade Center, Unit TM II 19<br>Piscadera Bay Willemstad,<br>NETHERLANDS ANTILLES |
| Correspondence Address | Marie A. Lavalleye<br>Covington & Burling<br>1201 Pennsylvania Avenue, N.W.<br>Washington, DC 20004<br>UNITED STATES<br>trademarks@cov.com |
| Submission | Motion to Suspend for Civil Action |
| Filer's Name | Marie A. Lavalleye |
| Filer's e-mail | trademarks@cov.com |
| Signature | /Marie A. Lavalleye/ |
| Date | 01/13/2006 |
| Attachments | motion.pdf ( 7 pages )<br>exhibits 1 - 4.pdf ( 108 pages )<br>exhibits 5 - 9.pdf ( 107 pages )<br>exhibits 10 - 11.pdf ( 107 pages )<br>exhibits 12 - 18.pdf ( 112 pages ) |

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**
**BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD**

In the Matter of Trademark Application:

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|---|---|---|
| Serial No. | : | 76/604,592 |
| Applicant | : | Russian Federation Treasury Enterprise Sojuzplodoimport |
| Filed | : | July 26, 2004 |
| Mark | : | RUSSIAN VODKA |

Published in the Official Gazette of June 28, 2005, p. TM1341

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| SPIRITS INTERNATIONAL N.V.<br><br>Opposer,<br><br>v.<br><br>RUSSIAN FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT,<br><br>Applicant. | ) | Opp. No. 91167196 |

**OPPOSER'S MOTION FOR SUSPENSION OF PROCEEDINGS**

Opposer, Spirits International N.V. ("SPI"), pursuant to Trademark Rule 2.117(a), 37 C.F.R. § 2.117(a), hereby moves for suspension of this opposition proceeding pending final disposition of the following federal civil action brought more than a year ago by Applicant Russian Federal Treasury Enterprise Sojuzplodoimport ("FTE") against Opposer SPI and other defendants: *Federal Treasury Enterprise Sojuzplodoimport, et al. v. Spirits International N.V., et al.*, Civil Action No. 04-08510 (GBD) (S.D.N.Y. filed Oct. 28, 2004) (the "New York Action").

Under Rule 2.117(a), the Trademark Trial and Appeal Board may suspend proceedings "whenever it shall come to the [Board's] attention that . . . parties to a pending case

are engaged in a civil action . . . which may have a bearing on the case." 37 C.F.R. § 2.117(a). The Board generally does suspend under such circumstances not only to conserve its own time and resources but also because "the federal court's determination is binding on the Board, where the Board's decision is not binding on the court." Gary Krugman, *Trademark Trial and Appeal Board Practice and Procedure* § 3:35 at 122 (2006 ed.). *See also* TBMP § 510.02(a) ("Ordinarily, the Board will suspend proceedings in the case before it if the final determination of the other proceeding will have a bearing on the issues before the Board.").

As Applicant's Answer in this proceeding makes clear, the New York Action involves issues of law and fact that will not only have a bearing on this opposition, but will likely be dispositive of it. For example, the opposition asserts, *inter alia,* that Applicant's proposed certification mark RUSSIAN VODKA is likely to cause confusion, in violation of Section 2(d) of the Lanham Act, with two other RUSSIAN VODKA marks, namely, STOLICHNAYA RUSSIAN VODKA & Design and MOSKOVSKAYA RUSSIAN VODKA & Design, in which Opposer SPI has rights.[1] *See* Opposition ¶¶ 5-10, 13-17. Applicant's only response to these allegations is that Opposer has no rights in these RUSSIAN VODKA marks for two reasons: (1) because Opposer "fraudulent misappropriated" its asserted marks from the Russian Federation (Exhibit 1 (Answer), ¶¶ 9-10, First, Second, and Fifth Affirmative Defenses) and (2) because Opposer's use of the words "Russian Vodka" is deceptive in violation of Sections 2(a) and 2(e)(3) of the Lanham Act (*id.* at ¶ 14, Third, Fourth, and Fifth Affirmative Defenses).

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[1] Allied Domecq International Holdings, B.V. ("Allied Domecq"), a co-defendant in the New York Action, has also filed an Opposition to FTE's application to register RUSSIAN VODKA as a certification mark on the ground, *inter alia,* that such a certification mark would be likely to cause confusion with the STOLICHNAYA RUSSIAN VODKA & Design mark in which Allied Domecq also claims prior rights. *See* Opposition No. 9116599, which Allied Domecq is also seeking to suspend pending final disposition of the New York Action.

These issues are also at the heart of the New York Action -- a fact explicitly acknowledged by Applicant no less than four times in Applicant's Answer:

- Admitting that Opposer claims a reversionary interest in the STOLICHNAYA registrations, but asserting that "any purported ownership interest of Opposer . . . was obtained by fraudulent and illegal conduct," matters that "are the subject of a separate proceeding pending in the United States District Court for the Southern District of New York." Exhibit 1, at ¶ 9.

- Contending that "Opposer fraudulently misappropriated the MOSKOVSKAYA mark" and that "Opposer's fraudulent actions related to the alienation of the rights of the Russian Federation in a number of trademarks, including STOLICHNAYA and MOSKOVSKAYA, are the subject of a separate proceeding pending in the Southern District of New York." *Id.*, at ¶ 10.

- Asserting that "Opposer has no proprietary rights in the certification mark RUSSIAN VODKA or any phrase containing the words RUSSIAN VODKA" and that "Opposer's lack of proprietary interest in the STOLICHNAYA RUSSIAN VODKA & Design, STOLICHNAYA and MOSKOVSKAYA marks is the subject of separate proceedings pending in the District Court for the Southern District of New York." *Id.* at First Affirmative Defense.

- Asserting that "Opposer's use of the MOSKOVSKAYA mark has been and would be fraudulent and unlawful" and that "Opposer's fraudulent and unlawful use of the MOSKOVSKAYA mark is the subject of separate proceedings pending in the District Court for the Southern District of New York." *Id.* at Second Affirmative Defense.

In addition to these explicit acknowledgements of the fact that Applicant FTE asserts claims in the New York Action that are identical to the defenses FTE asserts in this Opposition, it is apparent on the face of the relevant pleadings in the New York Action that this is indeed the case. FTE's original complaint in the New York Action, filed on October 28, 2004, has since been twice amended. The first sentence of the first paragraph of the Second Amended Complaint (Exhibit 2)[2] states that the "action arises out of the defendant's unlawful

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[2] To avoid burdening the Board, Opposer has not included the several hundred pages of exhibits attached to the Second Amended Complaint. Further, Opposer has not provided exhibits (continued...)

misappropriation and unauthorized commercial exploitation in the United States of STOLICHNAYA and related trademarks in connection with the sale of vodka . . . ." Exhibit 2, ¶ 1. It repeatedly alleges that the Russian Federation -- not SPI or Allied Domecq -- is the rightful owner of the STOLICHNAYA and MOSKOVSKAYA marks in the United States. Exhibit 2 (Second Amended Complaint) ¶¶ 11, 25-26, 113.[3] Indeed, the primary theory of the Second Amended Complaint is that, through their allegedly unlawful misappropriation and use of these marks, Opposer SPI and Allied Domecq have defrauded the Russian Federation, *id.* at ¶¶ 114-124, 127-130, 151-154, 180-182.

Applicant FTE also repeatedly alleges in the New York Action that Opposer SPI and Allied Domecq have "misrepresented the source" of the STOLICHNAYA vodkas distributed in the United States by stating on the label that it is "Russian Vodka" and "genuine Russian vodka"," thereby violating Section 2(a) of the Lanham Act, Exhibit 2, at ¶¶ 145-150, 169-175; *see also id.* at ¶¶ 89-94, 117, 123, 132, 181.

Precisely the same claims have now been asserted by FTE in its Answer to the Opposition in this proceeding. As noted above, Applicant's only response to Opposer's likelihood of confusion claim, based on its prior rights in the STOLICHNAYA RUSSIAN VODKA & Design and MOSKOVSKAYA RUSSIAN VODKA & Design marks, is that Opposer has no rights in these marks (1) because Opposer "fraudulent misappropriated" those marks from the Russian Federation (Exhibit 1 (Answer), ¶¶ 9-10, First, Second, and Fifth

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to, or declarations in support of, the other pleadings relating to the New York Action that are referenced herein. Opposer will gladly provide those documents upon request.

[3] Applicant asserts that the Russian Federation "expressly confirm[ed] FTE's right to represent the interests of the Russian Federation in foreign courts on matters of recovery and protection of Russia's rights to trademarks for alcoholic products abroad." Exhibit 2 at ¶ 113.

Affirmative Defenses), and (2) because Opposer's use of the words "Russian Vodka" is deceptive in violation of Section 2(a) and 2(e)(3) of the Lanham Act (*id.* at ¶ 14, Third, Fourth, and Fifth Affirmative Defenses).[4]

Applicant FTE has moved for summary judgment in the New York Action regarding the second of these claims, asserting that "the STOLICHNAYA label and advertisements used by the defendants falsely refer to the vodka as 'Russian Vodka,' . . . [and] 'Product of Russia,'" and that "[t]he STOLICHNAYA vodka currently distributed and advertised in the United States is neither 'Russian Vodka' nor a 'Product of Russia.'" *See* Exhibit 4 (Applicant's Mot. for Summ. J.), at 2 and 13; Exhibit 5 (Applicant's Rule 56.1 Statement of Undisputed Facts in Supp. of Mot. for Summ. J.), ¶¶ 14-25.

Opposer SPI and Allied Domecq have both opposed this motion for summary judgment and have moved to dismiss Applicant's Second Amended Complaint in the New York Action. The parties have extensively briefed these motions, although further briefing is expected. *See* Exhibit 6 (Allied Domecq's Mot. to Dismiss); Exhibit 7 (Applicant's Opp'n to Allied Domecq's Mot. to Dismiss); Exhibit 8 (Allied Domecq's Reply in Supp. of its Mot. to Dismiss); Exhibit 9 (Opposer's Sur-Reply in Opp'n to Allied Domecq's Mot. to Dismiss); Exhibit 10 (Opposer's Mot. to Dismiss); Exhibit 11 (Applicant's Opp'n to Opposer's Mot. to Dismiss); Exhibit 12 (Applicant's Reply in Support of its Mot. to Dismiss); Exhibit 13 (Allied

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[4] Applicant has also served interrogatories on both Opposer and Allied Domecq, the substance of which likewise goes to the same issues raised in the New York Action. For example, Applicant seeks information from Opposer concerning Allied Domecq's ownership of the STOLICHNAYA RUSSIAN VODKA & Design and STOLICHNAYA marks (Interrogs. Nos. 12-15), concerning Opposer's reversionary ownership interest in those marks (Interrogs. Nos. 21-26), and concerning the process by which Opposer's vodkas are made and the origin of those vodkas (Interrogs. Nos. 31-40). Exhibit 3 (Applicant's First Set of Interrogatories to Opposer served on or about December 23, 2005).

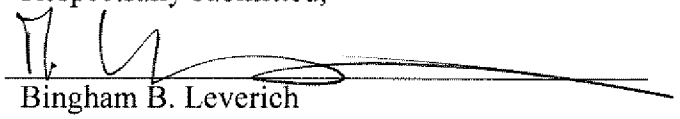
Domecq's Consolidated Submission including Opp'n to Mot. for Summ. J.); Exhibit 14 (Allied Domecq's Counter-Statement of Material Facts); Exhibit 15 (Decl. of Georgy Rolandovich Kipiani); Exhibit 16 (Decl. of Jean Francois Lavigne); Exhibit 17 (Opposer's Joinder in Opp'n to Summ. J.). In addition, the Court in the New York Action has heard oral argument on at least some of these issues. *See* Exhibit 18 (Transcript of Oral Argument held on Apr. 28, 2005 on Allied Domecq's Mot. to Dismiss).

* * *

Because the New York Action raises issues the determination of which will not only have a bearing on this proceeding, but may well be dispositive of it, Opposer SPI respectfully requests that all proceedings, including discovery, be suspended pending final determination of the New York Action. TBMP § 510.02(a). Upon resumption of the proceedings, Opposer requests that the Board set new discovery and trial deadlines, including deadlines to respond to pending discovery requests.

January 13, 2006

Respectfully submitted,



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**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**
**BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD**

In the Matter of Trademark Application:

| | | |
|---|---|---|
| Serial No. | : | 76/604,592 |
| Applicant | : | Russian Federation Treasury Enterprise Sojuzplodoimport |
| Filed | : | July 26, 2004 |
| Mark | : | RUSSIAN VODKA |

Published in the Official Gazette of June 28, 2005, p. TM1341

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| SPIRITS INTERNATIONAL N.V.<br><br>Opposer,<br><br>v.<br><br>RUSSIAN FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT,<br><br>Applicant. | Opp. No. 91167196 |

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing OPPOSER'S MOTION FOR SUSPENSION OF PROCEEDINGS and of the Exhibits attached thereto was served on counsel for the Opposer via first-class mail, postage prepaid, this 13th day of January, 2006 to the following address:

David W. Quinto
QUINN EMANUEL URQUHART OLIVER ET AL
865 South Figueroa Street 10th Floor
Los Angeles, CA 90017

By: 
Marie A. Lavalleye

# EXHIBIT 1

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**
**BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD**

In Re Application to Register Certification Mark of:

Serial No.: 76604592
Applicant: Russian Federal Treasury Enterprise Sojuzplodoimport
Filed: July 26, 2004
For: RUSSIAN VODKA

Published in the Official Gazette of June 28, 2005, p. TM1341

SPIRITS INTERNATIONAL N.V.,

Opposer,

v.

RUSSIAN FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT,

Applicant.

I hereby certify that this correspondence and all marked attachments were sent via electronically to: Commissioner for Trademarks, BOX TTAB, P.O. Box 1451 Alexandria, Virginia, 22313-1451, and to attorney of record for Opposer, Marie A. Lavalleye of Covington & Burling, 1201 Pennsylvania Avenue, N.W., Washington, DC 20004.

December 8, 2005
Date

Brenda Trujillo

Opposition No. 91,167,196

Commissioner of Trademarks
BOX TTAB, P.O. Box 1451
1451 Alexandria, Virginia, 22313-1451

## APPLICANT'S ANSWER TO NOTICE OF OPPOSITION

Applicant, Russian Federal Treasury Enterprise Sojuzplodoimport ("Russian Federal Treasury"), hereby answers Opposer, Spirits International N.V.'s ("Opposer"), Notice of Opposition as follows:

### Answer to Introductory Paragraph

Russian Federal Treasury admits that Opposer is a corporation existing under the laws of the Netherlands and The Netherlands Antilles. Russian Federal Treasury denies that

Opposer will be damaged by registration of RUSSIAN VODKA as a certification mark in International Class A for vodka as shown in Serial No. 76604592.

1. Russian Federal Treasury admits the allegations contained in Paragraph 1 of the Notice of Opposition.

2. Russian Federal Treasury admits the allegations contained in Paragraph 2 of the Notice of Opposition.

3. Russian Federal Treasury admits the allegations contained in Paragraph 3 of the Notice of Opposition.

4. Russian Federal Treasury admits the allegations contained in Paragraph 4 of the Notice of Opposition.

5. Russian Federal Treasury denies that Opposer, through a related company, has supplied Allied Domecq International Holdings B.V. ("Allied Domecq"), its purported licensees and its purported predecessors-in-interest, with vodka sold under the STOLICHNAYA RUSSIAN VODKA & Design mark in interstate commence since 1992. Russian Federal Treasury contends that Allied Domecq does not lawfully own the STOLICHNAYA RUSSIAN VODKA & Design mark and, therefore, has no predecessors-in-interest or valid licensees with respect to it. Further, Opposer and its related companies did not even exist in 1992.

To the extent that Opposer has supplied Allied Domecq and/or its purported licensees with vodka sold under the STOLICHNAYA RUSSIAN VODKA & Design mark, such supply has been fraudulent, illegal, and a contributory false designation of origin. Opposer intentionally induced Allied Domecq to sell vodka in a manner that is deceptive under Section 2(a) of the Lanham Act, and geographically deceptively misdescriptive under Section 2(e)(3) of

the Lanham Act. Vodka unlawfully supplied by Opposer and sold under the STOLICHNAYA RUSSIAN VODKA & Design mark is not made in Russia.

6. Russian Federal Treasury admits that Allied Domecq is the registrant, but denies that Allied Domecq is the owner, of the STOLICHNAYA RUSSIAN VODKA & Design mark and the STOLICHNAYA mark. Opposer fraudulently misappropriated the STOLICHNAYA RUSSIAN VODKA & Design mark and the STOLICHNAYA mark through a series of illegal transfers designed to deprive the Russian Federation of prized symbols of Russia's commercial heritage. Opposer then purported to assign the marks, which were not its property, to Allied Domecq through a purported legal, but not beneficial, assignment. Opposer's purported assignment was, in fact, a mere 10-year license agreement. Opposer's illegal actions related to the alienation of the rights of the Russian Federation in a number of trademarks, including the STOLICHNAYA RUSSIAN VODKA & Design mark and the STOLICHNAYA mark, are the subject of a separate proceeding pending in the United States District Court for the Southern District of New York. Russian Federal Treasury admits that Opposer refers to documents in Paragraphs 6(1) and (2) of the Notice of Opposition, and that these documents speak for themselves.

7. Russian Federal Treasury denies that Allied Domecq, through its purported licensees and predecessors-in-interest, has used the STOLICHNAYA RUSSIAN VODKA & Design mark in interstate commerce in connection with the sale of vodka since at least 1983. Russian Federal Treasury contends that Allied Domecq does not lawfully own the STOLICHNAYA RUSSIAN VODKA & Design mark and, therefore, it has no predecessors-in-interest or valid licensees with respect to it. For the same reason, Russian Federal Treasury denies that Opposer, through a related company, has supplied Allied Domecq, its purported

licensees and its purported predecessors-in-interest with vodka sold under the STOLICHNAYA RUSSIAN VODKA & Design mark in interstate commence since 1992. Further, Opposer and its related companies did not even exist in 1992.

To the extent that Opposer has supplied Allied Domecq and/or its purported licensees with vodka sold under the STOLICHNAYA RUSSIAN VODKA & Design mark, such supply has been fraudulent, illegal, and a contributory false designation of origin. Opposer intentionally induced Allied Domecq to sell vodka in a manner that is deceptive under Section 2(a) of the Lanham Act, and geographically deceptively misdescriptive under Section 2(e)(3) of the Lanham Act. Vodka unlawfully supplied by Opposer and sold under the STOLICHNAYA RUSSIAN VODKA & Design mark is not made in Russia.

8. Russian Federal Treasury denies that Allied Domecq, through its purported licensees and predecessors-in-interest, has used the STOLICHNAYA mark in interstate commerce in connection with the sale of vodka since at least 1967. Because Allied Domecq does not lawfully own the STOLICHNAYA RUSSIAN VODKA & Design mark, it has no predecessors-in-interest or valid licensees with respect to it. For the same reason, Russian Federal Treasury denies that Opposer, through a related company, has supplied Allied Domecq, its purported licensees and its purported predecessors-in-interest with vodka sold under the STOLICHNAYA mark in interstate commence since 1992. Further, Opposer and its related companies did not even exist in 1992.

Russian Federal Treasury admits that since 2002 Allied Domecq, through its purported licensees, has falsely advertised STOLICHNAYA vodka as being "Russian Vodka" or "Genuine Russian Vodka" and has made a false use of the phrase "Russian Vodka." Russian

Federal Treasury admits that prior to 2001 the lawful users of the STOLICHNAYA mark did truthfully make those statements in advertising.

To the extent that Opposer has supplied Allied Domecq and/or its purported licensees with vodka sold under the STOLICHNAYA mark, such supply has been fraudulent, illegal, and a contributory false designation of origin. Opposer intentionally induced Allied Domecq to sell vodka in a manner that is deceptive under Section 2(a) of the Lanham Act, and geographically deceptively misdescriptive under Section 2(e)(3) of the Lanham Act. Vodka unlawfully supplied by Opposer and sold under the STOLICHNAYA mark is not made in Russia.

9. Russian Federal Treasury admits that Opposer claims a reversionary interest in the STOLICHNAYA registrations it has purportedly licensed to Allied Domecq. However, Russian Federal Treasury contends that any purported ownership interest of Opposer and Allied Domecq in the various STOLICHNAYA trademarks and registrations was obtained by fraudulent and illegal conduct. Opposer and Allied Domecq's illegal actions related to the alienation of the rights of the Russian Federation in a number of trademarks, including STOLICHNAYA, are the subject of a separate proceeding pending in the United States District Court for the Southern District of New York.

10. Russian Federal Treasury contends that, following the dissolution of the Soviet Union, Opposer fraudulently misappropriated the MOSKOVSKAYA mark through a series of illegal transfers designed to deprive the Russian Federation of prized symbols of its commercial heritage. Opposer's fraudulent actions related to the alienation of the rights of the Russian Federation in a number of trademarks, including STOLICHNAYA and MOSKOVSKAYA, are the subject of a separate proceeding pending in the United States District

Court for the Southern District of New York. To the extent, if any, that Opposer, through a related company and a purported licensee, has sold vodka under the MOSKOVSKAYA mark and has advertised MOSKOVSKAYA vodka as "Russian Vodka" in the United States, such sale and advertisement has been fraudulent, unlawful, deceptive under Section 2(a) of the Lanham Act, and geographically deceptively misdescriptive under Section 2(e)(3) of the Lanham Act.

Russian Federal Treasury is without knowledge or information sufficient to form a belief as to whether Opposer is the owner of a pending application for a trademark beginning with the words "MOSKOVSKAYA RUSSIAN VODKA," Serial No. 74/614,297. In any event, the prosecution of Application Serial No. 74/614,297 was suspended less than one year after filing. Russian Federal Treasury is without knowledge or information sufficient to form a belief as to whether Opposer is currently using any MOSKOVSKAYA mark in the United States. Russian Federal Treasury is without knowledge or information sufficient to form a belief as to whether Opposer has always had an intention to resume infringing use, and is planning to resume infringing use, of the MOSKOVSKAYA marks in the near future.

11. Russian Federal Treasury admits the allegations contained in Paragraph 11 of the Notice of Opposition. Neither Russian Federal Treasury nor any other instrumentality of the Russian Federation makes any vodka or sells vodka in the United States. The Government of the Russian Federation regulates the production of vodka in the Russian Federation with the participation of Russian Federal Treasury and other state instrumentalities. It authorizes specific distilleries to make specific vodkas according to particular methods. A distillery that wishes to promote its vodka as "Russian vodka" may obtain a certificate from the Russian Patent Office attesting to the place of origin of the vodka as the Russian Federation. To obtain such a certificate, a distillery must declare that the vodka has been produced according to legal

standards. Russian Federal Treasury is in the process of selecting a testing facility to verify that all vodka sold as RUSSIAN VODKA conforms to the legal standards for Russian vodka.

12. Russian Federal Treasury admits that Opposer refers to two documents in Paragraph 12 of the Notice of Opposition, and that these documents speak for themselves.

13. Russian Federal Treasury admits that Opposer refers to a document in Paragraph 13 of the Notice of Opposition, and that the document speaks for itself.

14. Russian Federal Treasury denies that vodka sold by Opposer through its related company, and by Allied Domecq, under the STOLICHNAYA RUSSIAN VODKA & Design and STOLICHNAYA marks, originates within the boundaries of the Russian Federation. Opposer artfully uses the term "originate within the boundaries of the Russian Federation" so as to avoid falsely claiming that vodka sold by Opposer is made within the Russian Federation. Even if some component of vodka unlawfully sold by Opposer and by Allied Domecq "originate[s] within the boundaries of the Russian Federation," Opposer and Allied Domecq's vodka is not made within the Russian Federation. Thus, Opposer and Allied Domecq's use of the phrase "Russian Vodka" is deceptive under Section 2(a) of the Lanham Act and geographically deceptively misdescriptive under Section 2(e)(3) of the Lanham Act.

Russian Federal Treasury admits that vodka illegally sold by Opposer and by Allied Domecq is not certified by Russian Federal Treasury. Russian Federal Treasury admits that at present genuine Russian vodka does not need to be certified to be sold here. Russian Federal Treasury admits that Opposer and Allied Domecq do not intend to seek certification. Because Opposer and Allied Domecq's vodka is not made in the Russian Federation according to the particular requirements for making Russian vodka, Russian Federal Treasury denies that Opposer and Allied Domecq's vodka would meet its product specifications.

15. Russian Federal Treasury is without knowledge or information sufficient to form a belief as to whether Opposer will resume unlawful use of the MOSKOVSKAYA RUSSIAN VODKA mark in the United States and the unlawful and deceptive promotion of MOSKOVSKAYA brand vodkas as "RUSSIAN VODKA." Russian Federal Treasury admits that at present genuine Russian vodka does not need to be certified to be sold here. Russian Federal Treasury admits that Opposer does not intend to seek certification. Because Opposer's vodka is not made in the Russian Federation according to the particular requirements for making Russian vodka, Russian Federal Treasury denies that Opposer's vodka would meet its production specifications.

16. Russian Federal Treasury denies the allegations contained in Paragraph 16 of the Notice of Opposition.

17. Russian Federal Treasury denies the allegations contained in Paragraph 17 of the Notice of Opposition.

18. Russian Federal Treasury admits that Opposer refers to documents in Paragraph 18 of the Notice of Opposition, and that these documents speak for themselves. Russian Federal Treasury admits that Opposer refers to certain purported practices of a number of United States agencies in Paragraph 18 of the Notice of Opposition, and is without knowledge or information sufficient to form a belief as to these practices.

19. Russian Federal Treasury admits that Opposer refers to a document in Paragraph 19 of the Notice of Opposition, and that this document speaks for itself. Russian Federal Treasury admits that Opposer refers to certain purported practices of the United States Custom and Border Protection in Paragraph 19 of the Notice of Opposition, and is without knowledge or information sufficient to form a belief as to these practices.

20. Russian Federal Treasury admits that its proposed certification mark would authorize the Russian Federation to determine whether or not vodka sold in the United States may be advertised or promoted using a "Russian Vodka" certification mark based on whether or not such vodka is in fact made in the Russian Federation according to certain specific methods. The United States recognizes numerous foreign certification marks of this nature. Russian Federal Treasury admits that Opposer refers to a document in Paragraph 20 of the Notice of Opposition, which document speaks for itself.

21. Russian Federal Treasury admits that its proposed certification mark would authorize the Russian Federation to determine whether or not vodka sold in the United States may be advertised or promoted using a "Russian Vodka" certification mark based on whether or not such vodka is in fact made in the Russian Federation according to certain specific methods. The United States recognizes numerous foreign certification marks of this nature. Russian Federal Treasury admits that it has taken the position in a separate proceeding pending in the United States District Court for the Southern District of New York that vodka illegally supplied by Opposer and sold by Allied Domecq under the STOLICHNAYA marks may not lawfully be labeled or promoted as "PRODUCT OF RUSSIA" or "RUSSIAN VODKA" because such vodka is not in fact made in the Russian Federation. Federal Treasury admits that Opposer refers to certain purported practices of the United States Custom and Border Protection in Paragraph 21 of the Notice of Opposition, and is without knowledge or information sufficient to form a belief as to these practices.

22. Russian Federal Treasury denies the allegations contained in Paragraph 22 of the Notice of Opposition.

23. Russian Federal Treasury is without knowledge or information sufficient to form a belief as to whether many companies other than Opposer and Allied Domecq have used or are continuing to use the phrase "Russian Vodka" in connection with the sale of vodka as a designation of the product's origin, with such use beginning before the July 26, 2004 filing date of Application Serial No. 76/604,592, and therefore denies same. Russian Federal Treasury admits that Opposer refers to documents in Paragraphs 23(1) and (2) of the Notice of Opposition, and that these documents speak for themselves. Russian Federal Treasury admits that Opposer refers to other brands of vodka in Paragraph 23 of the Notice of Opposition, and is without knowledge or information sufficient to form a belief as to whether these brands are promoted in the United States as "Russian Vodka" and therefore denies same.

24. Russian Federal Treasury denies that it lacks standing or the lawful right to control the use of the RUSSIAN VODKA certification mark in the United States and that the phrase RUSSIAN VODKA is merely a common, geographical designation of origin that has been used by others prior to the July 26, 2004 filing date of Application Serial No. 76/604,592. Consumers of vodka have a reasonable and justifiable expectation that vodka proclaiming itself "Russian Vodka" is in fact made in the Russian Federation. Russian Federal Treasury, a state-owned corporation that acts at the direction of the Russian Ministry of Agriculture, is legitimately entitled to ensure that vodka advertised as "Russian Vodka" and trading on the Russian reputation for vodka, is in fact made in Russia according to historic standards. Russian Federal Treasury denies the remaining allegations contained in Paragraph 24 of the Notice of Opposition.

25. Russian Federal Treasury denies the allegations contained in Paragraph 25 of the Notice of Opposition.

26. Russian Federal Treasury admits that it and its predecessors-in-interest have not, prior to the alleged illegal use of RUSSIAN VODKA by Opposer, Allied Domecq and others, used the RUSSIAN VODKA certification mark. Neither Russian Federal Treasury nor any other instrumentality of the Russian Federation makes any vodka or sells vodka in the United States. The Government of the Russian Federation regulates the production of vodka in the Russian Federation with the participation of Russian Federal Treasury and other state instrumentalities. It authorizes specific distilleries to make specific vodkas. A distillery that wishes to promote its vodka as "Russian vodka" may obtain a certificate from the Russian Patent Office attesting to the place of origin of the vodka as the Russian Federation. To obtain such a certificate, a distillery must declare that the vodka has been produced according to legal standards. Russian Federal Treasury is in the process of selecting a testing facility that will verify that all vodka sold as RUSSIAN VODKA meets the legal standards for "Russian Vodka."

27. Russian Federal Treasury denies the allegations contained in Paragraph 27 of the Notice of Opposition.

28. Russian Federal Treasury admits the allegations contained in Paragraph 28 of the Notice of Opposition.

29. Russian Federal Treasury admits that Opposer refers to a document in Paragraph 29 of the Notice of Opposition, and that this document speaks for itself. Russian Federal Treasury denies the remaining allegations contained in Paragraph 29 of the Notice of Opposition.

30. Russian Federal Treasury admits that Opposer refers to a document in Paragraph 30 of the Notice of Opposition, and that this document speaks for itself.

31. Russian Federal Treasury admits that Opposer refers to a document in Paragraph 31 of the Notice of Opposition, and that this document speaks for itself. Neither Russian Federal Treasury nor any other instrumentality of the Russian Federation makes any vodka or sells vodka in the United States. The Government of the Russian Federation regulates the production of vodka in the Russian Federation with the participation of Russian Federal Treasury and other state instrumentalities. It authorizes specific distilleries to make specific vodkas. A distillery that wishes to promote its vodka as "Russian vodka" may obtain a certificate from the Russian Patent Office attesting to the place of origin of the vodka as the Russian Federation. To obtain such a certificate, a distillery must declare that the vodka has been produced according to legal standards. Russian Federal Treasury is in the process of selecting a testing facility that will verify that all vodka sold as RUSSIAN VODKA meets the legal standards for "Russian Vodka."

32. Russian Federal Treasury admits that Opposer refers to a document in Paragraph 32 of the Notice of Opposition, and that this document speaks for itself. Russian Federal Treasury denies that it is presently exporting vodka from Russia into the United States, whether under the STOLICHNAYA or any other brand. Neither Russian Federal Treasury nor any other instrumentality of the Russian Federation makes any vodka or sells vodka in the United States.

33. Russian Federal Treasury admits that Opposer refers to a document in Paragraph 33 of the Notice of Opposition, and that this document speaks for itself. Ost-Alco is planning to make and export STOLICHNAYA brand vodka to the United States. Neither Russian Federal Treasury nor any other instrumentality of the Russian Federation makes any vodka or sells vodka in the United States. The Government of the Russian Federation regulates

requested in Application Serial No. 76/604,592, it would be entitled to the presumptions flowing from such registration. Russian Federal Treasury denies the remaining allegations contained in Paragraph 39 of the Notice of Opposition.

**AFFIRMATIVE DEFENSES**

FIRST AFFIRMATIVE DEFENSE

Opposer has no proprietary rights in the certification mark RUSSIAN VODKA or any phrase containing the words RUSSIAN VODKA. Opposer's lack of a proprietary interest in the STOLICHNAYA RUSSIAN VODKA & Design, STOLICHNAYA and MOSKOVSKAYA marks is the subject of separate proceedings pending in the District Court for the Southern District of New York.

SECOND AFFIRMATIVE DEFENSE

Opposer's use of the MOSKOVSKAYA mark has been and would be fraudulent and unlawful. Opposer's fraudulent and unlawful use of the MOSKOVSKAYA mark is the subject of separate proceedings pending in the District Court for the Southern District of New York.

THIRD AFFIRMATIVE DEFENSE

Opposer's use of the phrase "Russian Vodka" or "Genuine Russian Vodka" in connection with the sale of vodka is deceptive under Section 2(a) of the Lanham Act. Opposer's vodka is not made in the Russian Federation.

and/or distiller, to the world market through the use of the certification mark "RUSSIAN VODKA" in connection with vodkas made in the Russian Federation according to particular requirements. Without controlling the use of the certification mark, the value and reputation of one of Russia's most important exports, genuine Russian vodka, will be irreparably diminished.

36. Russian Federal Treasury denies that it is presently marketing in the United States vodka that is claimed to be RUSSIAN VODKA. Russian Federal Treasury admits that Opposer refers to documents in Paragraph 36 of the Notice of Opposition, and that these documents speak for themselves. Neither Russian Federal Treasury nor any other instrumentality of the Russian Federation makes any vodka or sells vodka in the United States. The Government of the Russian Federation regulates the production of vodka in the Russian Federation with the participation of Russian Federal Treasury and other state instrumentalities. It authorizes specific distilleries to make specific vodkas. A distillery that wishes to promote its vodka as "Russian vodka" may obtain a certificate from the Russian Patent Office attesting to the place of origin of the vodka as the Russian Federation. To obtain such a certificate, a distillery must declare that the vodka has been produced according to legal standards. Russian Federal Treasury is in the process of selecting a testing facility that will verify that all vodka sold as RUSSIAN VODKA meets the legal standards for "Russian vodka."

37. Russian Federal Treasury denies the allegations contained in Paragraph 37 of the Notice of Opposition.

38. Russian Federal Treasury denies the allegations contained in Paragraph 38 of the Notice of Opposition.

39. Russian Federal Treasury admits that if it is awarded a block-letter registration for RUSSIAN VODKA as a certification mark in International Class A for vodka as

the production of vodka in the Russian Federation with the participation of Russian Federal Treasury and other state instrumentalities. It authorizes specific distilleries to make specific vodkas. A distillery that wishes to promote its vodka as "Russian vodka" may obtain a certificate from the Russian Patent Office attesting to the place of origin of the vodka as the Russian Federation. To obtain such a certificate, a distillery must declare that the vodka has been produced according to legal standards. Russian Federal Treasury is in the process of selecting a testing facility that will verify that all vodka sold as RUSSIAN VODKA meets the legal standards for "Russian Vodka."

34. Russian Federal Treasury admits that Opposer refers to a document in Paragraph 34 of the Notice of Opposition, and that this document speaks for itself. Neither Russian Federal Treasury nor any other instrumentality of the Russian Federation makes any vodkas or sells vodka in the United States. The Government of the Russian Federation regulates the production of vodka in the Russian Federation with the participation of Russian Federal Treasury and other state instrumentalities. It authorizes specific distilleries to make specific vodkas. A distillery that wishes to promote its vodka as "Russian vodka" may obtain a certificate from the Russian Patent Office attesting to the place of origin of the vodka as the Russian Federation. To obtain such a certificate, a distillery must declare that the vodka has been produced according to legal standards. Russian Federal Treasury is in the process of selecting a testing facility that will verify that all vodka sold as RUSSIAN VODKA meets the legal standards for "Russian Vodka."

35. Russian Federal Treasury admits that Opposer refers to a document in Paragraph 35 of the Notice of Opposition, and that this document speaks for itself. Russian Federal Treasury admits that it intends to promote genuine Russian vodka, irrespective of brand

FOURTH AFFIRMATIVE DEFENSE

Opposer's use of the phrase "Russian Vodka" or "Genuine Russian Vodka" in connection with the sale of vodka is geographically deceptively misdescriptive under Section 2(e)(3) of the Lanham Act. Opposer's vodka is not made in the Russian Federation.

FIFTH AFFIRMATIVE DEFENSE

Opposer's supply of vodka to Allied Domecq, its purported licensees and its purported predecessors-in-interest, sold under the STOLICHNAYA RUSSIAN VODKA & Design and STOLICHNAYA marks has been fraudulent, illegal, a contributory false designation of origin, a contributory trademark infringement and a contributory trademark dilution.

DATED: December 8, 2005

Respectfully submitted by:



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**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**

**BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD**

In re Application Serial No. 76604592

SPIRITS INTERNATIONAL N.V.,

Opposer,

v.

RUSSIAN FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT,

Applicant.

I hereby certify that this correspondence and all marked attachments were sent via electronically to: Commissioner for Trademarks, BOX TTAB, P.O. Box 1451 Alexandria, Virginia, 22313-1451, and to attorney of record for Opposer, Marie A. Lavalleye of Covington & Burling, 1201 Pennsylvania Avenue, N.W., Washington, DC 20004.

December 8, 2005

Date

Brenda Trujillo

Opposition No. 91,167,196

**CERTIFICATE OF SERVICE**

I hereby certify that a true and complete copy of applicant's answer to notice of opposition proceeding no. 91,167,196 has been served on Spirits International N.V., by mailing said copy via overnight courier, postage prepaid, to attorney for Opposer, Marie A. Lavalleye of Covington & Burling, 1201 Pennsylvania Avenue, N.W., Washington, DC 20004.

Dated: December 8, 2005

QUINN EMANUEL URQUHART OLIVER & HEDGES, LLP

By

David W. Quinto (Bar No. 106232)
Attorney for Applicant

# EXHIBIT 2

**UNITED STATES DISTRICT COURT**
**SOUTHERN DISTRICT OF NEW YORK**

FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCII "OST-ALCO",

Plaintiffs,

-against-

SPIRITS INTERNATIONAL N.V.; SPI SPIRITS LIMITED; SPI GROUP SA; YURI SHEFLER; ALEXEY OLIYNIK; ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V.; and ALLIED DOMECQ SPIRITS & WINES USA, INC., d/b/a ALLIED DOMECQ SPIRITS, USA,

Defendants.

04 Civ. 08510 (GBD) 46

**SECOND AMENDED COMPLAINT**

**JURY TRIAL DEMANDED**

U.S. DISTRICT COURT S.D.N.Y.
2005 MAY 4 P 5:08
RECEIVED

Plaintiffs Russian Federal Treasury Enterprise Sojuzplodoimport ("FTE") and Obschestvo s Ogranichennoi Otvetstvennost'yu Chernogolovskii Zavod Alkogol'noi Produkcii "Ost Alco" ("Ost"), by and through their undersigned counsel Quinn Emanuel Urquhart Oliver & Hedges, LLP, bring this action against defendants for declaratory relief, injunctive relief, and damages under the laws of the United States and the State of New York, as follows:

## NATURE OF THE ACTION

1. This action arises out of the defendants' unlawful misappropriation and unauthorized commercial exploitation in the United States of STOLICHNAYA and related trademarks in connection with the sale of vodka and other spirits (the "Marks"), as well as the unauthorized commercial exploitation in the United States of the STOLICHNAYA labels, which are protected by copyright under the Berne Convention (the "Copyright"). The Marks were developed in the 1960s and the Copyright was developed in the 1950s. Until 1992, the Marks were owned by a state entity in the Soviet Union that, in effect, licensed the rights to use the Marks and the Copyright in the United States to PepsiCo, Inc., which had the exclusive right to import STOLICHNAYA vodka into the United States until 2001. Beginning in 1992, the

Russian rights to the Marks and Copyright were purportedly transferred from the state entity to a series of private entities, the names of which were virtually indistinguishable from that of the state entity and rightful owner, the All-Union Foreign Economic Association Sojuzplodoimport ("VVO-SPI").

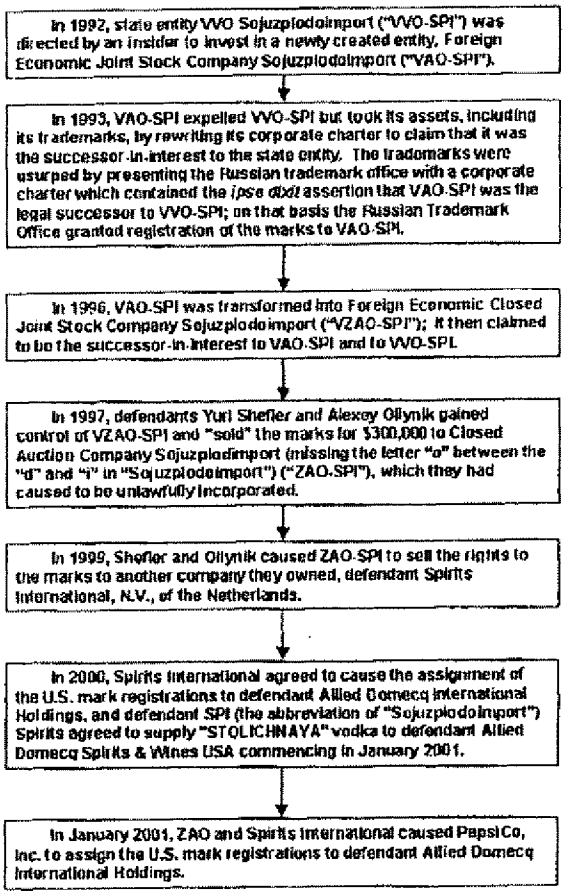
2. Upon information and belief, Defendants Yuri Shefler ("Shefler") and Alexey Oliynik ("Oliynik") owned, directed, and dominated entities based in Cyprus and the Netherlands that purported to sell the rights to use the Marks in the United States to defendant Allied Domecq International Holdings, B.V., ("ADIHBV") while purporting to license the right to import "STOLICHNAYA" vodka to defendant Allied Domecq Spirits & Wines USA, Inc., d/b/a Allied Domecq Spirits, USA ("Allied Domecq Spirits & Wines USA, Inc." or "AD USA"). To keep their promises to the Allied Domecq entities, Shefler and Oliynik persuaded PepsiCo that the series of entities they created were successors-in-interest to the rights of the Soviet Union in the Marks. When the PepsiCo license agreement expired in 2001, Shefler and Oliynik directed PepsiCo to assign the mark registrations to Allied Domecq International Holdings, thus completing the theft.

3. After learning of Shefler's and Oliynik's illegal actions, the Russian government initiated a series of actions in the Russian courts to recover the STOLICHNAYA Marks.[1] The Russian courts determined that the purported assignments of the Marks were null and void. By this action, Plaintiffs seek to have the duly issued orders of the Russian courts recognized and applied to prevent the unlawful use of, and to restore to their rightful owner, the

[1] As used herein, the term "STOLICHNAYA mark" refers to the STOLICHNAYA mark registered in 1969 with the United States Patent and Trademark Office pursuant to Certificate of Registration No. 0865462; the phrase "STOLICHNAYA Marks" refers to the group of trademarks assigned by VVO-SPI to PepsiCo, Inc. ("PepsiCo") on June 19, 1991; the phrase "STOLICHNAYA Second Generation Marks" refers to the group of trademarks assigned to ADIHBV by PepsiCo, Inc., on January 1, 2001; and the phrase "STOLICHNAYA-Related Marks" refers to marks registered or sought to be registered in the United States by ADIHBV that use the STOLICHNAYA or STOLI roots or that otherwise closely mirror the STOLICHNAYA Second Generation Marks.

STOLICHNAYA Second Generation Marks, as well as the STOLICHNAYA Copyright, in the United States.

4. The following illustrates the unlawful corporate transfers of the Marks from 1992 to the present:




5. Plaintiffs seek declaratory relief with respect to the STOLICHNAYA Second Generation Marks and the Copyright, injunctive relief and damages for acts of fraud, unjust enrichment, misappropriation, statutory and common law unfair competition, trademark infringement, trademark dilution, and copyright infringement in violation of the laws of the

United States and the laws of New York State. Plaintiffs also seek cancellation of trademarks infringing FTE's STOLICHNAYA Second Generation Marks.

## JURISDICTION AND VENUE

6. This Court has jurisdiction under 28 U.S.C. §§ 1331 and 1338, and supplemental jurisdiction under 28 U.S.C. § 1367(a). As to Defendants Spirits International N.V., SPI Spirits Limited, Allied Domecq International Holdings B.V., SPI Group SA, and Allied Domecq Spirits & Wines USA, Inc., venue lies in this district under 28 U.S.C. § 1391(b)-(c). As to Defendants Shefler and Oliynik, venue lies in this district pursuant to 28 U.S.C. § 1391(d).

7. Upon information and belief, each defendant is, directly or indirectly, transacting business within New York State and this District that involves the use of the STOLICHNAYA Second Generation Marks.

8. Each defendant has, directly or indirectly, committed tortious acts within and/or without the state of New York with respect to the use and purported ownership of the STOLICHNAYA Second Generation Marks and the STOLICHNAYA Copyright, which acts have caused injury to plaintiffs within the State.

9. In addition, upon information and belief, each defendant, through its business transactions and other activities concerning the STOLICHNAYA Second Generation Marks and the STOLICHNAYA Copyright, derives substantial revenue from the consumption of goods in this State and through interstate and international commerce, and through such conduct expects, or should reasonably expect, its or his acts to have consequences in this State. Defendants have directed and continue to direct millions of liters of vodka into the United States, annually, resulting in tens of millions of dollars in sales. Upon information and belief, a substantial part of such sales takes place in the State of New York.

10. Defendants' unlawful activities are being conducted pursuant to a November 15, 2000 contract for the assignment of the STOLICHNAYA Second Generation Marks among Defendants ADIHBV, AD USA, Spirits International NV and SPI Spirits (Cyprus)

Limited, which specifically provides that, "This Agreement shall be construed in accordance with and governed by the laws of the State of New York." Thus, by signing the Agreement, Defendants explicitly consented to jurisdiction in the Southern District of New York. Further, the Deed of Assignment itself, which is attached as Exhibit C to the Agreement, was executed in the State of New York; reflects that the Assignor had its principal place of business in Purchase, New York; and contains a further consent to jurisdiction in the State of New York.

**PARTIES**

11. Plaintiff FTE is an economic entity of the Russian Federation organized and existing under the laws of Russia, with its principal place of business in Moscow, Russia. FTE is the rightful owner of the STOLICHNAYA Second Generation Marks, including related marks, and the STOLICHNAYA Copyright in the United States and elsewhere in the world, including Russia.

12. Plaintiff Ost is a corporation organized and existing under the laws of Russia, with its principal place of business in Chernogolovka, Noginsk District, Moscow Region, Russian Federation. Ost is the licensed manufacturer of STOLICHNAYA vodka. Ost exports to the United States for sale here super premium vodka, distilled and bottled in the Russian Federation, including, without limitation, the very highly regarded JEWEL OF RUSSIA brand vodka.

13. Upon information and belief, defendant Spirits International, N.V. ("Spirits International") is a corporation organized and existing under the laws of the Netherlands, with its principal place of business in Curaçao, Netherlands Antilles. Upon information and belief, Spirits International is a subsidiary of SPI Group SA, and part of the SPI Spirits Group ("SPI Group"), a group of companies owned or controlled by defendants Shefler and Oliynik and based in Switzerland.

14. Upon information and belief, defendant SPI Group SA is a corporation organized and existing under the laws of Switzerland, with its principal place of business in Geneva, Switzerland. SPI Group SA has claimed ownership of the trademarks at issue and has

sought to enforce its purported rights therein by sending cease-and-desist letters to entities in the United States that it believed were infringing its purported rights. The SPI Group is a wholesale and retail alcohol distribution network that owns alcohol distilleries and has business interests in agriculture, finance, and real estate.

15. Upon information and belief, defendant SPI Spirits Limited ("SPI Spirits") is a corporation organized and existing under the laws of Cyprus, with its principal place of business in Cyprus.

16. Upon information and belief, defendant Allied Domecq International Holdings, B.V. ("ADIHBV") is a corporation organized and existing under the laws of the Netherlands, with its principal place of business in Breda, Netherlands.

17. Upon information and belief, defendant Allied Domecq Spirits & Wines USA, Inc. is a corporation organized and existing under the laws of the State of Michigan, with its principal place of business in the State of Connecticut. AD USA is licensed to do business in New York by the Alcoholic Beverage Control State Liquor Authority; it sells liquor and wine at wholesale, pursuant to a Class 203 License; and it maintains offices at 565 Taxter Road, Elmsford, New York 10523.

18. Upon information and belief, defendant Shefler is a non-resident alien. Upon information and belief, defendant Shefler has, directly or indirectly, transacted business in this District and/or committed acts of trademark infringement, trademark dilution, and/or other unlawful acts with respect to the STOLICHNAYA Second Generation Marks.

19. Upon information and belief, defendant Oliynik is a non-resident alien. Upon information and belief, defendant Oliynik, has directly or indirectly, transacted business in this District and/or committed acts of trademark infringement, trademark dilution and/or other unlawful acts with respect to the STOLICHNAYA Second Generation Marks.

20. Upon information and belief, other unnamed individuals and/or entities are and/or have acted as the agents, co-conspirators or joint venturers of defendants Shefler, Oliynik, Spirits International, SPI Group SA, and/or SPI Spirits Limited, and/or are the co-conspirators or

joint venturers of defendant ADIHBV and/or AD USA (the "ADIHBV Defendants"). Upon information and belief, each of the unnamed individuals and/or entities is acting in concert or participation with its principal, co-conspirator, or joint venturer to trade on plaintiffs' valuable intellectual property. Plaintiffs will amend this Complaint to add such individuals and/or entities as defendants when their names and capacities are ascertained.

21. Upon information and belief, at all relevant times mentioned in this Complaint, Spirits International, SPI Group SA, and SPI Spirits have been or are mere shells, instrumentalities, and/or conduits through which Shefler and Oliynik conduct, and have conducted, their unlawful activities. Shefler and Oliynik have directly managed, controlled and/or dominated the operations of Spirits International, SPI Group SA, and SPI Spirits. Upon information and belief, Spirits International, SPI Group SA, and SPI Spirits, are not separate legal entities from Shefler and Oliynik. Therefore, to avoid an inequitable result, Spirits International, SPI Group SA, and SPI Spirits should be regarded as the alter egos of Shefler and Oliynik. As such, hereinafter, Spirits International, SPI Spirits, SPI Group SA, Shefler, and Oliynik shall be referred to collectively as the "Shefler Defendants."

22. Upon information and belief, at all relevant times mentioned in this Complaint, defendants, and each of them, were acting in concert and active participation with each other in committing the wrongful acts alleged herein, and were the agents of each other and were acting within the scope and authority of that agency and with the knowledge, consent, and approval of one another.

## FACTUAL BACKGROUND

### Origin of the STOLICHNAYA Marks and the STOLICHNAYA Copyright

23. In Russian, "STOLICHNAYA" means "from the capital." It connotes unsurpassed quality. For decades, STOLICHNAYA brand vodka has been owned and exported either by the Soviet government or by the government of the Russian Federation, which succeeded the Soviet Union.

24. In or about June 1966, the government of the Union of Soviet Socialist Republics ("U.S.S.R.") established the All-Union Association Sojuzplodoimport ("V/O-SPI"), a state-entity to regulate the importation and exportation of alcohol, fruits, vegetables, and other foods, including STOLICHNAYA brand vodka.

25. In or about October 1969, the Soviet Foreign Trade Association registered the STOLICHNAYA Mark with the U.S.S.R.'s Committee for Inventions and Discoveries at the Council of Ministers. The STOLICHNAYA Mark received Registration No. 38388. Additionally, the Soviet Foreign Trade Ministry also registered a number of other vodka marks, including, but not limited to, the MOSKOVSKAYA Mark, which received Registration No. 38237.

26. By January 1990, under the direction of the Soviet government, V/O-SPI held the rights to use dozens of vodka trademarks, including, but not limited to, the STOLICHNAYA and MOSKOVSKAYA marks.

**Evgeniy Sorochkin's Unlawful Hijacking of the STOLICHNAYA Marks**

27. In or about January 1990, V/O-SPI was lawfully reorganized as the All-Union Foreign Economic Association Sojuzplodoimport ("VVO-SPI"). Thereafter, VVO-SPI held the rights to the STOLICHNAYA Marks.

28. However, by September 1990, taking advantage of rapidly weakening governmental oversight and the escalating economic confusion within the country, the staff of VVO-SPI, led by its General Director, Evgeniy Filippovich Sorochkin ("Sorochkin"), conspired to make it appear that VVO-SPI (a state-controlled entity) had been lawfully transformed into a private joint stock company. He did so by creating a private joint stock company using a name substantially identical to VVO-SPI's name, and by later amending the corporate charter to reflect - falsely - that it was the successor to VVO-SPI.

29. On or about December 26, 1991, in the midst of Sorochkin's efforts to misappropriate VVO-SPI's assets for his own benefit, the U.S.S.R was officially dissolved. In the political and economic chaos that ensued, much of the state-owned property was

misappropriated by criminals, corrupt "entrepreneurs," and others. According to the prestigious Analytic Center of the Russian Academy of Sciences, "55 percent of capital and 80 percent of voting shares [of privatized companies] were transferred, during privatization into the hands of domestic and foreign criminal capital."

30. Russia's privatization process is perhaps the best modern example of Honore de Balzac's statement that "[b]ehind every great wealth, there is a crime." Upon information and belief, billion dollar enterprises were "hijacked" by their managers and/or directors for virtually nothing. Within Russia, the privatization process has been commonly referred to as "prikh-vatizatsiya," which comes from the Russian verbs meaning to "privatize" and to "grab."

31. On or about January 20, 1992, realizing that the confusion gripping the Russian government provided the perfect opportunity to pursue his fraudulent scheme to seemingly transform VVO-SPI into a private company, thereby allowing the hijacking of VVO-SPI's assets, Sorochkin caused the Foreign Economic Joint Stock Company Sojuzplodoimport ("VAO-SPI") to be registered with the Moscow Registration Chamber.

32. Upon information and belief, Sorochkin also appointed himself Chairman of the Board of Directors of VAO-SPI, even though he had never relinquished his position as General Director of VVO-SPI.

33. In 1993, while serving as the chief officer of both VVO-SPI and VAO-SPI, Sorochkin included an *ipse dixit* recitation in VAO-SPI's corporate charter, which stated that: "VAO Sojuzplodoimport shall be the legal successor of VVO Sojuzplodoimport."

34. On June 3, 1993, after its physical, monetary and other assets (including the STOLICHNAYA Marks) had been simply taken or usurped by VAO-SPI via the *ipse dixit* recitation added to its corporate charter, VVO-SPI was "expelled" from VAO-SPI by resolution of the General Meeting of VAO-SPI's Shareholders and its shares were given to TOO Implod, a company wholly owned by Sorochkin and certain VVO-SPI/VAO-SPI employees. Thereafter,

VAO-SPI claimed ownership of the STOLICHNAYA Marks. The Russian government received nothing in exchange for the vodka trademarks taken by VAO-SPI.

35. Upon information and belief, VVO-SPI's shares in VAO-SPI were instead conveyed to TOO Implod, which was incorporated by members of the staff of VVO-SPI. Shortly thereafter, in or about September 1993, VAO-SPI's register of shareholders reflected the expulsion of VVO-SPI from the register of shareholders and TOO Implod's new ownership interest in VAO-SPI.

36. As a result, Sorochkin, while serving as the chief officer of both VVO-SPI and VAO-SPI, was able to coordinate the theft of the state-owned assets of VVO-SPI, including the STOLICHNAYA Marks, by VAO-SPI.

37. To consummate his fraudulent scheme within the Russian administrative process, Sorochkin primarily utilized two 1992 letters allegedly signed by the First Deputy Minister of the Ministry of Agriculture, Vladimir Scherbak. Scherbak's alleged letters did not conform to proper clerical procedure and did not have the addressee's name. In addition, although the letters were executed on purported Ministry of Agriculture letterhead, that letterhead did not conform to the form of letterhead used by the Ministry of Agriculture as of the date of the letters. In or about October 2003, after conducting an extensive investigation, the Ministry of Agriculture found that Scherbak's 1992 letters were forgeries. Scherbak subsequently confirmed that finding, declaring that he had never signed the two letters.

38. The two forged letters stated that: (1) VAO-SPI was a legal entity in the Russian Federation and had the right to export Russian vodka for sale in the United States using the STOLICHNAYA Marks; (2) VVO-SPI was reorganized in compliance with relevant Russian laws; and (3) VAO-SPI was the sole legal successor to VVO-SPI.

39. The representation that VAO-SPI was the legal successor of VVO-SPI was untrue. Sorochkin registered VAO-SPI as a *new* company with the Moscow Registration Chamber while VVO-SPI *continued* in existence. As a matter of Russian law, VAO-SPI was not a legal successor to VVO-SPI because VVO-SPI, the predecessor, continued to exist. In fact, in

or about July 2001, the Moscow Chamber of Registration registered the transformation of VVO-SPI to Federal State Unitary Enterprise Foreign Economic Association Sojuzplodoimport ("FGUP VO SPI"). A true and correct copy of the Charter of Federal State Unitary Enterprise Sojuzplodoimport Foreign Economic Association is attached as Exhibit A, and is incorporated herein as though set forth at length.[2]

40. Further, pursuant to both Russian statutory law and executive decree, the transformation of a state enterprise (*e.g.*, VVO-SPI) into an enterprise of any other organizational and legal form, such as a private joint stock company (*e.g.*, VAO-SPI), could occur only if the transformation were approved by the Ministry of State Property of the Russian Soviet Federated Socialist Republic ("RSFSR") and executed in compliance with the applicable privatization statute (*i.e.* the July 3, 1991 statute "On Privatization of Government and Municipal Enterprises in the RSFSR"). However, the Ministry of State Property of the RSFSR never approved any transformation of VVO-SPI, and VVO-SPI never complied with the privatization statute. Moreover, pursuant to Russian law, privatization could only be effective if the government were compensated for its interest in the enterprise being privatized. In the instant case, the government received no consideration for the alleged transformation of VVO-SPI into VAO-SPI.

41. Upon information and belief, in or about October 1992, Sorochkin filed at least one of the forged Scherbak letters with the Russian Federation Committee on Patents and Trademarks ("Rospatent"), a body equivalent to the United States Patent and Trademark Office. Rospatent was not authorized to examine the validity of documents submitted to it. Thus, without realizing that the document was a forgery, Rospatent declared that the foreign registrations for the STOLICHNAYA Marks belonged to VAO-SPI as the "full and rightful successor to VVO Sojuzplodoimport," and that the exclusive right to export Russian vodka using those Marks belonged to VAO-SPI.

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[2] Exhibits A, F-L and O each include both a true and correct copy of the original document (in Russian) and an English translation. Within each of these respective Exhibits, the English version is included at Tab 1 and the Russian version is included at Tab 2.

42. In or about October 1994, based upon the forged documents filed with its agency, Rospatent further concluded that the domestic (*i.e.* Russian) registrations of the STOLICHNAYA Marks also belonged to VAO-SPI.

**Yuri Shefler Supplants Sorochkin and Takes the STOLICHNAYA Marks**

43. By April 1996, VAO-SPI was transformed into the Foreign Economic Closed Joint-Stock Company Sojuzplodoimport ("VZAO-SPI"). Sorochkin continued to perform the executive functions of VZAO-SPI until April 1997.

44. In April 1997, Shefler became President of VZAO-SPI.

45. In or about April 1997, Shefler was also elected as Chairman of the Board of Directors of VZAO-SPI. Thereafter, Shefler, Oliynik, and their agents who were appointed to key positions within that company, began exploiting the trademarks held by VZAO-SPI.

46. Upon information and belief, in October 1997, two entities headed by persons acting under the direction and control of Shefler and Oliynik -- Intercatrin Group Corp. ("Intercatrin"), a mere shell Delaware corporation which no longer exists, and ZAO Eleri ("Eleri"), a Russian corporation -- incorporated a joint venture named Closed Auction Company Sojuzplodimport" (missing the letter "o" between the "d" and the "i" in "Sojuzplodoimport") ("ZAO-SPI").

47. Eleri, which was also a shareholder of VZAO-SPI, held 98 percent of the shares of ZAO-SPI, while Intercatrin held the remaining 2 percent.

48. Upon information and belief, Eleri was incorporated in Russia utilizing the lost passport of an alcoholic woman, Elena Kocherizkina ("Kocherizkina"). Detectives from the Ministry of Internal Affairs and the Moscow Prosecutor's Office have conducted an investigation and have not been able to locate her or her body. According to Eleri's corporate records, on or about May 14, 1996, Kocherizkina allegedly founded Eleri with 7,590,000 rubles in starting capital. However, in July 5, 1996, less than two months later, she allegedly resigned, without receiving any compensation, and simultaneously transferred her ownership interest in the company to O.R. Gusev and I.Y. Kazartseva, also without any compensation.

49. Upon information and belief, Intercatrin was a shell corporation founded solely to promote Shefler's and Oliynik's fraudulent scheme to gain control over the STOLICHNAYA Marks and move them overseas. Upon information and belief, Intercatrin no longer exists.

50. Upon information and belief, Sorochkin, while still President of VZAO-SPI, refused to consent to the sale of the STOLICHNAYA Marks. In response, Shefler and Oliynik had Sorochkin discharged from his position with VZAO-SPI.

51. On or about December 26, 1997, only two months after its incorporation, ZAO-SPI allegedly "purchased" the worldwide rights to the STOLICHNAYA Marks from VZAO-SPI for a mere 1.7 million rubles, which was then the equivalent of approximately $300,000. Upon information and belief, the worldwide rights to the STOLICHNAYA Marks were then worth a minimum of $400,000,000.

52. Shefler's and Oliynik's December 26, 1997 "purchase" was actually a belated Christmas present to themselves. At the time of the transaction, Shefler served as the Chief Expert and Chairman of the Board of Directors of VZAO-SPI, while Oliynik served as Vice President and the Secretary of the Board of Directors. Upon information and belief, Shefler and Oliynik also held indirect control over ZAO-SPI at the time of the "purchase," through their influence over Evgeniy Shubin ("Shubin"), ZAO-SPI's General Director from October 15, 1997, to May 28, 1998. Shubin is Shefler's brother-in-law.

53. Upon information and belief, at the time of the "purchase," Shefler and Oliynik also exercised control over Vladimir Andreenkov ("Andreenkov"), the General Director of Eleri, ZAO-SPI's controlling shareholder. To illustrate, just a few months before the "purchase," Oliynik ceded his position as the General Director of Eleri to Andreenkov on August 1, 1997. Thereafter, on or about May 28, 1998, Andreenkov nominated Oliynik as the new General Director of ZAO-SPI.

54. After transferring the trademarks from VZAO-SPI to ZAO-SPI, Shefler and Oliynik orchestrated a series of corporate transformations involving VZAO-SPI and the

STOLICHNAYA Marks. In or about March 1998, VZAO-SPI was reorganized into the Foreign Economic Open Joint-Stock Company Sojuzplodoimport ("VOAO-SPI"). In or about December 1999, VOAO-SPI was further reorganized into the Open Joint-Stock Company Plodovaya Kompania ("OAO Plodovaya Kompania").

55. Upon information and belief, throughout the series of above-mentioned corporate transformations, Shefler and Oliynik gutted VZAO-SPI. For example, on October 17, 1997, VZAO-SPI employed 137 persons. By August 2, 1999, it employed only 14 persons.

56. In the late 1990s, Shefler and Oliynik also began to shift their alleged worldwide rights to the STOLICHNAYA Marks to a company outside Russia. Upon information and belief, in or about April 1999, ZAO-SPI sold its alleged worldwide rights to the STOLICHNAYA Marks to Spirits International.

57. As set forth above, VZAO-SPI was controlled by Shefler and Oliynik when the Marks were transferred to ZAO-SPI, and ZAO-SPI was an affiliate of the SPI Group (*e.g.* the SPI Group Web site's home page states, "S.P.I. Group, which includes ZAO Sojuzplodimport . . . ."). Therefore, when VZAO-SPI sold its alleged rights in the STOLICHNAYA Marks to ZAO-SPI, Shefler and Oliynik were effectively transferring the Marks between their own entities.

58. The Russian government (the successor to the Soviet government and true owner of the STOLICHNAYA Marks) never received any part of the (far below market value) $300,000 payment for the STOLICHNAYA Marks. In fact, the December 26, 1997 transaction was the first time that money changed hands in connection with the transfer of the STOLICHNAYA Marks.

59. Shefler has since claimed that the Russian Federation received consideration when VZAO-SPI assumed a debt owed by VVO-SPI. In fact, what occurred was that VVO-SPI had been left without assets by VAO-SPI and creditors brought claims against VAO-SPI's legal successor, VZAO-SPI. Under Shefler's direction, VZAO-SPI resisted paying the debts, arguing that VAO-SPI was never responsible for them. Russian and Latvian courts

unsurprisingly concluded that, because VZAO-SPI held itself out as a legal successor to VVO-SPI, it was liable for the debts and was ordered to pay them.

60. When ZAO-SPI sold its alleged rights in the STOLICHNAYA Marks to Spirits International, Shefler and Oliynik once again transferred marks between their own entities, and the Russian government once again received no part of the purchase price.

61. In summary, Shefler and Oliynik (as Chairman of the Board and Vice President, respectively) controlled VZAO-SPI when the marks were transferred to ZAO-SPI on December 26, 1997. While the marks were held by ZAO-SPI, Shefler and Oliynik maintained firm control over that entity first, indirectly, via Shubin and Andreenkov; then, directly, via Oliynik's position as General Director of that entity. Finally, Shefler and Oliynik controlled Spirits International when the marks were transferred to it on or about April 12, 1999, in that Shefler was its founder and controlling shareholder.

**Transfers of the STOLICHNAYA Marks**

| | → Dec. 26, 1997 → | →April 12, 1999 → |
|---|---|---|
| **VZAO** | **ZAO** | **Sprits International** |
| Shefler (Chairman of the Board; Chief Expert) | Shubin (General Director and Shefler's brother-in-law) | Shefler (founder and controlling shareholder) |
| Oliynik (Secretary of the Board; Vice President) | Oliyinik (General Director) | |

**Yuri Shefler's Criminal Charges**

62. Born as Yury Urasov in October 1967, Shefler has used at least three names. By the late 1980s he was already known as Yury Shabalin and, in 1994, he changed his name yet again, to Yuri Shefler.

63. In or about April 2002, the Prosecutor General of the Russian Federation filed criminal charges against Shefler for threatening to murder Vladimir Loginov, the newly appointed General Director of FTE. Upon information and belief, Shefler is currently wanted in the Russian Federation for threats to commit murder. Upon information and belief, he is also wanted by Interpol for questioning.

64. On or about March 26, 1997, Vladimir A. Yamnikov, the General Director of Open Joint-Stock Company Moskovsky Zavod Kristall, one of the largest vodka distilleries in Moscow and shareholder in VAO-SPI, who was first a business associate and then a competitor of Shefler, died under suspicious circumstances of internal bleeding. Upon information and belief, Yamnikov's family members claim that Yamnikov was poisoned by Shefler. Prior to Mr. Yamnikov's death, on or about December 12, 1996, another prominent businessman, Moskovski Zavod Kristall's Deputy General Director, A. A. Zhelko, died under suspicious circumstances of internal bleeding. Also, on the night of August 8-9, 2002, Jacob Tilipman, a Russian vodka entrepreneur and a shareholder in VZAO-SPI, was murdered shortly after filing a lawsuit contesting the transfer of the STOLICHNAYA Marks that were transferred by Shefler from VZAO-SPI to ZAO-SPI.

**The PepsiCo Agreement and the Use of the STOLICHNAYA Marks in the United States**

65. In or about April 1967, V/O-SPI filed a trademark application for the STOLICHNAYA Mark in the United States. In or about February 1969, the primary STOLICHNAYA Mark was registered with the United States Patent and Trademark Office pursuant to Certificate of Registration No. 0865462.

66. In or about March 1969, V/O-SPI assigned all U.S. rights in the STOLICHNAYA Mark to Kraus Bros. & Co. ("Kraus") and designated Monsieur Henri Wines, Ltd. ("MHW"), a Kraus subsidiary, as the authorized U.S. importer of STOLICHNAYA vodka. In addition, MHW was designated as V/O-SPI's representative for the U.S. trademark application.

67. In 1973, V/O-SPI entered into an agreement with PepsiCo, Inc. ("PepsiCo") regarding the importation of Russian vodka in the United States (the "PepsiCo Agreement"). Pursuant to that agreement, PepsiCo exported its Pepsi-Cola brand syrup to the U.S.S.R. and, in return, received the right to import STOLICHNAYA vodka (and other related vodkas) into the United States. At or about that time, PepsiCo acquired Kraus so that it could use the STOLICHNAYA Mark in the United States.

68. In or about 1977, PepsiCo divested itself of MHW, but retained the ownership of the STOLICHNAYA Mark (and other related marks).

69. Despite the language in the PepsiCo Agreement that PepsiCo was the exclusive "owner" of the STOLICHNAYA Mark (and other related marks), PepsiCo was not permitted to sell the rights to or assign those marks to entities other than affiliates. Furthermore, until its amendment in February 1992, paragraph 8 of the PepsiCo Trademark Assignment Agreement permitted the government of the U.S.S.R. and, later, the government of the Russian Federation, to request the reassignment of the STOLICHNAYA Marks to V/O-SPI (or its legal successors) at will. PepsiCo was, in fact, a mere licensee of the STOLICHNAYA Marks.

70. Throughout the time that the PepsiCo Agreement was in effect (it expired in 2001), PepsiCo heavily marketed and invested in the STOLICHNAYA brand. Due in part to PepsiCo's marketing efforts and investment, STOLICHNAYA vodka came to be considered a premium vodka in the United States.

71. While the PepsiCo Agreement was in effect, the STOLICHNAYA Second Generation Marks became famous and acquired secondary meaning within the United States, as illustrated by advertising expenditures, unsolicited media coverage of product, attempts to plagiarize the marks, and the length and exclusivity of the marks' use. For example, upon information and belief, PepsiCo spent millions of dollars advertising the STOLICHNAYA Second Generation Marks in the United States. A search of Westlaw's "usnews" database for articles referring to STOLICHNAYA or related marks prior to January 1, 2001, yields more than 2,000 hits.

72. The immense quantity of STOLICHNAYA brand vodka sold in the United States further illustrates the popularity and public recognition of the STOLICHNAYA Second Generation Marks in the United States by January 1, 2001. Upon information and belief, STOLICHNAYA brand sales alone constituted a significant percentage of total vodka sales in the United States.

**Shefler's and Olivnik's "Hijacking" of the U.S. STOLICHNAYA Marks**

73. After acquiring rights to distribute STOLICHNAYA vodka in the United States, PepsiCo also registered several other Russian vodka marks.

74. In 1983, PepsiCo reassigned to V/O-SPI (the initial state entity mark owner) the STOLICHNAYA mark, as well as its pending application for the registration of another STOLICHNAYA mark. In 1991, PepsiCo assigned to VVO-SPI (the second, legitimate state entity) several other of its Russian vodka trademarks.

75. In or about June 1991, VVO-SPI "reassigned" to PepsiCo all its rights, title, and interest in the U.S. to almost two dozen vodka marks, including, but not limited to, the STOLICHNAYA Mark (*i.e.*, the STOLICHNAYA Marks). The "reassignment" was subject to a reversionary right in favor of VVO-SPI, thus, making PepsiCo a licensee of said marks.

76. Realizing the importance of obtaining the rights to the U.S. marks, Sorochkin, and later Shefler and Oliynik, represented to PepsiCo that their respective companies were the legal successors of VVO-SPI.

77. On or about February 3, 1994, VAO-SPI entered into an agreement with PepsiCo concerning the U.S. registrations of the STOLICHNAYA Marks in the United States. A true and correct copy of that agreement, Contract No. 643\01860302\42001-04A, is attached as Exhibit B, and is incorporated herein as though set forth at length.

78. In or about February 1998, SPI Spirits, which was responsible for the export of vodka from Russia and which was a member of the SPI Group, signed an addendum to the February 3, 1994 contract between VAO-SPI and Pepsi-Cola International, Ltd. A true and correct copy of the Addendum to Contract No. 643\01860302\42001-04A is attached as Exhibit C, and is incorporated herein as though set forth at length.

79. In or about November 2000, ADIHBV and AD USA entered into Trademark Supply and Distribution Agreement ("the "ADIHBV Agreement") with Spirits International and SPI Spirits. A true and correct copy of portions of the ADIHBV Agreement is attached as Exhibit D, and is incorporated herein as though set forth at length.

80. Pursuant to the ADIHBV Agreement, Spirits International appointed ADIHBV as the exclusive "owner" of all STOLICHNAYA Second Generation Marks in the United States. Further, pursuant to a Deed of Assignment, effective January 1, 2001, Spirits International diversified and caused PepsiCo to "assign" all of its U.S. rights, title and interest in the STOLICHNAYA Second Generation Marks to ADIHBV. The reassigned Marks listed in the Deed of Assignment included the following:

| Mark | Registration No. |
|---|---|
| STOLICHNAYA | 865,462 |
| STOLICHNAYA | 1,291,454 |
| STOLICHNAYA | 2,317,475 |
| STOLI | 1,244,735 |
| STOLICHNAYA RUSSIAN VODKA | 1,852,552 |
| STOLICHNAYA KAFYA | 2,155,523 |
| STOLICHNAYA LIMONNAYA VODKA | 2,334,080 |
| STOLICHNAYA LIMONNAYA | 2,339,463 |
| STOLICHNAYA LIMONNAYA VODKA | 2,334,079 |
| STOLICHNAYA OHRANJ | 2,291,831 |
| STOLICHNAYA OHRANJ | 2,233,190 |
| STOLICHNAYA OHRANJ | 1,988,911 |
| STOLI PERSIK | 2,189,745 |
| STOLICHNAYA STOLI PERSKI | 2,339,689 |
| STOLICHNAYA STOLI RAZBERI | 2,204,355 |
| STOLI RAZBERI | 2,175,465 |
| STOLICHNAYA STRASBERI | 2,202,991 |
| STOLI STRASBERI | 2,205,863 |
| STOLI VANIL | 2,192,600 |
| STOLI ZINAMON | 2,192,681 |
| STOLICHNAYA GOLD (application) | 75/184,282 |

81. Notwithstanding language in the ADIHBV Agreement stating that ADIHBV is the "exclusive" owner of the STOLICHNAYA Second Generation Marks, ADIHBV is not permitted to sell the rights in the Marks or assign the Marks to entities other than affiliates. Further, pursuant to that agreement, ADIHBV is not permitted to keep the goodwill attributable to the Marks. And, at the conclusion of the ADIHBV Agreement, ADIHBV is required to

reconvey all its rights, title, and interest in the Marks to Spirits International. In fact, in an August 6, 2004 letter to a U.S. company, defendant SPI Group SA held itself and its subsidiary, Spirits International, out as the true owners of the STOLICHNAYA Second Generation Marks. A true and correct copy of this letter is attached as Exhibit E, and is incorporated herein as though set forth at length. Accordingly, ADIHBV is, in effect, a licensee of the Marks and Spirits International or SPI Group SA is, in effect, the licensor.

82. Upon information and belief, ADIHBV has since registered or sought to register other trademarks similar to or belonging to the same families of marks as the STOLICHNAYA Second Generation Marks, to which Spirits International also retains reversionary rights.

83. Upon information and belief, when the ADIHBV Agreement was signed, both the ADIHBV Defendants and the Shefler Defendants were aware that Spirits International did not have good title to the STOLICHNAYA Second Generation Marks.

84. In fact, just eleven days prior to ADIHBV's acceptance of the assignment of the STOLICHNAYA Second Generation Marks, pursuant to its agreement with Spirits International (through assignment from PepsiCo), a Russian court issued a final judgment adverse to Spirits International's legal chain of title to these marks. Upon information and belief, the ADIHBV Defendants were well aware of the December 21, 2000 Russian judgment (holding that VAO-SPI was not a legal successor to VVO-SPI) when ADIHBV accepted the assignment of the STOLICHNAYA Second Generation Marks on January 1, 2001.

85. Upon information and belief, the ADIHBV Agreement was intentionally structured so that ADIHBV paid very little for the actual "assignment" of the Marks. Upon information and belief, ADIHBV wanted to minimize its financial exposure from a potential future lawsuit by the Russian Federation, and thus negotiated to make royalty payments to Spirits International instead of paying a substantial fee for the "assignment" of the STOLICHNAYA Second Generation Marks.

86. Further, upon information and belief, all parties to the ADIHBV Agreement were aware that the Russian Federation would eventually seek to recover its Marks. For example, Paragraph 26 of the ADIHBV Agreement was specifically negotiated to provide for such an eventuality, setting forth the parties' obligations "[i]n the event that . . . the government of the Russian Federation" or "any agency or instrumentality of the government of the Russian Federation . . . institutes a suit . . . against AD and/or Spirits alleging AD's title to Trademarks or SPI NV's reversionary interest in the Trademarks is for any reason invalid . . . ."

87. Likewise, the Registration Statement and the Annual Reports of Allied Domecq PLC (the parent company of defendant Allied Domecq Spirits & Wines USA, Inc.), filed with the United States Securities and Exchange Commission ("Form/s 20-F"), expressly disclosed that "SPI Spirits and the Russian government are currently involved in a dispute over the trademark rights to STOLICHNAYA," and that "there is a risk" that the Russian government could take action that would prevent the Shefler Defendants from fulfilling their contractual obligations.

88. Upon information and belief, subsequent to the execution of the ADIHBV Agreement, and pursuant to its terms, the ABIHBV Defendants, with the assistance and cooperation of the Shefler Defendants, have sold, distributed, and/or advertised within New York substantial quantities of products unlawfully infringing upon plaintiffs' rights to the STOLICHNAYA Second Generation Marks, and have derived substantial revenue therefrom.

**ADIHBV's Use of the STOLICHNAYA Mark and the STOLICHNAYA Copyright**

89. In the United States, ADIHBV advertises its STOLICHNAYA Vodka as "Russian Vodka," "Genuine Russian Vodka," a "Product of Russia," "Imported Russian Vodka," and "Distilled in Russia." Further, the centerpiece of defendants' STOLICHNAYA label is a representation of the famous Moscow Hotel, previously located in the heart of Moscow and right next to the Kremlin, which has long served as a symbol of Russia to the West.

90. Pursuant to Russian law, "Russian Vodka" must be made with Russian water and Russian wheat and distilled in Russia, and must meet purity and quality standards established by Russian law.

91. Allied Domecq Spirits & Wines USA imports purported STOLICHNAYA vodka sold to it by SPI Spirits.

92. The Shefler defendants have purchased the Balzams plant in Latvia and SPI Spirits now admittedly manufactures and bottles its vodka in Latvia. SPI Spirits has admitted in numerous disclosures to the news media that its purported STOLICHNAYA vodka is actually made in Latvia. Therefore, the vodka imported into the United States for distribution by Allied Domecq Spirits & Wines USA is not "Genuine Russian Vodka," or a "Product of Russia," but, is rather, "Genuine Latvian Vodka" and a "Product of Latvia."

93. Further, "Russian Vodka" must comply with Russian legislation, GOST R 51355-99, which regulates "Vodkas and special vodkas," and must be manufactured according to an approved chemical composition.

94. Upon information and belief, the purported STOLICHNAYA vodka manufactured in the Balzams plant does not comply with the GOST R 51355-99 standards. Thus, even if SPI Spirits' Balzams plant received its vodka directly from Russia, and only bottled it in Latvia, such vodka would still not meet the legal requirements necessary to market it as "Russian Vodka" or "genuine Russian vodka."

**Russian Court Proceedings Resulting in the Russian Recovery of the STOLICHNAYA Marks**

95. The Russian judiciary is divided into three branches: The courts of general jurisdiction; the arbitration (commercial) court system; and the Constitutional Court. The arbitration court system has three levels: arbitration courts of first instance; arbitration courts of appeals instance; and the Supreme Court of Arbitration. Arbitration courts hear cases involving business disputes between private legal entities, and between private legal entities and the state.

96. Following its receipt of a February 2000 Investigation Report from the Ministry of State Property, the Russian government concluded that VVO-SPI could be yet another victim of Russia's troubled transition process during which state-owned assets had fallen into the hands of corrupt "entrepreneurs." It immediately commenced several investigations into the complex web of fraudulent transactions, forgeries of government records and corporate fraud which lay behind SPI Group's acquisition of the STOLICHNAYA Marks, and eventually filed suit.

97. In or about November 2000, the Deputy Prosecutor General of the Russian Federation commenced an action in the Court of Arbitration of Moscow (First Instance) to partially invalidate the charter of OAO Plodovaya Kompania on the basis that it was not the ultimate successor of VVO-SPI.

98. In its defense, OAO Plodovaya Kompania presented falsified evidence, including several 1992 certifications allegedly signed by the First Deputy Minister of the Ministry of Agriculture, Vladimir Scherbak, and the First Deputy Minister of Foreign Economic Relations, Vladimir Shibaev. Those documents falsely stated that VAO-SPI was the legal successor to VVO Sojuzplodoimport and had the right to export Russian vodka to the United States.

99. Scherbak has since signed a declaration confirming that the certifications presented by Plodovaya Kompania were forgeries. In that declaration, Scherbak stated that he had never signed any such Certifications and that the signatures on the certifications were counterfeit.

100. In addition, the authenticity of the letter signed by Vladimir Shibaev has been called into question. Shibaev's letter was not on file with the Records Office of the Administrative Department of the Ministry of Economic Development and Trade of Russia. Because Shefler and Oliynik had ordered that VAO-SPI's corporate archives be destroyed (they were purportedly destroyed in a mysterious "flood," caused by a leaking pipe, in a building guarded around the clock), the Court of Arbitration was unable to search VAO-SPI's corporate

archives to see whether it had copies of the certifications in its possession. In any event, Russian law did not provide the Ministry of Foreign Economic Relations with the authority to issue opinions with respect to successions between legal entities. Thus, Shibaev's letter could not be and was not valid.

101. On or about December 21, 2000, after reviewing all the evidence, the Court of Arbitration of Moscow declared that Article 2, Paragraph 2 of the OAO Plodovaya Kompania charter was invalid and that OAO Plodovaya Kompania was not the legal successor to VVO-SPI. The Court held that:

> Establishment of an enterprise by entering into a foundation agreement excludes its establishment by reorganizing any other enterprise, as these are two different ways of setting up an enterprise [i.e. they are mutually exclusive]. As transformation of one enterprise into another means cessation of existence for the reorganized enterprise, the fact that in the aforementioned documents on the establishment of VAO Sojuzplodoimport, VVO Sojuzplodoimport is described as one of the founders and still legally exists to date, means that the founders of VAO Sojuzplodoimport actually set up a new legal entity having nothing to do with VVO Sojuzplodoimport. Consequently, as that new legal entity [i.e. VAO-SPI] was not and could not be a legal successor of VVO Sojuzplodoimport, the statement in the defendant's charter on such legal succession is unlawful.

102. The Court then issued a monetary judgment against Plodovaya Kompania. A true and correct copy of the ruling of the Court of Arbitration of Moscow (First Instance) is attached as Exhibit F, and is incorporated herein as though set forth at length.

103. Thereafter, Plodovaya Kompania appealed to the Court of Arbitration in Moscow (Appeals Instance). In or about February 2001, after reviewing the record, the Court of Arbitration (Appeals Instance) erroneously concluded that the Deputy Prosecutor General, who had brought the action on behalf of the state, had failed to state who was the plaintiff at trial. For that reason, combined with the fact that a public prosecutor is not authorized to act by himself on behalf of the state, the Court of Arbitration (Appeals Instance) ordered that the ruling of the Court of Arbitration (First Instance), declaring Plodovaya Kompania's charter invalid and awarding damages, be quashed. A true and correct copy of the ruling of the Arbitration Court of Moscow (Appeals Instance) is attached as Exhibit G, and is incorporated herein as though set forth at length.

104. The Deputy Prosecutor General then appealed to the Presidium, a division of Russia's highest commercial court, the Supreme Court of Arbitration of the Russian Federation. On or about October 16, 2001, the Presidium of the Supreme Court of Arbitration of the Russian Federation reversed the Court of Arbitration of Moscow (Appeals Instance) and held that: "[i]n accordance with Article 41, Part 1 of the Code of Arbitration Procedure of the Russian Federation, the public prosecutor is authorized to bring an action to a court of arbitration for defending the state and public interests."

105. Further, the Presidium of the Supreme Court of Arbitration affirmed the lower court decision and concluded that: "[a]s VAO Sojuzplodoimport was established as a result of foundation [as a new entity] but not transformation [of an existing entity, *i.e.*, VVO-SPI], the first instance court's conclusion on invalidity of the provision of that company's charter pursuant to which it is a legal successor of VVO Sojuzplodoimport is correct." A true and correct copy of the ruling of the Presidium of the Supreme Court of the Russian Federation is attached as Exhibit H, and is incorporated herein as though set forth at length.

106. On October 26, 2001, following the Presidium's ruling, Rospatent re-registered the STOLICHNAYA Marks in the name of the Ministry of Agriculture of the Russian Federation.

107. Shortly thereafter, the Public Prosecutor's Office further explained its legal contentions when it brought an action in the Moscow Court of Arbitration to declare the purported December 12th, 1997 assignment of 17 of the STOLICHNAYA Marks -- SOVIET SPARKLING; STARKA; YUBILEYNAYA; KUBANSKAYA; ZUBROVKA; STOLICHNAYA; RUSSKAYA; OKHOTNICHYA; PERTSOVKA; MOSKOVSKAYA; LIMONNAYA; KREPKAYA; STOLOVAYA; SIBIRSKAYA; BALTISKAYA; KRISTAL; and SPI -from VZAO-SPI to ZAO-SPI, as well as the January 12, 1998 addendum to that assignment, null and void.

108. On January 30, 2002, the Court of Arbitration of Moscow (First Instance) held that because VZAO-SPI was not a legal successor of VVO-SPI, it could not assign any of the STOLICHNAYA Marks to ZAO-SPI. Consequently, that court declared that both the assignment of the rights in the STOLICHNAYA Marks from VZAO-SPI to ZAO-SPI, as well as the January 12, 1998 addendum thereto, were null and void. A true and correct copy of the ruling of the Court of Arbitration of Moscow in the Name of the Russian Federation Award is attached as Exhibit I, and is incorporated herein as though set forth at length.

109. On March 28, 2002, the January 30, 2002 award was affirmed by the Court of Arbitration of Moscow (Appeals Instance). A true and correct copy of the ruling of the Court of Arbitration of Moscow (Appeals Instance) is attached as Exhibit J, and is incorporated herein as though set forth at length.

**The Russian Government Establishes New Entities to Recover the STOLICHNAYA Marks**

110. As set forth above, in or about July 2001, the Moscow Chamber of Registration registered the transformation of VVO-SPI to FGUP VO SPI. However, even though VVO-SPI, known today as FGUP VO SPI, remains in existence, it has no current claim to the Marks. The Marks have always been owned by either the Soviet government or the government of the Russian Federation which succeeded the Soviet Union.

111. In December 2001, Plaintiff FTE was established by the Russian government. A true and correct copy of the Government of the Russian Federation Order

No. 1741 is attached as Exhibit K, and is incorporated herein as though set forth at length. In April 2002, Vladimir Loginov was appointed General Director of FTE.

112. After the litigation regarding the STOLICHNAYA Marks was concluded, the Government of the Russian Federation issued Decree No. 494, "On Trademarks of Alcoholic and Spirit Products," in July 2002, which ordered that 17 of the STOLICHNAYA Marks - SOVIET SPARKLING, STARKA, YUBILEYNAYA, KUBANSKAYA, ZUBROVKA, STOLICHNAYA RUSSKAYA, OKHOTNICHYA, PERTSOVKA, MOSKOVSKAYA, LIMONNAYA, KREPKAYA, STOLOVAYA, SIBIRSKAYA, BALTISKAYA, KRISTAL, and SPI - may be used by FTE in accordance with the procedures established by the Ministry of Agriculture and the Ministry of Property Relations of the Russian Federation. A true and correct copy of the Decree No. 494 is attached as Exhibit L, and is incorporated herein as though set forth at length.

113. On January 6, 2005, the Government of the Russian Federation issued Decree No. 6, "On Recovery and Protection of the Rights of the Russian Federation to the Trademarks Abroad," expressly confirming FTE's right to represent the interests of the Russian Federation in foreign courts on matters of recovery and protection of Russia's rights to trademarks for alcoholic products abroad. A true and correct copy of Decree No. 6 is attached as Exhibit O, and is incorporated herein as though set forth at length.

## FIRST CLAIM

**(Declaratory Relief – 28 U.S.C. § 2201(a))**

**(Against All Defendants)**

114. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 113, above, as though fully set forth at length.

115. An actual controversy exists between Plaintiffs and Defendants with respect to ownership of the STOLICHNAYA Second Generation Marks in the United States. Plaintiff FTE and the Shefler Defendants each contend they are the rightful owner of the

STOLICHNAYA Second Generation Marks. ADIHBV and AD USA contend they are the rightful assignees from the Shefler Defendants of the STOLICHNAYA Second Generation Marks.

116. Plaintiff FTE seeks to have the registrations of the STOLICHNAYA Second Generation Marks corrected on the Federal Register of the United States Patent and Trademark Office so that they reflect FTE's ownership.

117. Upon information and belief, ADIHBV is not the rightful registrant of the STOLICHNAYA Second Generation Marks for at least the following reasons: (1) ADIHBV obtained the registrations of the STOLICHNAYA Second Generation Marks through fraud and wrongdoing; (2) the registrations of the STOLICHNAYA Second Generation Marks were obtained contrary to the requirements of 15 U.S.C. 1052(a); (3) ADIHBV knowingly accepted the assignment of the STOLICHNAYA Second Generation Marks on January 1, 2001, pursuant to its agreement with Spirits International (through assignment from PepsiCo), while fully aware of a final Russian court decision adverse to Spirits International's claim of ownership of said marks; and (4) ADIHBV had misrepresented and continues to misrepresent the source of the goods (*i.e.* vodka) being distributed under the STOLICHNAYA brand.

118. Accordingly, Plaintiffs seek a declaration that FTE is the true owner of the STOLICHNAYA Second Generation Marks and a correction to the Federal Register to reflect FTE as the owner of said marks.

## SECOND CLAIM

**(Fraud)**

**(By FTE Against All Defendants)**

119. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 118, above, as though fully set forth at length.

120. Intending to defraud the Russian Federation, the Shefler Defendants misrepresented to PepsiCo that they were the rightful owners of the STOLICHNAYA Second

Generation Marks and were the lawful successors-in-interest to VVO-SPI. At the time, the Shefler Defendants knew they were not the rightful owners of the STOLICHNAYA Second Generation Marks and were not the lawful successors-in-interest to VVO-SPI.

121. The Shefler Defendants further instructed PepsiCo to assign the STOLICHNAYA Second Generation Marks to ADIHBV. In reliance on these misrepresentations and instructions, PepsiCo assigned the STOLICHNAYA Second Generation Marks to ADIHBV instead of their rightful owner, the Russian Federation.

122. Upon information and belief, the ADIHBV Defendants participated in the Shefler Defendants' fraudulent scheme by engaging in a number of improper acts, including, but not limited to: (1) knowingly causing false information to be presented to PepsiCo, in reliance on which PepsiCo assigned the STOLICHNAYA Second Generation Marks to ADIHBV instead of to their rightful owner, the Russian Federation; (2) knowingly presenting and causing false information to be presented to the United States Patent and Trademark Office (the "PTO"), in reliance on which the PTO recorded the STOLICHNAYA Second Generation Marks as belonging to ADIHBV instead of to their rightful owner, the Russian Federation; and (3) knowingly accepting the assignment of the STOLICHNAYA Second Generation Marks on January 1, 2001, pursuant to its agreement with Spirits International (through assignment from PepsiCo), while aware of a final decision adverse to Spirits International's claim of ownership of said marks.

123. Further, Defendants have engaged in a continuing fraud on the public by misrepresenting the source of the goods (*i.e.* STOLICHNAYA vodka) distributed in the United States, stating on the label that it is "Russian Vodka, "Genuine Russian Vodka," "Distilled in Russia, "Imported Russian Vodka, and a "Product of Russia," whereas, it is actually Latvian vodka. Moreover, the centerpiece of defendants' STOLICHNAYA label is a representation of the famous Moscow Hotel, previously located in the heart of Moscow and right next to the Kremlin, which has long served as a symbol of Russia to the West.

124. As a result of Defendants' actions, Plaintiffs have been damaged in an amount to be proved at trial. Additionally, Defendants' actions were in bad faith, in conscious disregard of Plaintiffs' rights, and performed with the intention of depriving FTE of its intellectual property rights. Accordingly, Defendants' conduct merits, and Plaintiffs seek, an award of punitive damages in an amount sufficient to punish the Defendants and deter such conduct in the future.

**THIRD CLAIM**

**(Unjust Enrichment)**

**(Against the Shefler Defendants)**

125. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 124, above, as though fully set forth at length.

126. The Shefler Defendants have been unjustly enriched by virtue of their actions, including but not limited to causing the STOLICHNAYA Second Generation Marks to purportedly be assigned to ADIHBV for valuable consideration notwithstanding that the Shefler Defendants had and have no legal claim to those marks. The Shefler Defendants have also entered into an agreement to provide ADIHBV with vodka and have earned a substantial profit from the sale of such vodka. This unjust enrichment has come at Plaintiffs' expense in an amount to be proved at trial.

**FOURTH CLAIM**

**(Misappropriation)**

**(Against All Defendants)**

127. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 126, above, as though fully set forth at length.

128. By reason of the foregoing acts, Defendants have engaged in common law misappropriation. FTE (and its predecessors and their licensee, PepsiCo) invested a substantial amount of time, effort and money to develop the STOLICHNAYA Second Generation Marks,

which are now extremely valuable. Defendants have improperly obtained the STOLICHNAYA Second Generation Marks without FTE's authorization.

129. Defendants' conduct has caused and, unless enjoined, will continue to cause irreparable injury to Plaintiffs for which Plaintiffs have no adequate remedy at law. Plaintiffs are therefore entitled to a preliminary and permanent injunction restraining and enjoining Defendants, their agents, servants, and employees and all persons acting thereunder, in concert with, or on their behalf, from using, licensing, assigning other than to FTE, or selling the STOLICHNAYA Second Generation Marks.

130. Additionally, Defendants' actions were in bad faith, in conscious disregard of Plaintiffs' rights, and performed with the intention of depriving FTE of its intellectual property rights. Accordingly, Defendants' conduct merits, and Plaintiffs seek, an award of punitive damages in an amount sufficient to punish Defendants and deter such conduct in the future.

## FIFTH CLAIM

**(Statutory and Common Law Unfair Competition)**

**(Against All Defendants)**

131. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 130, above, as though fully set forth at length.

132. By reason of the foregoing, Defendants have been and are engaged in "unlawful, unfair or fraudulent business practices" in violation of § 349 of the New York General Business Law and acts of unfair competition in violation of the common law. Defendants' acts and practices are consumer-oriented; are misleading in a material way, as Defendants' STOLICHNAYA label provides a false description of the geographic origin of the goods (*i.e.* vodka) distributed under that label; and Plaintiffs have suffered a direct pecuniary injury as a result of these deceptive acts.

133. Defendants' conduct has caused and, unless enjoined, will continue to cause irreparable injury to Plaintiffs for which Plaintiffs have no adequate remedy at law.

Plaintiffs are therefore entitled to a preliminary and permanent injunction restraining and enjoining Defendants, their agents, servants, and employees and all persons acting thereunder, in concert with, or on their behalf, from using, licensing, assigning other than to FTE, or selling the STOLICHNAYA Second Generation Marks.

134. Additionally, Defendants' actions were in bad faith, in conscious disregard of Plaintiffs' rights, and performed with the intention of depriving FTE of its intellectual property rights. Accordingly, Defendants' conduct merits, and Plaintiffs seek, an award of punitive damages in an amount sufficient to punish Defendants and deter such conduct in the future.

**SIXTH CLAIM**

**(Contributory Federal Trademark Infringement--15 U.S.C. § 1114(1))**

**(Against the Shefler Defendants)**

135. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 134, above, as though fully set forth herein.

136. The Shefler Defendants are liable for contributory trademark infringement as the suppliers of infringing goods to the ADIHBV Defendants. The Shefler Defendants have supplied, and continue to supply, infringing products to the ADIHBV Defendants even after they knew, or had reason to know, that the ADIHBV Defendants are infringing FTE's STOLICHNAYA Second Generation Marks. Their knowledge is based on the Russian court rulings determining the rights in, and ownership of, the STOLICHNAYA Second Generation Marks.

137. Upon information and belief, the Shefler Defendants are also liable for contributory trademark infringement because they intentionally induced the ADIHBV Defendants to infringe FTE's STOLICHNAYA Second Generation Marks.

138. Defendants' wrongful conduct has caused and, unless enjoined, will continue to cause irreparable injury to Plaintiffs for which Plaintiffs have no adequate remedy at law. Plaintiffs are therefore entitled to a preliminary and permanent injunction restraining and

enjoining Defendants, their agents, servants, and employees and all persons acting thereunder, in concert with, or on their behalf, from using, licensing, assigning other than to FTE, or selling the STOLICHNAYA-Related Marks and their purported STOLICHNAYA Second Generation Marks.

139. FTE is also entitled to the remedies set forth in 15 U.S.C. §§ 1117(a) and 1118. Specifically, FTE is entitled to recover all profits earned by Defendants, all damages FTE has sustained, trebled, as well as the costs of this action.

**SEVENTH CLAIM**

**(Contributory Federal Trademark Dilution--15 U.S.C. § 1125(c))**

**(Against the Shefler Defendants)**

140. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 139, above, as though fully set forth herein.

141. The Shefler Defendants are liable for contributory trademark dilution as the suppliers of infringing goods to the ADIHBV Defendants. The Shefler Defendants have supplied, and continue to supply, infringing products to the ADIHBV Defendants even after they knew, or had reason to know, that such products are being used to dilute FTE's trademarks. Their knowledge is based on the Russian court rulings determining the rights in, and ownership of, the famous STOLICHNAYA Second Generation Marks.

142. Upon information and belief, the Shefler Defendants are also liable for contributory trademark dilution because they intentionally induced the ADIHBV Defendants to dilute FTE's famous STOLICHNAYA Second Generation Marks.

143. Defendants' wrongful conduct has caused and, unless enjoined, will continue to cause irreparable injury to Plaintiffs for which Plaintiffs have no adequate remedy at law. Plaintiffs are therefore entitled to a preliminary and permanent injunction restraining and enjoining Defendants, their agents, servants, and employees and all persons acting thereunder, in concert with, or on their behalf, from using, licensing, assigning other than to FTE, or selling the

STOLICHNAYA-Related Marks and their purported STOLICHNAYA Second Generation Marks.

144. FTE is also entitled to the remedies set forth in 15 U.S.C. §§ 1117(a) and 1118. Specifically, FTE is entitled to recover all profits earned by Defendants, all damages FTE has sustained, trebled, as well as the costs of this action.

**EIGHTH CLAIM**

**(Contributory False Designation of Origin - 15 U.S.C. § 1125(a))**

**(Against the Shefler Defendants)**

145. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 144, above, as though fully set forth herein.

146. The Shefler Defendants are liable for contributory false designation of origin as the suppliers of infringing goods to the ADIHBV Defendants. The Shefler Defendants have supplied, and continue to supply, infringing products to the ADIHBV Defendants even after they knew, or had reason to know, that such products were being used in a manner that is likely to cause, and is calculated to create, confusion as to the origin and sponsorship of those goods, as well as the affiliation between the ADIHBV Defendants and FTE. The Shefler Defendants' knowledge is based on the Russian court rulings determining the rights in, and ownership of, the STOLICHNAYA Second Generation Marks.

147. Upon information and belief, the Shefler Defendants are also liable for contributory false designation of origin because they intentionally induced the ADIHBV Defendants to use infringing goods in a manner that is likely to cause, and is calculated to create, confusion as to the origin and sponsorship of those goods, as well as the affiliation between the ADIHBV Defendants and FTE.

148. Ost currently causes vodka to be sold under the JEWEL OF RUSSIA mark, among others, in the United States. Ost plans to sell vodka under the STOLICHNAYA brand in the United States. Plaintiffs have a direct pecuniary interest in the STOLICHNAYA

brand and are likely to suffer a commercial or competitive injury if Defendants are permitted to continue their use of the STOLICHNAYA Second Generation Marks in the United States.

149. Defendants' conduct has caused irreparable harm to Plaintiffs, for which Plaintiffs have no adequate remedy at law. Unless Defendants are restrained by this Court, these injuries to Plaintiffs will continue to occur. Plaintiffs are, therefore, entitled to preliminary and permanent injunctions enjoining Defendants and their agents, servants, and employees, and all persons acting thereunder, in concert with, or on their behalf, from using, licensing, assigning other than to FTE, or selling the STOLICHNAYA-Related Marks and their purported STOLICHNAYA Second Generation Marks.

150. FTE is also entitled to the remedies set forth in 15 U.S.C. §§ 1117(a) and 1118. Specifically, FTE is entitled to recover all profits earned by Defendants, all damages FTE has sustained, trebled, as well as the costs of this action.

**NINTH CLAIM**

**(Aiding and Abetting Fraud)**

**(By FTE Against ADIHBV Defendants)**

151. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 150, above, as though set forth at length.

152. Upon information and belief, the ADIHBV Defendants knew of material facts constituting or evidencing the fraudulent scheme perpetrated by the Shefler Defendants.

153. Notwithstanding this knowledge, the ADIHBV Defendants chose to aid and abet the fraud by, among other things: (1) knowingly allowing and facilitating the assignment of the STOLICHNAYA Second Generation Marks from PepsiCo to ADIHBV, instead of to their rightful owner, the Russian Federation; (2) knowingly allowing and facilitating the recording of such fraudulent assignment by the United States Patent and Trademark Office; and (3) deliberately turning a blind eye to facts within their possession or knowledge that were clear indications that there was fraud (*e.g.* the Russian court December 21, 2000 ruling adverse to Defendants' legal chain of title to said marks).

154. As a result of Defendants' actions, Plaintiffs have been damaged in an amount to be proved at trial. Additionally, Defendants' actions were in bad faith, in conscious disregard of Plaintiffs' rights, and performed with the intent to deprive FTE of its intellectual property rights. Accordingly, Defendants' conduct merits, and Plaintiffs seek, an award of punitive damages in an amount sufficient to punish Defendants and deter such conduct in the future.

## TENTH CLAIM

**(Cancellation of Marks--15 U.S.C. § 1119)**

**(Against the ADIHBV Defendants)**

155. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 154, above, as though fully set forth herein.

156. FTE is the rightful owner of the STOLICHNAYA Second Generation Marks, which have acquired considerable value and have become well-known to the consuming public and trade in the United States and throughout the world.

157. ADIHBV and AD USA have sought to register trademarks incorporating the STOLICHNAYA mark or derivatives thereof in the United States without the authorization or consent of FTE.

158. The STOLICHNAYA-Related Marks used in interstate commerce by ADIHBV and AD USA are confusingly similar to FTE's STOLICHNAYA Marks and are intended to confuse and deceive consumers.

159. For that reason, Plaintiffs seek the cancellation of any STOLICHNAYA-Related Marks that are already registered or may become registered, including the following:

| Mark | Serial No. | Filing Date | Reg. No. | Reg. Date | Status as of commence-ment of litigation |
|---|---|---|---|---|---|
| STOLICHNAYA | 78/208741 | 01/30/03 | | | Pending |

| Mark | Serial No. | Filing Date | Reg. No. | Reg. Date | Status as of commence-ment of litigation |
|---|---|---|---|---|---|
| STOLICHNAYA | 76/367327 | 02/06/02 | | | Pending |
| STOLICHNAYA ELIT | 78/177458 | 10/23/02 | | | Pending |
| STOLICHNAYA ELIT | 78/153281 | 08/12/02 | | | Pending |
| STOLICHNAYA PREMYR | 78/325282 | 11/10/03 | | | Published |
| STOLICHNAYA CRANBERI | 78/150258 | 08/02/02 | | | Published |
| STOLI CRANBERI | 78/150200 | 08/02/02 | 2915969 | 01/04/05 | Registered |
| STOLICHNAYA CRANBERRY | 76/279998 | 07/03/01 | | | Pending |
| STOLI CRANBERRY | 76/279999 | 07/03/01 | | | Pending |
| STOLI CITRONA | 76/361601 | 01/22/02 | | | Published |
| STOLICHNAYA CITRONA | 76/361597 | 01/22/02 | | | Pending |
| STOLICHNAYA CITROS | 78/150196 | 08/02/02 | | | Published |
| STOLI LEMON | 76/279997 | 07/03/01 | | | Published |
| STOLICHNAYA KRIMSON | 76/306108 | 06/21/01 | | | Pending |
| STOLI KRIMSON | 76/306107 | 06/21/01 | | | Pending |

**ELEVENTH CLAIM**

**(Federal Trademark Infringement--15 U.S.C. § 1114(1))**

**(Against the ADIHBV Defendants)**

160. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 159, above, as though fully set forth herein.

161. The ADIHBV Defendants' unauthorized use of the STOLICHNAYA-Related Marks and their purported STOLICHNAYA Second Generation Marks constitutes trademark infringement and is likely to cause: (a) confusion, deception and mistake among the

consuming public and trade; and (b) irreparable injury to FTE, including injury to its reputation and dilution of the distinctive high quality of its trademarks.

162. Defendants' wrongful conduct has caused and, unless enjoined, will continue to cause irreparable injury to Plaintiffs for which Plaintiffs have no adequate remedy at law. Plaintiffs are therefore entitled to a preliminary and permanent injunction restraining and enjoining Defendants, their agents, servants, and employees and all persons acting thereunder, in concert with, or on their behalf, from using, licensing, assigning other than to FTE, or selling their STOLICHNAYA-Related Marks and their purported STOLICHNAYA Second Generation Marks.

163. Because Defendants' wrongful activities constitute trademark infringement, FTE is also entitled to the remedies set forth in 15 U.S.C. §§ 1117(a) and 1118. Specifically, FTE is entitled to recover all profits earned by Defendants, all damages FTE has sustained, as well as the costs of this action.

**TWELFTH CLAIM**

**(Federal Trademark Dilution--15 U.S.C. § 1125(c))**

**(Against the ADIHBV Defendants)**

164. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 163, above, as though fully set forth herein.

165. The famous STOLICHNAYA Mark was first federally registered in 1967 by a Soviet Government entity, V/O-SPI. The famous STOLICHNAYA Second Generation Marks were used in interstate commerce through 2000 by FTE's licensee, PepsiCo, to identify the highest quality vodka products. The STOLICHNAYA Second Generation Marks are extremely strong and well-recognized. Accordingly, the STOLICHNAYA Second Generation Marks have become and continue to be famous within the meaning of § 43(c) of the Lanham Act, 15 U.S.C. § 1125(c).

166. The ADIHBV Defendants' unauthorized use of STOLICHNAYA-Related Marks and their purported STOLICHNAYA Second Generation Marks in connection with their vodka products has diluted, and will continue to dilute, the distinctive quality of FTE's distinctive STOLICHNAYA Second Generation Marks in violation of 15 U.S.C. § 1125(c).

167. Defendants' wrongful conduct has caused and, unless enjoined, will continue to cause irreparable injury to Plaintiffs for which Plaintiffs have no adequate remedy at law. Plaintiffs are therefore entitled to a preliminary and permanent injunction restraining and enjoining Defendants, their agents, servants, and employees and all persons acting thereunder, in concert with, or on their behalf, from using, licensing, assigning other than to FTE, or selling the STOLICHNAYA-Related Marks and their purported STOLICHNAYA Second Generation Marks.

168. FTE is also entitled to the remedies set forth in 15 U.S.C. §§ 1117(a) and 1118. Specifically, FTE is entitled to recover all profits earned by Defendants, all damages FTE has sustained, trebled, as well as the costs of this action.

## THIRTEENTH CLAIM

**(False Designation of Origin --15 U.S.C. § 1125(a))**

**(Against ADIHBV Defendants)**

169. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 168, above, as though fully set forth herein.

170. FTE is the rightful owner of the STOLICHNAYA Second Generation Marks, which have acquired considerable value and have become well-known to the consuming public and trade around the world.

171. Ost currently causes vodka to be sold under the JEWEL OF RUSSIA mark, among others, in the United States. Ost plans to sell vodka under the STOLICHNAYA brand in the United States. Plaintiffs have a direct pecuniary interest in the STOLICHNAYA

brand and are likely to suffer a commercial or competitive injury if Defendants are permitted to continue their use of the STOLICHNAYA Second Generation Marks in the United States.

172. ADIHBV and AD USA are using the STOLICHNAYA-Related Marks and their purported STOLICHNAYA Second Generation Marks in a manner that is likely to cause, and is calculated to create, confusion as to the origin and sponsorship of those goods, as well as the affiliation between the ADIHBV Defendants and FTE. These actions by the ADIHBV Defendants have at all times been without FTE's consent.

173. ADIHBV and AD USA, in commercial advertising and promotion, have misrepresented, and are continuing to misrepresent, the nature, characteristics, qualities, and geographic origin of the STOLICHNAYA-Related Marks and their purported STOLICHNAYA Second Generation Marks by advertising that the vodka sold under those marks is Russian Vodka, "Genuine Russian Vodka, a "Product of Russia," "Imported Russian Vodka" and "Distilled in Russia," when, in fact, it is Latvian vodka, manufactured and/or bottled in Latvia. Further, the centerpiece of defendants' STOLICHNAYA label is a representation of the famous Moscow Hotel, previously located in the heart of Moscow and right next to the Kremlin, which has long served as a symbol of Russia to the West.

174. Defendants' conduct has caused irreparable harm to Plaintiffs, for which Plaintiffs have no adequate remedy at law. Unless Defendants are restrained by this Court, these injuries to Plaintiffs will continue to occur. Plaintiffs are, therefore, entitled to preliminary and permanent injunctions enjoining Defendants and their agents, servants, and employees, and all persons acting thereunder, in concert with, or on their behalf, from using, licensing, assigning other than to FTE, or selling the STOLICHNAYA-Related Marks and their purported STOLICHNAYA Second Generation Marks.

175. FTE is also entitled to the remedies set forth in 15 U.S.C. §§ 1117(a) and 1118. Specifically, FTE is entitled to recover all profits earned by Defendants, all damages FTE has sustained, trebled, as well as the costs of this action.

## FOURTEENTH CLAIM

**(Copyright Infringement --17 U.S.C. § 106, et seq.)**

**(Against All Defendants)**

176. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 175, above, as though set forth at length.

177. The STOLICHNAYA label was created by Valentin Aleksandrovich Yakovlev in the course of his job duties for the Moscow Art-Study Workshop of the Trust "Sojuzprodoformlenie" in 1953. As the STOLICHNAYA label was created by Mr. Yakovlev in the course of his employment, any of Mr. Yakovlev's artistic contributions belonged to the Moscow Art-Study Workshop of the Trust "Sojuzprodoformlenie." Upon information and belief, said rights were subsequently transferred to the government of the Soviet Union, on behalf of which the All-Union Chamber on Advertising and Drawing up of Goods ("Sojuzpichepromreklama") registered the STOLICHNAYA label as a copyright in late 1953. A true and correct copy of the STOLICHNAYA label copyrighted in 1953 is attached hereto as Exhibit P, and is incorporated herein by reference. Upon information and belief, substantially the same STOLICHNAYA label was subsequently used throughout the years and is still used by FTE today. True and correct copies of FTE's current STOLICHNAYA label and the STOLICHNAYA label as it was used in 1980 are attached hereto as Exhibits M and Q, respectively, and are incorporated herein by reference. The Russian Federation inherited the Soviet Union's assets, including the rights to the STOLICHNAYA label, and the Russian Federation subsequently exclusively licensed Ost to exploit the STOLICHNAYA label and copyright in the United States.

178. The ADIHBV Defendants market and distribute vodka bottles (manufactured and supplied by the Shefler Defendants) with STOLICHNAYA labels strikingly similar to FTE's STOLICHNAYA labels protected by the STOLICHNAYA Copyright under the Berne Convention. A true and correct copy of Defendants' imitation STOLICHNAYA label is

attached as Exhibit N, and is incorporated herein by reference. Defendants will continue to display and distribute products with STOLICHNAYA labels that are strikingly similar and virtually identical to FTE's STOLICHNAYA labels, unless enjoined from doing so. Defendants' display and sale of products with labels that are strikingly similar to Plaintiffs' copyright-protected STOLICHNAYA labels is and has been made without Plaintiffs' consent and for commercial purposes. Accordingly, Defendants have infringed Plaintiffs' copyright in the STOLICHNAYA labels.

179. Plaintiffs have suffered serious injury as a result of the foregoing infringements of the STOLICHNAYA copyright. In addition, Plaintiffs will continue to suffer serious injury if Defendants are not enjoined from reproducing, distributing, displaying or otherwise using Plaintiffs' STOLICHNAYA labels. Plaintiffs have no adequate remedy at law for Defendants' continuing acts of infringement. Plaintiffs are therefore entitled to a preliminary and permanent injunction enjoining Defendants' acts of infringement and to recover their costs and reasonable attorneys' fees from Defendants pursuant to 17 U.S.C. § 505, in addition to their lost profits and actual damages or statutory damages of $150,000 for willful infringement.

**FIFTEENTH CLAIM**

**(Rectification of Register – 15 U.S.C. 1119)**

**(Against All Defendants)**

180. Plaintiffs repeat and reallege each and every allegation of paragraphs 1 through 179, above, as though set forth at length.

181. ADIHBV is not the rightful registrant of the STOLICHNAYA Second Generation Marks for at least the following reasons: (1) ADIHBV obtained the registrations of the STOLICHNAYA Second Generation Marks through fraud and wrongdoing; (2) the registrations of the STOLICHNAYA Second Generation Marks were obtained contrary to the requirements of 15 U.S.C. 1052(a); (3) ADIHBV knowingly accepted the assignment of the STOLICHNAYA Second Generation Marks from Spirits International (via PespsiCo) on January 1, 2001, while fully aware of a final Russian court decision adverse to Spirits International's

claim of ownership of said marks; and (4) ADIHBV had misrepresented and continues to misrepresent the source of the goods (*i.e.* vodka) being distributed under the STOLICHNAYA brand.

182. Accordingly, Plaintiffs seek an order from the Court to the Director, certifying that FTE is the true owner of the STOLICHNAYA Second Generation Marks and ordering a correction to the Federal Register to reflect FTE as the owner of said marks.

## PRAYER FOR RELIEF

Wherefore, FTE and Ost-Alco pray for judgment against Spirits International, SPI Spirits, SPI Group SA, ADIHBV, AD USA, Shefler, and Oliynik and each of them, as follows:

A. On the First and Fifteenth Claims for Relief, for a declaration that FTE is the rightful owner of the STOLICHNAYA Second Generation Marks and for an order directed to the USPTO to correct the Principal Register to accurately reflect that ownership.

B. On the Second, Third, Fourth, Fifth, and Ninth Claims for Relief, for Plaintiffs' damages, costs, attorneys' and investigators' fees, and punitive damages in an amount sufficient to punish Defendants and deter others.

C. On the Third Claim for Relief, for an accounting of the Shefler Defendants' unjust profits.

D. On the Fourth, Fifth, Eleventh, Twelfth, Thirteenth, and Fourteenth Claims for Relief, for preliminary and permanent injunctions prohibiting the ADIHBV Defendants from using, licensing, assigning other than to FTE, or selling their STOLICHNAYA-

Related Marks, their purported STOLICHNAYA Second Generation Marks, and the STOLICHNAYA Copyright.

E. On the Fourth, Fifth, Sixth, Seventh, Eighth, and Fourteenth Claims for Relief, for preliminary and permanent injunctions prohibiting the Shefler Defendants from using, licensing, assigning other than to FTE, or selling the STOLICHNAYA-Related Marks, their purported STOLICHNAYA Second Generation Marks, and the STOLICHNAYA Copyright.

F. On the Eleventh, Twelfth, and Thirteenth Claims for Relief, for Plaintiffs' damages, trebled, together with costs, attorneys' and investigators' fees, pursuant to 15 U.S.C. § 1117(b) as a result of the ADIHBV Defendants' wanton, deliberate, malicious, and willful conduct.

G. On the Sixth, Seventh, and Eighth Claims for Relief, for Plaintiffs' damages, trebled, together with costs, attorneys' and investigators' fees, pursuant to 15 U.S.C. § 1117(b) as a result of the Shefler Defendants' wanton, deliberate, malicious, and willful conduct.

H. On the Tenth Claim for Relief, a cancellation of the STOLICHNAYA-Related Marks.

I. On the Fourteenth Claim for Relief, for recovery of Plaintiffs' actual damages and defendants' profits or, in the alternative, for recovery by Plaintiffs of $150,000 in statutory damages for willful infringement, pursuant to 17 U.S.C. § 504, together with costs and attorneys' fees.

J. On all Claims, for such other and further relief as this Court deems just and proper.

**DEMAND FOR JURY TRIAL.**

Plaintiffs FTE and Ost-Alco respectfully demand trial by jury pursuant to Rule 38(b) of the Federal Rules of Civil Procedure.

Dated: New York, New York
May 4, 2005

QUINN EMANUEL URQUHART
OLIVER & HEDGES, LLP

By: _____
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**IN THE UNITED STATES DISTRICT COURT**
**SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCII "OST ALCO", | 04-cv-8510(GBD) |
| Plaintiffs, | **CERTIFICATE OF SERVICE** |
| -against- | |
| SPIRITS INTERNATIONAL N.V.; SPI SPIRITS LIMITED; SPI GROUP SA; YURI SHEFLER; ALEXEY OLIYNIK; ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V.; and ALLIED DOMECQ SPIRITS & WINES USA, INC., d/b/a ALLIED DOMECQ SPIRITS, USA, | |
| Defendants. | |

Shahreen Mehjabeen, hereby affirms under penalty of perjury:

I am not a party to this action. On May 4, 2005, I caused a true and correct copy of the annexed **SECOND AMENDED COMPLAINT** to be served by hand delivery upon the following person at the indicated address which is designated by the addressee for that purpose:

Greg Paradise, Esq.
Kenyon & Kenyon
One Broadway
New York, NY 10004-1050

Shahreen Mehjabeen

# EXHIBIT 3

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**
**BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD**

In Re Application to Register Certification Mark of:

| | |
|---|---|
| Serial No.: | 76604592 |
| Applicant: | Russian Federal Treasury Enterprise Sojuzplodoimport |
| Filed: | July 26, 2004 |
| For: | RUSSIAN VODKA |

Published in the Official Gazette of June 28, 2005, p. TM1341

| | |
|---|---|
| SPIRITS INTERNATIONAL N.V.,<br><br>Opposer,<br><br>v.<br><br>RUSSIAN FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT,<br><br>Applicant. | Opposition No. 91,167,196 |

**APPLICANT RUSSIAN FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT'S FIRST SET OF INTERROGATORIES TO OPPOSER SPIRITS INTERNATIONAL N.V.**

Pursuant to Rule 2.120(a) of the Trademark Rules of Practice and Rule 33 of the Federal Rules of Civil Procedure, Applicant Russian Federal Treasury Enterprise Sojuzplodoimport ("Russian Federal Treasury") hereby propounds its first set of interrogatories upon Opposer Spirits International N.V. ("Opposer") and requests that Opposer answer these interrogatories separately and fully, in writing and under oath, within 30 days of service hereof.

These interrogatories shall be deemed to be continuing and Opposer shall be obligated to change, supplement and amend its answers thereto as required by Federal Rule of Civil Procedure 26(e).

**DEFINITIONS**

1. The connectives "and" and "or" shall be construed either disjunctively or conjunctively, as necessary, to bring within the scope of the interrogatory as much information as possible. The use of a word in its singular form shall be deemed to include its use in the plural form, and the use of a word in its plural form shall be deemed to include its use in the singular form. "Any" includes "all," and vice versa.

2. The use of any verb in the past tense shall be deemed to include its use in the present tense and vice versa. The use of any verb in any tense shall be construed as the use of that verb in all tenses, to the extent that so doing will include any information that would otherwise be excluded.

3. "ADIHBV" means, unless otherwise specified in a particular interrogatory, Allied Domecq International Holdings B.V. and includes, without limitation, its employees, officers, directors, agents, attorneys, representatives, and any other person or entity acting or purporting to act on its behalf.

4. "COMMUNICATION" means, without limitation, the exchange or transmission of words or ideas to another person or entity, whether accomplished person to person, by telephone, in writing, via electronic mail ("e-mail") or through another medium, and shall include, but is not limited to, discussions, conversations, negotiations, conferences, meetings, speeches, memoranda, letters, correspondence, notes and statements or questions.

5. "CONCERNING" means, without limitation, constituting, containing, concerning, mentioning, referring to, relating to, pertaining to, describing, summarizing, evidencing, analyzing, listing, relevant to, demonstrating, tending to prove or disprove, or explain.

6. "DOCUMENT" or "DOCUMENTS" shall have the same meaning and scope as set forth in Federal Rule of Civil Procedure 34(a), and includes, without limitation and regardless of its origin or location, any book, pamphlet, periodical, letter, memorandum, telegram, minutes, chart, tabulation, manual, guide, outline, abstract, history and/or record of meetings, conferences and telephone or other conversations or communications, report, study, handwritten note, diary, desk calendar, work paper sheets, papers, graphs, index, computer disc, computer hard drive, electronic mail, computer file, video or audio tape, disc, recording belts, electronic recording data sheet or data processing card, program or any other written recorded, transcribed, punched, taped, filmed or graphic material, however produced or reproduced, and any item or thing to which YOU or any of YOUR officers, agents, or employees, have or have had access to. The terms "DOCUMENT" or "DOCUMENTS" also include copies of DOCUMENTS which are not identical duplicates of the original, drafts of requested DOCUMENTS, and copies of DOCUMENTS of which the originals are not in the possession, custody or control of Russian Federal Treasury.

7. "IDENTIFY", with respect to DOCUMENTS, means to give the title (if any), type (e.g., letter, memorandum, facsimile, etc.), author(s), addressee(s) and date of the DOCUMENT.

8. "IDENTIFY", with respect to PERSONS, means to give the PERSON'S full name, present or last known address, and when referring to a natural PERSON, additionally,

the present or last-known home and business addresses, present or last-known position or business affiliation, present or last-known home and business telephone numbers, each position and business affiliation during the time period pertinent to these interrogatories and whether such PERSON is presently an employee of Opposer.

9. "IDENTIFY", with respect to geographic location, means to give the location's address including the street, city or town, state, territory or province, and country.

10. "NOTICE OF OPPOSITION" means the Notice of Opposition filed by Spirits International N.V. in this proceeding dated October 26, 2005.

11. The term "PERSON" means any natural person, firm, corporation, unincorporated association, partnership, sole proprietorship, and any other form of legal entity or governmental body, including its agents and representatives.

12. "YOU" or "YOUR" means, unless otherwise specified in a particular interrogatory, Spirits International N.V., and includes, without limitation, its employees, officers, directors, agents, attorneys, representatives, subsidiaries, parents, and any other person or entity acting or purporting to act on its behalf.

## INSTRUCTIONS

A. When an interrogatory requests disclosure of a COMMUNICATION or other information as to which YOU claim any privilege or protection as a ground for nondisclosure, IDENTIFY each PERSON who participated in or had knowledge of the COMMUNICATION or other information and provide the following:

(i) the privilege or protection that YOU claim precludes disclosure;

(ii) the subject matter of the COMMUNICATION or information (without revealing the content as to which the privilege is claimed); and

(iii) any additional facts on which YOU base your claim of privilege or protection.

B. When an interrogatory requests that YOU provide information, YOU are required to supply all information known by or available to YOU or YOUR EMPLOYEES, agents, representatives, attorneys, and experts. If YOU cannot completely answer the interrogatory after making diligent efforts to do so, please so state. Then describe in detail all efforts made to answer the interrogatory; IDENTIFY every PERSON involved in such efforts; and state the additional information YOU need, if any, to respond completely to the interrogatory.

**INTERROGATORIES**

1. IDENTIFY each and every one of YOUR current and former directors and officers.

2. IDENTIFY the custodian of YOUR records, including, but not limited to, YOUR incorporation records, manning charts and organizational charts.

3. IDENTIFY each and every PERSON who, at any time, held, owned, or otherwise controlled, one percent or more of the total outstanding shares in Spirits International N.V.

4. Provide the dates that each PERSON IDENTIFIED in YOUR response to Interrogatory No. 3 held, owned, or otherwise controlled shares in Spirits International N.V.

5. IDENTIFY each and every PERSON involved in the incorporation of Spirits International N.V., including, but not limited to, each and every person who contributed capital or services to the incorporation.

6. State in detail each and every fact that supports YOUR contention in paragraph 5 of YOUR NOTICE OF OPPOSITION that "Opposer SPI, through a related company, has supplied vodka to Allied Domecq International Holdings B.V. ("Allied Domecq") and its predecessors-in-interest for distribution and sale in the United States under various STOLICHNAYA trademarks since 1992."

7. IDENTIFY the "predecessors-in-interest" referred to in paragraph 5 of YOUR NOTICE OF OPPOSITION.

8. IDENTIFY the "related company" referred to in paragraph 5 of YOUR NOTICE OF OPPOSITION.

9. IDENTIFY each and every one of the current and former directors and officers of the "related company" referred to in paragraph 5 of YOUR NOTICE OF OPPOSITION.

10. IDENTIFY each and every PERSON who, at any time, held, owned, or otherwise controlled, one percent or more of the total outstanding shares in the "related company" referred to in paragraph 5 of YOUR NOTICE OF OPPOSITION.

11. Provide the dates that each PERSON IDENTIFIED in YOUR response to Interrogatory No. 10 held, owned, or otherwise controlled, shares in the "related company" referred to in paragraph 5 of YOUR NOTICE OF OPPOSITION.

12. State in detail each and every fact that supports YOUR contention in paragraph 6 of YOUR NOTICE OF OPPOSITION that "Allied Domecq is the owner of several trademarks and registrations for 'vodka,' including the following two incontestable marks: (1) STOLICHNAYA RUSSIAN VODKA & Design" and "(2) STOLICHNAYA".

13. IDENTIFY each and every DOCUMENT that supports YOUR response to Interrogatory No. 12.

14. State in detail each and every fact CONCERNING how ADIHBV acquired ownership of "several trademarks and registrations for 'vodka'" referred to in paragraph 6 of YOUR NOTICE OF OPPOSITION, including, without limitation, the "STOLICHNAYA RUSSIAN VODKA & Design" and "STOLICHNAYA" marks referred to in paragraph 6 of YOUR NOTICE OF OPPOSITION.

15. IDENTIFY each and every DOCUMENT that supports YOUR response to Interrogatory No. 14.

16. IDENTIFY each and every one of Spirit International N.V.'s related companies, including, but not limited to, each and every member of the SPI Group.

17. State in detail each and every fact that supports YOUR contention in paragraph 7 of YOUR NOTICE OF OPPOSITION that "Allied Domecq, through its licensees and its predecessors-in-interest, has used the STOLICHNAYA RUSSIAN VODKA & Design mark in interstate commerce in connection with the sale of 'vodka' since at least as early as 1983."

18. State in detail each and every fact that supports YOUR contention in paragraph 8 of YOUR NOTICE OF OPPOSITION that "Allied Domecq, through its licensees and its predecessors-in-interest, has used the STOLICHNAYA mark in interstate commerce in connection with the sale of 'vodka' since at least as early as 1967."

19. State in detail each and every fact that supports YOUR contention in paragraph 8 of YOUR NOTICE OF OPPOSITION that "since that time, Allied Domecq, through

its licensees and its predecessors-in-interest, has advertised STOLICHNAYA vodka as being 'Russian Vodka' or 'Genuine Russian Vodka.'"

20. IDENTIFY each and every one of the "licensees" and "predecessors-in-interest" referred to in paragraph 8 of YOUR NOTICE OF OPPOSITION.

21. State in detail each and every fact that supports YOUR contention in paragraph 9 of YOUR NOTICE OF OPPOSITION that "SPI has a reversionary ownership interest in the various STOLICHNAYA trademarks and registrations currently owned by Allied Domecq in the United States."

22. Describe in detail YOUR chain of title to each and every one of "the various STOLICHNAYA trademarks and registrations currently owned by Allied Domecq in the United States", referred to in paragraph 9 of YOUR NOTICE OF OPPOSITION.

23. Describe in detail the actions YOU took to confirm YOUR chain of title to each and every one of "the various STOLICHNAYA trademarks and registrations currently owned by Allied Domecq in the United States", referred to in paragraph 9 of YOUR NOTICE OF OPPOSITION.

24. IDENTIFY each and every DOCUMENT YOU examined or reviewed to confirm YOUR chain of title to each and every one of "the various STOLICHNAYA trademarks and registrations currently owned by Allied Domecq in the United States", referred to in paragraph 9 of YOUR NOTICE OF OPPOSITION.

25. IDENTIFY each and every PERSON who has knowledge or information CONCERNING YOUR chain of title to "the various STOLICHNAYA trademarks and registrations currently owned by Allied Domecq in the United States", referred to in paragraph 9 of YOUR NOTICE OF OPPOSITION.

26. IDENTIFY each and every DOCUMENT supporting YOUR chain of title to each and every one of "the various STOLICHNAYA trademarks and registrations currently owned by Allied Domecq in the United States", referred to in paragraph 9 of YOUR NOTICE OF OPPOSITION.

27. State in detail each and every fact that supports YOUR contention in paragraph 10 of YOUR NOTICE OF OPPOSITION that "SPI, though a related company and a licensee, has also sold vodka under the MOSKOVSKAYA mark in interstate commence in the United States and has advertised MOSKOVSKAYA vodka as 'Russian vodka' in the United States, beginning long before Applicant's July 26, 2004, filing date."

28. IDENTIFY the "related company" and "licensee" referred to in paragraph 10 of YOUR NOTICE OF OPPOSITION.

29. State in detail each and every fact that supports YOUR contention in paragraph 10 of YOUR NOTICE OF OPPOSITION that "Applicant [sic] has always had an intention to resume use and is planning to resume use of the MOSKOVSKAYA marks in the near future."

30. Describe in detail YOUR chain of title to "the MOSKOVSKAYA marks" referred to in paragraph 10 of YOUR NOTICE OF OPPOSITION.

31. Describe in detail the process by which the vodkas referred to in paragraph 14 of YOUR NOTICE OF OPPOSITION are made.

32. IDENTIFY each and every location where any part of the process described in YOUR response to Interrogatory No. 31 takes place.

33. Describe in detail the process by which the vodkas referred to in paragraph 14 of YOUR NOTICE OF OPPOSITION are distributed.

34. IDENTIFY each and every location where any part of the process described in YOUR response Interrogatory No. 33 takes place.

35. State in detail each and every fact that supports YOUR contention in paragraph 14 of YOUR NOTICE OF OPPOSITION that "vodkas supplied by SPI through its related company, and sold by Allied Domecq under the STOLICHNAYA RUSSIAN VODKA & Design and STOLICHNAYA marks in the United States, originate within the boundaries of the Russian Federation."

36. IDENTIFY each and every location where the vodkas referred to in paragraph 14 of YOUR NOTICE OF OPPOSITION are distilled.

37. IDENTIFY each and every location where the vodkas referred to in paragraph 14 of YOUR NOTICE OF OPPOSITION are bottled.

38. If the vodkas referred to in paragraph 14 of YOUR NOTICE OF OPPOSITION are bottled outside the Russian Federation, describe in detail how the vodka is transported out of the Russian Federation for bottling, including, but not limited to, how the vodka is transported, the type of container in which the vodka is transported, the manner in which the vodka is labeled for shipment, and the method of transportation out of the Russian Federation.

39. If the vodkas referred to in paragraph 14 of YOUR NOTICE OF OPPOSITION are bottled outside the Russian Federation, IDENTIFY each and every location where the vodka originates, including, but not limited to, the name of the facility and the address of the facility.

40. IDENTIFY the location(s) where each and every ingredient of the vodkas referred to in paragraph 14 of YOUR NOTICE OF OPPOSITION is grown or produced.

41. State in detail each and every fact that supports YOUR contention in paragraph 14 of YOUR NOTICE OF OPPOSITION that vodka sold by YOU and ADIHBV "likely would meet Applicant's 'production specifications.'"

42. State in detail each and every fact that supports YOUR contention in paragraph 15 of YOUR NOTICE OF OPPOSITION that the vodka YOU "will resume selling under the MOSKOVSKAYA mark will originate within the Russian Federation."

43. State in detail each and every fact that supports YOUR contention in paragraph 15 of YOUR NOTICE OF OPPOSITION that the vodka YOU "will resume selling under the MOSKOVSKAYA mark" "likely would meet Applicant's 'production specifications.'"

44. State in detail each and every fact that supports YOUR contention in paragraph 16 of YOUR NOTICE OF OPPOSITION that "Applicant's proposed use of RUSSIAN VODKA to certify that vodka produced by others originates within the Russian Federation . . . [is] likely to cause vodka purchasers mistakenly to believe that vodka supplied by SPI and sold by Allied Domecq under the STOLICHNAYA RUSSIAN VODKA & Design and STOLICHNAYA marks and vodka sold by SPI under the MOSKOVSKAYA RUSSIAN VODKA mark have been certified by (or originate from, or are sponsored by or approved by) Applicant, or meet the 'production specifications' set by Applicant."

45. State in detail each and every fact that supports YOUR contention in paragraph 16 of YOUR NOTICE OF OPPOSITION that "such confusion and mistake on the part of consumers is likely to cause injury to SPI and Allied Domecq."

46. List each and every trademark with respect to which YOU contend that the grant of the certification mark "RUSSIAN VODKA" to Russian Federal Treasury will likely cause "vodka purchased mistakenly to believe that vodka sold under those trademarks have been

certified by (or originate from, or are sponsored by or approved by) Russian Federal Treasury, or meet Russian Federal Treasury's production specifications", as stated in paragraph 16 of YOUR NOTICE OF OPPOSITION.

47. IDENTIFY each and every one of the "many companies other than Opposer and Allied Domecq" that YOU allege in paragraph 23 of YOUR NOTICE OF OPPOSITION "have used or are continuing to use the phrase 'Russian Vodka' in connection with the sale of vodka as a designation of the product's origin."

48. State in detail each and every fact that supports YOUR contention in paragraph 26 of YOUR NOTICE OF OPPOSITION that "Applicant, through its predecessors-in-interest and their respective licensees or assigns, has previously sold or distributed vodka in the Unites States using the designation 'RUSSIAN VODKA' for many years."

49. State in detail each and every fact that supports YOUR contention in paragraph 36 of YOUR NOTICE OF OPPOSITION that "Applicant FTE is already marketing in the United States, through its licensee, Ost-Alco, vodka that is claimed to be 'RUSSIAN VODKA' and 'RUSSIA VODKA.'"

50. State in detail each and every fact that supports YOUR contention in paragraph 36 of YOUR NOTICE OF OPPOSITION that "vodka exported to the United States by Ost Alco, including the JEWEL OF RUSSIA brand vodka, is produced and exported to the United States under license from FTE."

51. Describe YOUR DOCUMENT retention and/or destruction policies.

52. IDENTIFY each and every PERSON who has knowledge or information regarding YOUR document retention and/or destruction policies.

Dated: December 23, 2005

QUINN EMANUEL URQUHART OLIVER & HEDGES, LLP

David W. Quinto (Bar No. 106232)
Attorneys for Russian Federal Treasury Enterprise Sojuzplodoimport

Proof of Service

I hereby certify that a true and complete copy of the foregoing Applicant Russian Federal Treasury Enterprise Sojuzplodoimport's First Set of Interrogatories to Opposer Spirits International N.V. has been served on Opposer Spirits International N.V. , by mailing said copy to attorney for Opposer, Marie A. Lavalleye of Covington & Burling, 1201 Pennsylvania Avenue, N.W., Washington, DC 20004 on December 23, 2005, via First Class Mail, postage prepaid.

Dated: December 23, 2005

QUINN EMANUEL URQUHART OLIVER & HEDGES, LLP



David W. Quinto (Bar No. 106232)
Attorneys for Applicant
Russian Federal Treasury Enterprise Sojuzplodoimport

# EXHIBIT 4

**UNITED STATES DISTRICT COURT**
**SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCII "OST-ALCO", | 04 Civ. 08510 (GBD) |
| Plaintiffs, | ***NOTICE OF MOTION*** |
| -against- | |
| SPIRITS INTERNATIONAL N.V.; SPI SPIRITS LIMITED; SPI GROUP SA; YURI SHEFLER; ALEXEY OLIYNIK; ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V.; and ALLIED DOMECQ SPIRITS & WINES USA, INC., d/b/a ALLIED DOMECQ SPIRITS, USA, | |
| Defendants. | |

PLEASE TAKE NOTICE that, pursuant to Rule 56(a) of the Federal Rules of Civil Procedure and in accordance with the Court's Individual Rules of Practice, and upon the accompanying Memorandum of Law in Support of Plaintiffs' Motion for Summary Judgment on the Thirteenth Claim for Relief, for False Designation of Origin, Plaintiffs' Local Rule 56.1 Statement of Undisputed Facts in Support of Motion for Summary Judgment, the Declaration of David W. Quinto, dated June 16, 2005, and the exhibits thereto, the Declaration of Vladimir G. Loginov, dated May 18, 2005, and the exhibits thereto, the Declaration of Sergey M. Parshov, dated June 8, 2005, and the pleadings and all prior proceedings herein, plaintiffs Federal Treasury Enterprise Sojuzplodoimport and Ost-Alco hereby move this Court, before the Honorable George B. Daniels, for an order: (i) granting summary judgment with respect to the Thirteenth Claim, for False Designation of Origin, in the Second Amended Complaint, dated May 4, 2005; and (ii) granting such other and further relief as the Court deems just and proper.

PLEASE TAKE FURTHER NOTICE that, pursuant to Rule 6.1 of the Local Rules of the United States District Court for the Southern District of New York, any answering papers must be served upon the undersigned on or before June 30, 2005, and any reply papers served five business days thereafter.

Dated: New York, New York
June 16, 2005

QUINN EMANUEL URQUHART
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**UNITED STATES DISTRICT COURT**
**SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCII "OST-ALCO",<br><br>Plaintiffs,<br><br>-against-<br><br>SPIRITS INTERNATIONAL N.V.; SPI SPIRITS LIMITED; SPI GROUP SA; YURI SHEFLER; ALEXEY OLIYNIK; ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V.; and ALLIED DOMECQ SPIRITS & WINES USA, INC., d/b/a ALLIED DOMECQ SPIRITS, USA,<br><br>Defendants. | 04 Civ. 08510 (GBD) |

**MEMORANDUM IN SUPPORT OF**
**PLAINTIFFS' MOTION FOR SUMMARY JUDGMENT ON THE**
**THIRTEENTH CLAIM FOR RELIEF, FOR FALSE DESIGNATION OF ORIGIN**

QUINN EMANUEL URQUHART
OLIVER & HEDGES, LLP
335 Madison Avenue
New York, New York 10017
(212) 702-8100

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Pursuant to Rule 56 of the Federal Rules of Civil Procedure, plaintiffs Federal Treasury Enterprise Sojuzplodoimport ("FTE") and Obschestvo S Ogranichennoi Otvetstvennost'yu Chernogolovskii Zavod Alkogol'noi Produkcii "Ost-Alco" ("Ost-Alco") (collectively "Plaintiffs") respectfully submit this memorandum in support of their motion, dated June 16, 2005, for summary judgment on their Thirteenth Claim for Relief in the Second Amended Complaint (the "Complaint"), for False Designation of Origin against defendants Allied Domecq International Holdings B.V. ("ADIHBV") and Allied Domecq Spirits & Wines USA, Inc., d/b/a Allied Domecq Spirits, USA ("AD Spirits") (collectively, the "AD Defendants").[1]

## THIS MOTION IS PROCEDURALLY PROPER

During the hearing on April 28, 2005 on the Motion to Dismiss the First Amended Complaint and Plaintiffs' Motion for Leave To Amend the First Amended Complaint, counsel for the AD Defendants conceded that Plaintiffs have adequately pled a claim for geographic misrepresentation. Declaration of David W. Quinto, dated June 16, 2005 ("Quinto Decl."), Ex. LL (Transcript of Oral Argument dated April 28, 2005) at 88. This motion is therefore not subject to the AD

[1] Plaintiffs respectfully note that the Eighth Claim for Relief of the Second Amended Complaint states a claim for contributory false designation of origin against defendants Spirits International N.V., SPI Spirits Limited, SPI Group SA, Yuri Shefler and Alexey Oliynik (the "Shefler Defendants") based upon their contributory responsibility for the AD Defendants' false designation of the origin of their STOLICHNAYA vodka. Because this claim is currently the subject of a pending motion to dismiss (a motion which Plaintiffs firmly believe will be denied), the instant motion for summary judgment is not at this time directed at the Eighth Claim for relief.

Defendants' omnibus motions to dismiss, and the Court can rule on this motion at its earliest convenience.[2]

## PRELIMINARY STATEMENT

The AD Defendants label and market the STOLICHNAYA vodka sold in the United States as "Russian Vodka," "Genuine Russian Vodka," "Imported from Russia," "Product of Russia," and "Distilled in Russia." It is none of those things. The records of the Russian Federation Customs Service, agency investigations, and the defendants' admissions definitively establish that the AD Defendants are importing Latvian vodka to the United States and distributing it as "Russian Vodka" under the STOLICHNAYA label. Plaintiffs' Local R. 56.1 Statement Of Undisputed Facts in Support of Motion for Summary Judgment ("R. 56.1 Stmt."), ¶¶ 18-23.

"Russian Vodka" has very particular characteristics. Under Russian law, "Russian Vodka" must be distilled in Russia, made with Russian water and Russian grain, and satisfy purity and quality standards established by Russian law. The STOLICHNAYA vodka currently distributed and advertised in the United States is neither "Russian Vodka" nor a "Product of Russia," but is, rather, "Latvian Vodka" and a "Product of Latvia." As a matter of law, the literally and unambiguously false designations of geographic origin prominently featured on the AD Defendants' STOLICHNAYA labels violate Section 43(a) of the Lanham Act. 15 U.S.C. 1125(a)(1)(B).

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[2] Pursuant to Rule 56(a) of the Federal Rules of Civil Procedure, a plaintiff may move for summary judgment "at any time after the expiration of 20 days from the commencement of the action . . . ."

Further, Plaintiffs are entitled to summary judgment in connection with the AD Defendants' use of the STOLICHNAYA mark itself. The word "Stolichnaya" is a well-known Russian term meaning "from the capital," and its use in connection with the distribution of non-Russian vodka is, by itself, a false designation of origin. Moreover, the AD Defendants' STOLICHNAYA label prominently features the famous Moscow Hotel, which previously stood in the heart of Moscow, next to the Kremlin. The AD Defendants' use of this recognizable Russian landmark on the STOLICHNAYA label, along with their use of the mark itself, deceptively suggests to consumers that the vodka is from Russia.

For these reasons, the AD Defendants' misrepresentations are geographically deceptive, and Plaintiffs are entitled to summary judgment on their Thirteenth Cause of Action for False Designation of Origin.

## STATEMENT OF FACTS

***Relevant Background***

This action arises out of the January 1, 2001 fraudulent assignment of STOLICHNAYA and related trademarks (the "Marks" or the "STOLICHNAYA Marks") from PepsiCo, Inc. ("PepsiCo") to ADIHBV. Although defendants were well aware that the Marks were owned by the Russian Federation (in fact, a Russian court ruling was issued to that effect on December 21, 2000 – a mere eleven days prior to the above-referenced assignment – and the AD Defendants had previously entered into an agreement that expressly contemplated that Russia might attempt to recover the marks), defendants misrepresented to PepsiCo that they were the rightful owners of the Marks. Defendants further instructed PepsiCo to assign the Marks to ADIHBV.

In apparent reliance on these misrepresentations and instructions, on January 1, 2001, PepsiCo assigned the Marks to ADIHBV instead of to their rightful owner, the Russian Federation. Further, in reliance on the misrepresentations made by defendants, on January 4, 2001, the United States Patent and Trademark Office recorded the Marks as belonging to ADIHBV instead of their rightful owner, the Russian Federation.

Plaintiff Ost-Alco is a licensed manufacturer of STOLICHNAYA vodka in the Russian Federation. R. 56.1 Stmt., ¶ 3 (citing Declaration of Sergey M. Parshov, dated June 8, 2005 ("Parshov Decl."), ¶ 3). Ost-Alco exports super premium vodka to the United States for sale. Ost-Alco's vodkas, including, without limitation, the very highly regarded JEWEL OF RUSSIA brand vodka, are distilled and bottled in the Russian Federation. *Id.*, ¶ 4 (citing Quinto Decl., ¶ 33, Ex. EE; Parshov Decl., ¶ 4). Ost-Alco also plans to sell vodka in the United States under the STOLICHNAYA brand as the rightful licensee of the Russian Federation. *Id.*, ¶ 5 (citing Parshov Decl., ¶ 5).

***Defendants' STOLICHNAYA Vodka Is Not Russian***

"Russian Vodka" has particular characteristics. By law, "Russian Vodka" must be made with Russian water and Russian grain, must be distilled in the Russian Federation, and must meet purity and quality standards established by Russian regulations. *Id.* ¶ 16 (citing Declaration of Vladimir Loginov dated May 18, 2005 ("Loginov Decl."), ¶ 6, Exs. C-D). "Vodka" manufactured in Russia must also comply with the State Standard of the Russian Federation for Vodkas and Special Vodkas, GOST R 51355-99, implemented by Resolution of GosStandardt of Russia, No. 416,

dated October 22, 1999 ("GOST R 51355-99"). *Id.* The STOLICHNAYA vodka currently being distributed in the United States, however, does not comply with the above requirements because it is made in Latvia. *Id.*, ¶ 12 (citing Quinto Decl., ¶¶ 2-22, Exs. A-U).

Until late 2001 or early 2002, the STOLICHNAYA brand vodka distributed in the United States was Russian in origin, produced and bottled at JSC "SPI-RVVK" Distillery, at 80 Cherniakhovskogo St., Kaliningrad, Russia (the "Kaliningrad Distillery") and other distilleries in Russia. Defendants admit, however, that the production and bottling of defendants' STOLICHNAYA vodka was moved from Russia to Latvia following the 2001 fraudulent assignment to ADIHBV. *Id.*, ¶ 18 (citing Quinto Decl., ¶¶ 2-19, Exs. A-R).

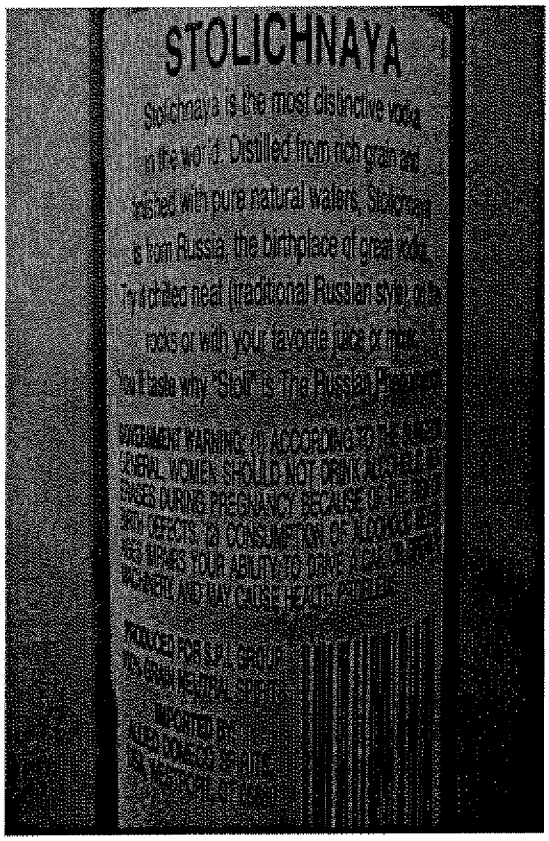
Defendant AD Spirits purchases vodka from defendant SPI Spirits Limited ("SPI Spirits"), ships the vodka to the United States and causes it to be sold under the STOLICHNAYA[3] brand label. *Id.*, ¶ 14 (citing Quinto Decl., ¶¶ 27-28, 38, Exs. Y-Z, JJ). As can be seen from the photographs, below, AD Spirits' STOLICHNAYA bottles prominently display the phrases "Russian Vodka," "Genuine Russian Vodka," "Product of Russia," "Imported Russian Vodka," "The Russian Phenomenon," and "Distilled in Russia."[4] *See also id.*

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[3] The term "Stolichnaya" is Russian in origin, meaning "from the capital." *Id.*, ¶ 7 (citing Quinto Decl. at ¶ 32, Ex. DD).

[4] Indeed, one of the STOLICHNAYA related marks fraudulently obtained by the AD Defendants from PepsiCo is for "STOLICHNAYA RUSSIAN VODKA." *Id.*, ¶ 27 (citing Quinto Decl., ¶ 39, Ex. KK). That PepsiCo registered such a mark reflects the importance of identifying STOLICHNAYA as originating in Russia, even if, as the AD Defendants are well aware, their vodka does not.




The AD Defendants also use a rendition of the famous Moscow Hotel, previously located near the Kremlin in the heart of Moscow, as the centerpiece of their most familiar STOLICHNAYA label. *Id.*, ¶ 15 (citing Quinto Decl., ¶ 28, Ex. Z). In addition, Allied Domecq PLC, the parent company of the AD Defendants, states in its Form 20-F disclosures filed with the Securities and Exchange Commission in 2002-2004, that "*Stolichnaya is a Russian vodka* for which we have acquired the distribution rights for various countries, including the United States." (Emphasis added). *Id.*, ¶ 8-11 (citing Quinto Decl. ¶¶ 34-37, Exs. FF-II).

The AD Defendants clearly want consumers and shareholders to believe that their vodka originates from Russia. But it does not. It is made in Latvia. Following a series of adverse rulings by Russian tribunals, defendants shifted the

production of their STOLICHNAYA vodka from Russia to the Balzams distillery, located in Riga, Latvia. SPI Group's own website displays an article stating that STOLICHNAYA is one of the "vodka products" of the Balzams distillery. *Id.*, ¶ 17 (citing Quinto Decl., ¶ 2, Ex. A at 2). Further, Andrei Skurikhin, the General Director of ZAO-SPI (a member of the SPI Group) and General Counsel and Deputy Chairman of defendant SPI Group SA, admitted that defendants planned to move their STOLICHNAYA vodka production to the Balzams plant in Latvia. *Id.*, ¶ 18; *see also* Quinto Decl. ¶ 3, Ex. B. at p.1, ¶ 2 (Skurikhin was quoted as saying on or about October 31, 2001, that "[w]e can start making Stolichnaya in Riga (the Latvian capital) as soon as Monday"). Yuri Shefler, the controlling shareholder of the SPI Group, has also admitted that defendants planned to move their STOLICHNAYA vodka production to the Balzams plant in Latvia. *Id.*, ¶ 18; *see also* Quinto Decl., ¶ 5, Ex. D at 4, ¶ 3.

Numerous articles posted on SPI's own website further confirm that its STOLICHNAYA vodka is made in Latvia. Quinto Decl., ¶¶ 6-19, Exs. E-R. *See, e.g.*, *Id.*, ¶ 12, Ex. K at 1, ¶ 3 (Sergei Boguslavsky, an SPI spokesman, quoted as saying "[w]e make it [STOLICHNAYA] in Latvia"); *Id.*, ¶ 14, Ex. M at 1, ¶ 8 (a spokesperson for First Drinks Brands, SPI's United Kingdom distributor, quoted as stating that, "bottling of Stolichnaya had been moved to Latvia and the brand was then being exported from there"); *Id.*, ¶ 13, Ex. L at 1, ¶ 3 (stating that the "production of 'STOLICHNAYA' vodka for export was removed from Russia to a factory in Riga (Latvijas Balzams)"); *Id.*, ¶ 18, Ex. Q at 2, ¶ 15 (stating that SPI had moved its vodka production to its "Latvijas-balzams plant in Riga, Latvia").

The Russian Federation Customs Service ("FCS") records and investigations also establish that the AD Defendants' vodka is not made in Russia. Pursuant to Chapter 14 of the Customs Code of the Russian Federation, all entities that export vodka from the Russian Federation must complete and submit customs declaration forms to the FCS identifying the brand of vodka being exported and the destination country. *Id.*, ¶¶ 19-20 (citing Loginov Decl., ¶ 2). That information is compiled in a computer database. *Id.* Pursuant to Order No. 831 of the State Customs Committee of the Russian Federation dated August 21, 2001, the FCS keeps records of all vodka exports. *Id.*, ¶¶ 21-22 (citing Loginov Decl., ¶ 3, Ex. A). The FCS records, however, do not show <u>any</u> exports of STOLICHNAYA vodka by any defendants during 2004 or, in fact, any exports at all by the defendants to the United States during 2004. *Id.*

The SPI Defendants[5] cannot claim that their STOLICHNAYA vodka continues to be distilled in the Kaliningrad Distillery in Russia, as their own admissions and the FCS export records conclusively demonstrate to the contrary.[6] *Id.*, ¶¶ 18-23. Furthermore, to rebut any potential argument that defendants are somehow exporting STOLICHNAYA vodka from the Kaliningrad Distillery under a different name, Plaintiffs inspected random vodka shipments originating from the Kaliningrad Distillery and confirmed that the vodka in those shipments was not STOLICHNAYA vodka, which is made according to a particular recipe and has a distinctive chemical

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[5] "SPI Defendants" collectively refers to Spirits International N.V., SPI Spirits Limited and SPI Group SA.

composition. *Id.*, ¶ 23 (citing Loginov Decl., ¶ 4; Quinto Decl., ¶ 25, Ex. W). Based upon these undisputed facts, Vladimir G. Loginov, the General Director of FTE,[7] has officially concluded "that any STOLICHNAYA vodka sold in the United States by Allied Domecq, SPI Group and Spirits International has not been exported from Russia and, accordingly, is not of Russian origin." Loginov Decl., ¶ 7.[8]

## ARGUMENT

### I.

### SUMMARY ADJUDICATION IS APPROPRIATE WHEN THERE IS NO MATERIAL ISSUE OF FACT IN DISPUTE AS TO A PARTICULAR CLAIM

A party may move for summary judgment on the entirety of a claim "or on any part thereof." Fed. R. Civ. P. 56(a). Partial summary judgment and/or summary adjudication serves the salutary purpose of simplifying the issues to be tried and avoiding a needless trial over issues about which there is no substantial controversy. *Capital Temps., Inc. of Hartford v. Olsten Corp.*, 506 F.2d 658, 668 (2d Cir. 1974); *Algie v. RCA Global Communications, Inc.*, 891 F. Supp. 875, 882-883 (S.D.N.Y. 1994). The same standard is used to determine whether to enter partial or complete summary judgment. *See Conners v. Miller Adver. Agency,* 1997 WL

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[6] Stanislaw Brasiler, the Director of Spirits International N.V., claimed in other proceedings in July 2004 that certain unspecified 'vodkas' produced by Spirits International N.V. are distilled at the Kaliningrad Distillery. Quinto Decl., ¶ 23.

[7] FTE is authorized and required by the laws of the Russian Federation to authorize the manufacture and sale of the STOLICHNAYA and MOSKOVSKAYA brands of vodka. R. 56.1 Stmt., ¶ 1 (citing Loginov Decl., ¶ 2).

[8] In July 2002, Defendant ADIHBV was explicitly informed by FTE that the vodka supplied to AD Spirits by SPI Spirits was Latvian vodka, not Russian vodka. *Id.*, ¶ 13 (citing Quinto Decl., ¶ 24, Ex. V). Nonetheless, the AD Defendants have continued to falsely market their STOLICHNAYA vodka as Russian.

1102028, at *6 (S.D.N.Y. 1997); *U.S. Football League v. Nat'l Football League*, 634 F. Supp. 1155, 1166 (S.D.N.Y. 1986).

Summary judgment may be granted when there is "no genuine issue of material fact, and the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 250 (1986). Once the moving party sets forth a prima facie case establishing its right to judgment as a matter of law, the non-moving party must present specific facts to show that there is a genuine issue of material fact for trial. *Celotex Corp. v. Catrett*, 477 U.S. 317, 322-323 (1986).

To meet this burden, the non-movant must do more than simply show that there is some "metaphysical" doubt as to the material facts. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 585-586 (1986). Rather, it must "come forward with specific facts showing that there is a genuine issue for trial." *Id.* at 587. A defendant must produce more than a mere scintilla of evidence; there must be evidence on which a jury could reasonably find for the defendant. *See Anderson*, 477 U.S. at 259. If there is no genuine issue of material fact, the court must grant summary judgment in favor of the moving party. Fed. R. Civ. P. 56(c).

## II.

## THE AD DEFENDANTS HAVE MISREPRESENTED THE GEOGRAPHIC ORIGIN OF THEIR STOLICHNAYA VODKA BY ADVERTISING THEIR LATVIAN-MADE VODKA AS RUSSIAN VODKA

Section 43(a) of the Lanham Act provides in relevant part that:

> Any person who . . . in commercial advertising or promotion, *misrepresents* the nature, characteristics, qualities, or *geographic origin* of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a)(1)(B) (emphasis added). "The purpose of the [Lanham] Act is to insure truthfulness in advertising and to eliminate misrepresentations with reference to the inherent quality or characteristic of another's product[.]" *Coca-Cola Co. v. Tropicana Products, Inc.*, 690 F.2d 312, 318 (2d Cir. 1982).

In order to establish a Lanham Act claim under this section a plaintiff must show that "the defendant: (1) has made material misrepresentations about the nature, characteristics or geographic origin of either defendant's or plaintiff's goods or services; (2) has used the false or misleading representations 'in commerce;' (3) has made the representations in the context of commercial advertising or commercial promotion; and (4) has made plaintiff believe that he or she is likely to be damaged by the misrepresentations." *Randa Corp. v. Mulberry Thai Silk, Inc.*, 2000 WL 1741680, at *2 (S.D.N.Y. 2000) (citing *McNeil-P.C.C., Inc. v. Bristol Myers Squibb Co.*, 938 F.2d 1544, 1548-49 (2d Cir. 1991); *Towers Fin. Corp. v. Dun & Bradstreet, Inc.*, 803 F. Supp. 820, 823 (S.D.N.Y. 1992); *National Artists Mgmt. Co. v. Weaving*, 769 F. Supp. 1224, 1230 (S.D.N.Y. 1991). *Accord, Hot Wax, Inc. v. Turtle Wax, Inc.*, 191

F.3d 813, 819 (7th Cir. 1999); *Ditri v. Coldwell Banker Residential Affiliates*, 954 F.2d 869, 872 (3d Cir. 1992).

**A. The AD Defendants Have Misrepresented the Origin of Their STOLICHNAYA Vodka.**

Product labels and advertisements that directly and/or indirectly misrepresent the geographic origin of the item being sold violate Section 43(a) of the Lanham Act. *See, e.g., Larsen v. Terk Tech. Corp.*, 151 F.3d 140, 149 (4th Cir. 1998) (manufacturer of decorative compact disc ("CD") holders that manufactured its CD holders in New York violated the Lanham Act by falsely stating on its label that the product was "Made in Denmark"); *Black Hill Jewelry Mfg. Co. v. Gold Rush, Inc.*, 633 F.2d 746, 750 (8th Cir. 1980) (affirming injunction against use of BLACK HILLS GOLD to advertise jewelry that was not produced in Black Hills of South Dakota); *Scotch Whiskey Ass'n v. Barton Distilling Co.*, 338 F. Supp. 595 (N.D. Ill. 1981), *aff'd in part, rev'd in part*, 489 F.2d 809 (7th Cir. 1973) (injunction affirmed against use of SCOTCH on whiskey not originating in Scotland); *Scotch Whiskey Ass'n v. Consol. Distilled Prods.*, 210 U.S.P.Q. 639, 642 (N.D. Ill. 1981) (enjoining use of LOCH-A-MOOR on whiskey not produced in Scotland); *see also In re Consol. Specialty Rests., Inc.*, 71 U.S.P.Q.2d 1921, 1929 (T.T.A.B. 2004) (denying trademark registration of the name "Colorado Steakhouse" because consumers will mistakenly believe that the

steaks served at applicant's steakhouses are from Colorado).[9]

The Scotch whiskey cases are particularly instructive here, as vodka is a signature product associated with Russia, much like whiskey is associated with Scotland. For example, in *Scotch Whiskey Association v. Consolidated Distilled Products*, a dispute involving the sale of non-Scottish whiskey, the court held that the mere use of words, phrases or images that even implied that the spirits came from Scotland violated the Lanham Act. *Id.*, 210 U.S.P.Q. at 642 (injunction proper where the label referred to a Scottish island, displayed a castle, and used the Scottish terms "Loch" and "Moor" in the mark itself).

Here, defendants do far more than imply that their STOLICHNAYA vodka comes from Russia, they say so expressly and unequivocally. The STOLICHNAYA label and advertisements used by the defendants falsely refer to the vodka as "Russian Vodka," "Genuine Russian Vodka," "Product of Russia," "Imported Russian Vodka," "The Russian Phenomenon" and "Distilled in Russia." The label displays the famous Moscow Hotel. Even the Russian term "STOLICHNAYA" itself conveys that the product comes "from the capital." R. 56.1

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[9] Second Circuit precedent is in accord that the false designation of a product as having been made in a particular locale constitutes a violation of the Lanham Act. *See, e.g., Forschner Group, Inc. v. Arrow Trading Co. Inc.*, 30 F.3d 348 (2d Cir. 1994). While the appellate court in *Forschner* ultimately declined to enjoin the use of "Swiss Army knife" on the grounds that it was not geographically deceptive as the word "Swiss" modified "Army" (and not "knife"), the court opined that the defendant could have violated the Lanham Act had it promoted its product as "made in Switzerland" or a "Swiss pocketknife." *Id.* at 355-56. Here, where the AD Defendants promote their vodka as "Russian Vodka," "Product of Russia" and "Distilled in Russia," the *Forschner* decision squarely supports summary judgment for Plaintiffs.

Stmt., ¶ 7 (citing Quinto Decl., ¶ 32, Ex. DD). But there can be no factual dispute as to the origin of the AD Defendants' STOLICHNAYA vodka; the Russian Federation records and investigations, as well as defendants' own numerous admissions, definitively establish that defendants' STOLICHNAYA vodka is from Latvia, not Russia. *Id.*, ¶¶ 17-23 (citing Loginov Decl., ¶¶ 2, 3, 4, Ex. A; Quinto Decl., ¶¶ 2-19, 25, Exs. A-R, W); *see also* Loginov Decl. ¶ 7.[10]

The AD Defendants' representations therefore constitute a literally false designation of origin in violation of Section 43(a) of the Lanham Act.[11]

**B. The AD Defendants' Literally False Designations of the Origin of Their STOLICHNAYA Vodka Are Inherently Likely to Materially Deceive a Substantial Number of Their Consumers.**

Here, where the AD Defendants' representations that their STOLICHNAYA vodka is from Russia are literally false, consumer confusion need not be proved to establish false advertising under the Lanham Act. *See, e.g., McNeil-P.C.C., Inc. v. Bristol-Myers Squibb Co.*, 938 F.2d 1544, 1549 (2d Cir. 1991) ("Where

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[10] Further, even if the AD Defendants' STOLICHNAYA vodka were partially manufactured in Russia and completed in Latvia (*i.e.* if some Russian ingredients were used), failing to disclose the use of any Latvian ingredients (*e.g.*, water, grain, etc . . .) would still constitute false advertisement. *See, e.g., Harsam Distribs., Inc. v. F.T.C.*, 263 F.2d 396, 398 (2d Cir. 1959) (holding that the defendant could not market its perfume as "Imported from France," when it was imported French perfume concentrate mixed with domestic alcohol); *Edward P. Paul & Co. v. F.T.C.*, 169 F.2d 294, 296 (D.C. Cir. 1948) (holding that the defendant could not advertise its products as "French" when parts were made in Japan).

[11] When presented with similar facts, a German court enjoined a distributor of the SPI Group, Simex, from advertising or selling its MOSKOVSKAYA vodka in Germany as "Genuine Russian vodka," "Imported from Russia," or "Produced and Bottled in Russia." R. 56.1 Stmt., ¶ 24 (citing Loginov Decl., ¶ 5, Ex. B). In a subsequent settlement agreement, the parties to the above German litigation agreed that, even if Simex's vodka were produced in Russia and bottled in Latvia, Simex would not be permitted to advertise it as "genuine" Russian vodka or "distilled in Russia." *Id.*, ¶ 25 (citing Loginov Decl., ¶ 5 Ex., B).

the advertising claim is shown to be literally false, the court may enjoin the use of the claim 'without reference to the advertisement's impact on the buying public.'"); *Coca-Cola Co. v. Tropicana Products, Inc.*, 690 F.2d 312, 317 (2d Cir. 1982) ("When a merchandising statement or representation is literally or explicitly false, the court may grant relief without reference to the advertisement's impact on the buying public."); *American Home Products Corp. v. Johnson & Johnson*, 577 F.2d 160, 165 (2d Cir. 1978) ("If a statement is actually false, relief can be granted on the court's own findings without reference to the reaction of the buyer or consumer of the product.").

The AD Defendants have commercially advertised and continue to commercially advertise their STOLICHNAYA vodka as "Genuine Russian Vodka," "Russian Vodka," "Imported Russian Vodka," "Product of Russia," "The Russian Phenomenon" and "Distilled in Russia." Given the extraordinary prominence and wide-spread use of these false statements in defendants' labeling and marketing of their STOLICHNAYA vodka, there can be no dispute that the false designation of defendants' vodka as being from Russia is material to consumers. These statements are thus literally and materially false on their face and, as such, are inherently likely to deceive or have a tendency to deceive a substantial segment of consumers.

**C. The AD Defendants Have Made False Statements in Interstate Commerce and Plaintiffs Have Been Injured as a Result.**

The AD Defendants have made their false advertisements concerning STOLICHNAYA vodka in interstate commerce by marketing STOLICHNAYA vodka all across the United States, including the State of New York. As a result of the AD Defendants' false statements, Plaintiffs have been and are likely to be injured. "[A]

plaintiff has standing [under 15 U.S.C. 1125(a)] whether he or she is in direct or indirect competition with the alleged violator. . . . What matters is whether a commercial party has a reasonable interest to be protected against the alleged false advertising." *PPX Enters. Inc. v. Audiofidelity, Inc.*, 746 F.2d 120, 125 (2d Cir. 1984); *see also Rare Earth, Inc. v. Hoorelbeke*, 401 F. Supp. 26, 39 (S.D.N.Y. 1975).

Here, Plaintiffs have a "reasonable interest" that should be protected. Plaintiff Ost-Alco currently sells its super premium brand JEWEL OF RUSSIA, among other vodkas, in the United States. Moreover, Plaintiffs Ost-Alco and FTE together plan to sell genuine Russian vodka in the United States under the STOLICHNAYA brand label through Ost-Alco as the rightful licensee of FTE.[12] This is sufficient to establish standing and likelihood of injury under the Lanham Act. *See, e.g., West Indian Sea Island Cotton Ass'n v. Threadtex, Inc.*, 761 F. Supp. 1041, 1049 (S.D.N.Y. 1991) (holding that evidence of plans of future entry into the market is sufficient to grant standing to file a claim under 15 U.S.C. § 1125(a) and establish likelihood of injury to the plaintiff).

## III.

## PLAINTIFFS ARE ALSO ENTITLED TO SUMMARY ADJUDICATION ON THE THIRTEENTH CLAIM FOR RELIEF BECAUSE THE AD DEFENDANTS' MERE USE OF THE STOLICHNAYA MARK IS DECEPTIVE AND GEOGRAPHICALLY MISDESCRIPTIVE

The AD Defendants' mere use of the STOLICHNAYA Mark itself is geographically deceptive, pursuant to 15 U.S.C. § 1052(a), and geographically misdescriptive, pursuant to 15 U.S.C. § 1052(e)(3). The test for whether a mark is

[12] *See* R. 56.1 Stmt., ¶ 5 (citing Pasharov Decl., ¶ 4; Loginov Decl., ¶ 2).

geographically deceptive or geographically misdescriptive is essentially the same.[13] *See In re California Innovs., Inc.*, 329 F.3d 1334, 1341-1342 (Fed. Cir. 2003) (holding that there are "identical legal standards" for deception in §§ 1052(a) and 1052(e)(3)); *In re Les Halles De Paris J.V.*, 334 F.3d 1371, 1373 (Fed. Cir. 2003) (same). A mark is both geographically deceptive and geographically misdescriptive if: (1) the primary significance of the mark is a generally known geographic location; (2) the consuming public is likely to believe the place identified by the mark indicates the origin of the goods bearing the mark, when in fact the goods do not come from that place; and (3) the misrepresentation was a material factor in the consumer's decision. *See In re Les Halles*, 334 F.3d at 1373; *In re California Innovs.*, 329 F.3d at 1341-1342.

To be geographically deceptive and misdescriptive it is not necessary that the mark be an actual geographic name in and of itself. *See* 2 *J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition*, § 14:39 (4th ed. 2004);

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[13] Section 1052(a) imposes an additional requirement that geographically deceptive marks used in connection with wines or spirits must first be used on or after one year after the date on which the WTO Agreement entered into force with respect to the United States. *See* 15 U.S.C. § 1052(e)(3). However, "use" of a mark for the purposes of Section 1052(a) occurs when the mark: (i) identifies a place other than the origin of the goods; and (ii) is first used on or in connection with spirits on or after one year after April 15, 1994 (the date the WTO Agreement entered into force with respect to the United States). *Id*

Here, the STOLICHNAYA mark was never used as a false indication of geographic origin prior to April 15, 1994, because, until the purported assignment to ADIHBV, the STOLICHNAYA vodka sold in the United States truly was Russian in origin. Thus, the first use of the STOLICHNAYA Mark to identify a place other than the origin of the goods took place more than a year after the entry into force of the WTO Agreement. Consequently, "first use," for the purposes of Section 1052(a) occurred sometime in 2002, when ADIHBV first began distributing Latvian vodka as Russian vodka. *See* Quinto Decl., ¶ 24, Ex. V; *see also K-Swiss, Inc. v. Swiss Army Brands, Inc.*, 58 U.S.P.Q.2d 1540, 1542-1543 (T.T.A.B. 2001) (holding that trademark registration more than five years old may be cancelled on ground of geographic deceptiveness if registrant causes its mark to become geographically deceptive subsequent to issuance of registration).

*see also Scotch Whisky Ass'n v. U.S. Distilled Prods. Co.*, 952 F.2d 1317, 1319 (Fed. Cir. 1991) (concluding that the plaintiff had stated a viable cancellation claim by alleging that the use of the Scottish surname McADAMS in connection with the sale of Canadian whiskey deceptively suggested that the whisky came from Scotland). The relevant inquiry is whether it is likely that the ordinary purchaser, not the expert or connoisseur, will be confused as to the geographic origin of the goods. *See Omega Imp. Corp. v. Petri-Kine Camera Co.*, 451 F.2d 1190, 1195 (2d Cir. 1971).

Here, the ordinary consumer certainly would think that STOLICHNAYA brand vodka was from Russia. The primary significance of the STOLICHNAYA Mark is that it suggests a generally known geographic location (*i.e.*, Russia).[14] The word STOLICHNAYA is a well known Russian term, meaning "from the capital." According to the *Pocket Oxford Russian Dictionary* (Oxford Univ. Press. 2000), the term "stolitsa" means "capital." R. 56.1 Stmt., ¶ 7 (citing Quinto Decl., ¶ 32, Ex. DD). The term "stolichnaya" is an adjective thereof, meaning "from the capital."[15]

There are nearly three million Russian-speakers in the United States, the largest percentage of whom reside in the State of New York. *Id.*, ¶ 26 (citing

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[14] Indeed, one of the STOLICHNAYA related marks registered and used by the AD Defendants – "STOLICHNAYA RUSSIAN VODKA" – does include the geographically deceptive term "Russian Vodka." R. 56.1 Stmt., ¶ 27 (citing Quinto Decl., ¶ 39, Ex. KK).

[15] Similarly, the label depicts the Moscow Hotel and refers to Russia repeatedly. R. 56.1 Stmt., ¶ 15 (citing Quinto Decl., ¶ 28, Ex. Z). *See Scotch Whiskey (Loch-A-Moor)*, 210 U.S.P.Q. at 642 (finding that the use of the LOCH-A-MOOR mark was likely to mislead consumers into believing that the geographic origin of the product is Scotland because the terms "Loch" and "Moor" are Scottish and British in origin, the label displayed a castle, and the label referred to a Scottish island).

Quinto Decl., ¶¶ 29-31, Exs. AA-CC). Russian-speakers, in particular, are likely to be deceived by the AD Defendants' false statements, when presented with a Russian-titled vodka (*i.e.*, STOLICHNAYA) that is falsely advertised as "Russian Vodka," "Genuine Russian Vodka," and "Imported from Russia." Thus, New York consumers are particularly at risk from the defendants' false advertising.

The AD Defendants' mere use of the STOLICHNAYA mark – a Russian word that clearly indicates that the product is Russian in origin – thus constitutes a violation of Section 43(a) of the Lanham Act and should be enjoined.[16]

[16] Plaintiffs' Motion for Summary judgment does not seek judgment as to damages, costs and attorneys' fees, or other available remedies. In the interest of judicial economy, Plaintiffs reserve their rights to seek such other relief upon resolution of the remaining claims in the Second Amended Complaint.

## CONCLUSION

For the foregoing reasons, Plaintiffs respectfully request that their motion for partial summary judgment dismissing the *Thirteenth Claim for Relief* of the Second Amended Complaint for False Designation of Origin against defendants Allied Domecq International Holdings B.V. and Allied Domecq Spirits & Wines USA, Inc., d/b/a Allied Domecq Spirits, USA be granted, and that the Court permanently enjoin the AD Defendants from continuing the false and deceptive advertising practices detailed above.

Dated: New York, New York
June 16, 2005

QUINN EMANUEL URQUHART
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Federal Treasury Enterprise
Sojuzplodoimport "FTE" and
*Obschestvo S Ogranichennoi*
Otvetstvennost'yu Chernogolovskii
Zavod Alkogol'noi Produkcii "Ost-Alco

Of Counsel:

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# EXHIBIT 5

**UNITED STATES DISTRICT COURT**
**SOUTHERN DISTRICT OF NEW YORK**

FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCII "OST-ALCO",

Plaintiffs,

-against-

SPIRITS INTERNATIONAL N.V.; SPI SPIRITS LIMITED; SPI GROUP SA; YURI SHEFLER; ALEXEY OLIYNIK; ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V.; and ALLIED DOMECQ SPIRITS & WINES USA, INC., d/b/a ALLIED DOMECQ SPIRITS, USA,

Defendants.

04 Civ. 08510 (GBD)

**PLAINTIFFS' LOCAL *RULE 56.1***
**STATEMENT OF UNDISPUTED FACTS**
**IN SUPPORT OF MOTION FOR SUMMARY JUDGMENT**

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Pursuant to Local Civil Rule 56.1, plaintiffs Federal Treasury Enterprise "Sojuzplodoimport" ("FTE") and Ost-Alco (collectively "Plaintiffs") respectfully submit this statement of material facts as to which there is no genuine issue to be tried in support of their Motion for Summary Adjudication.

**UNDISPUTED FACTS**

1. FTE is authorized and required by the laws of the Russian Federation to authorize the manufacture and sale of the STOLICHNAYA and MOSKOVSKAYA brands of vodka. Declaration of Vladimir G. Loginov, dated May 18, 2005 ("Loginov Decl."), ¶ 2.

2. On January 6, 2005, the Government of the Russian Federation issued Decree No. 6, "On Recovery and Protection of the Rights of the Russian Federation to the Trademarks Abroad," expressly confirming FTE's right to represent the interests of the Russian Federation in foreign courts on matters of recovery and protection of Russia's rights to trademarks for alcoholic products abroad. Declaration of David W. Quinto, dated June 16, 2005 ("Quinto Decl."), ¶ 26, Ex. X.

3. Plaintiff Ost-Alco is the licensed manufacturer of STOLICHNAYA vodka in the Russian Federation. Declaration of Sergey M. Parshov, dated June 8, 2005 ("Parshov Decl."), ¶ 3.

4. Ost-Alco exports super premium vodka to the United States for sale. Ost-Alco's vodkas, including, without limitation, the very highly regarded JEWEL OF RUSSIA brand vodka, are distilled and bottled in the Russian Federation. Quinto Decl., ¶ 33, Ex. EE; Parshov Decl., ¶ 4.

5. Ost-Alco also plans to sell vodka under the STOLICHNAYA brand in the United States. Parshov Decl., ¶ 5; Loginov Decl., ¶ 2.

6. Defendant Allied Domecq Spirits & Wines USA, Inc., d/b/a/ Allied Domecq Spirits USA ("AD Spirits") imports purported STOLICHNAYA vodka sold to it by defendant SPI Spirits Limited ("SPI Spirits") to the United States. Quinto Decl., ¶ 27, Ex. Y.

7. The term "Stolichnaya" is Russian in origin, meaning "from the capital." Quinto Decl., ¶ 32, Ex. DD.

8. On or about July 26, 2002, Allied Domecq PLC, the parent company of defendants Allied Domecq International Holdings B.V. ("ADIHBV") and AD Spirits (collectively, the "AD Defendants"), filed a Form 20-F Registration Statement with the Securities and Exchange Commission. On page 22 of the Registration Statement Allied Domecq states that: "Stolichnaya is a Russian vodka for which we have acquired the distribution rights." Quinto Decl., ¶ 34, Ex. FF.

9. On or about February 28, 2003, for the fiscal year ended August 31, 2002, Allied Domecq PLC, the parent company of defendants ADIHBV and AD Spirits, filed a Form 20-F Annual Report with the Securities and Exchange Commission. On page 17 of the Form 20-F Annual Report, Allied Domecq states that: "Stolichnaya is a Russian vodka for which we have acquired the distribution rights for various countries, including the United States." Quinto Decl., ¶ 35, Ex. GG.

10. On or about February 27, 2004, for the fiscal year ended August 31, 2003, Allied Domecq PLC, the parent company of defendants ADIHBV and AD Spirits, filed a Form 20-F Annual Report with the Securities and Exchange Commission. On page 17 of the Form 20-F Annual Report, Allied Domecq states that: "Stolichnaya is a Russian vodka for which we have acquired the distribution rights for various countries, including the United States." Quinto Decl., ¶ 36, Ex. HH.

11. On or about December 15, 2004, for the fiscal year ended August 31, 2004, Allied Domecq PLC, the parent company of defendants ADIHBV and AD Spirits, filed a Form 20-F Annual Report with the Securities and Exchange Commission. On page 25 of the Form 20-F Annual Report, Allied Domecq states that: "Stolichnaya is a Russian vodka for which we have acquired the distribution rights for various countries, including the United States." Quinto Decl., ¶ 37, Ex. II.

12. Following 2001, the production of defendants' STOLICHNAYA vodka was moved to the Balzams plant, located in Latvia. Quinto Decl., ¶¶ 2-22, Exs. A-U.

13. In July 2002, the AD Defendants were informed by FTE that, since at least as early as the second quarter of 2002, the vodka supplied to AD Spirits by SPI Spirits was Latvian vodka, not Russian vodka. Quinto Decl., ¶ 24, Ex. V.

14. In the United States, the AD Defendants distribute and advertise their STOLICHNAYA Vodka, which is supplied to them by SPI Spirits, as "Russian Vodka," "Genuine Russian Vodka," a "Product of Russia," "Imported Russian Vodka," "The Russian Phenomenon," and "Distilled in Russia." Quinto Decl., ¶¶ 27-28, 38, Exs. Y-Z, JJ.

15. The centerpiece of the AD Defendants' most familiar STOLICHNAYA label is a rendition of the famous Moscow Hotel, previously located near the Kremlin in the heart of Moscow, which has long served as a symbol of Russia to the West. Quinto Decl., ¶ 28, Ex. Z.

16. Pursuant to Russian Federation Certificate No. 0065/01, "For the Right to Use the Name of the Place of Origin of the Product," signed by the General Director of the Russian Agency on Patents and Trademarks, "Russian Vodka" must be made with Russian water and Russian wheat, must be distilled in the Russian Federation, and must meet purity and quality standards established by that and other regulations. Loginov Decl., ¶ 6, Exs. C-D.

17. SPI Group's website states that STOLICHNAYA vodka is a product of the Latvijas Balzams distillery. Quinto Decl., ¶ 2, Ex. A.

18. Defendants have repeatedly represented that they plan to manufacture and do manufacture STOLICHNAYA vodka in the Balzams distillery, located in Latvia. Quinto Decl., ¶¶ 2-19, Exs. A-R.

19. All entities that export vodka from the Russian Federation are required to complete and submit customs declaration forms to the Federal Customs Service ("FCS") of the Russian Federation identifying the brand of vodka being exported and the destination country. That information is input into a computer database. Loginov Decl., ¶ 2.

20. Pursuant to Order No. 831 of the State Customs Committee of the Russian Federation, dated August 21, 2001, the FCS keeps records of all vodka exports. Loginov Decl., ¶ 2.

21. The records of the FCS show that defendants did not export any STOLICHNAYA brand vodka from the Russian Federation in 2004. Loginov Decl., ¶ 3, Ex. A.

22. The FCS's records also show that the JSC "SPI-RVVK" Distillery, at 80 Cherniakhovskogo St., Kaliningrad, Russia ("Kaliningrad Distillery"), did not export any vodka under the STOLICHNAYA trademark in 2004. Loginov Decl., ¶ 3, Ex. A.

23. FTE has inspected random vodka shipments originating from the Kaliningrad Distillery and confirmed that the vodka in those shipments was not STOLICHNAYA vodka, which is made according to a particular recipe and which has a distinctive chemical composition. Loginov Decl., ¶ 4; Quinto Decl., ¶ 25, Ex. W.

24. A German court recently enjoined a distributor of the SPI Group, Simex, from advertising or selling its MOSKOVSKAYA vodka in Germany as "Genuine Russian

vodka," "Imported from Russia," or "Produced and Bottled in Russia." Loginov Decl., ¶ 5, Ex. B.

25. In a subsequent settlement agreement, the parties to the above German litigation agreed that, even if Simex's vodka were produced in Russia and bottled in Latvia, Simex would not be permitted to advertise it as "genuine" Russian vodka or "distilled in Russia." Loginov Decl., ¶ 5.

26. The State of New York is host to the largest Russian immigrant community in the United States. Quinto Decl., ¶¶ 29-31, Exs. AA-CC.

27. Among the various STOLICHNAYA related marks obtained fraudulently by the AD Defendants from PepsiCo, Inc. is the mark "STOLICHNAYA RUSSIAN VODKA,"

which was originally registered by PepsiCo, Inc. in 1994. Quinto Decl., ¶ 39, Ex. KK.

Dated: New York, New York
June 16, 2005

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# EXHIBIT 6

**IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK**

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|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCHII "OST-ALCO".<br><br>*Plaintiffs*,<br><br>v.<br><br>SPIRITS INTERNATIONAL N.V., SPI SPIRITS LIMITED, SPI GROUP SA, ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V., ALLIED DOMECQ SPIRITS & WINE USA, INC., and YURI SHEFLER and ALEXEY OLIYNIK (individuals),<br><br>*Defendants.* | Case No.: 04 Civ. 8510 (GBD) |

**ALLIED DOMECQ'S MOTION TO DISMISS COUNTS I, IV, V, AND IX-XIV OF THE FIRST AMENDED COMPLAINT**

Defendants, Allied Domecq Spirits & Wine USA, Inc. ("Allied Domecq USA") and Allied Domecq International Holdings B.V. ("Allied Domecq B.V.") (collectively, "Allied Domecq"), move pursuant to Federal Rule 12(b)(6) to dismiss all Counts made against them (namely, Counts I, IV, V, and IX-XIV of the *First Amended Complaint*) by Federal Treasury Enterprise Sojuzplodoimport ("FTE") and Obschestvo s Ogranichennoi Otvetstvennost'yu Chernogolovskii Zavod Alkogol'noi Produkchii "Ost-Alco" ("Ost-Alco") (collectively, "Plaintiffs")[1]. The grounds for dismissal are set forth below.

[1] It is Allied Domecq's understanding that that the deadline for the remaining defendants to answer or otherwise respond to the Amended Complaint is March 10, 2005, and that those defendants may file a (continued)

## I.
## INTRODUCTION

In their *Amended Complaint*, Plaintiffs spin a tale of death, deception, and distilled spirits, all set against the backdrop of the breakup of the former Soviet Union. It is an effort worthy of noted Cold War author Tom Clancy, but one that utterly fails as a legal pleading. Each of the causes of action against Allied Domecq that Plaintiffs have drawn from their Russian novella is critically flawed and should be dismissed.

The defects in Plaintiffs' legal claims are by no means subtle. Some claims are barred by a statute of limitations; some lack a statutory prerequisite; some fail for want of standing; and others are simply nonsensical or duplicative. The common denominator across each claim, however, is a defect so basic that Plaintiffs' fanciful allegations (even if true) cannot form the legal basis for any of the causes of actions asserted here.

## II.
## DISCUSSION OF FACTS

When evaluating the sufficiency of a complaint on a motion to dismiss, a court must accept all of the factual allegations as true, no matter how fantastical those facts may seem, and draw all reasonable inferences in the plaintiff's favor. However, for purposes of deciding the present motion, this Court primarily need only to focus on a few central and very basic facts, none of which is in any dispute:

- The U.S. Trademark Office identifies Defendant, Allied Domecq International Holdings B.V., as the owner of U.S. Trademark Reg. No. 865,462 for STOLICHNAYA for "vodka";
- The U.S. Trademark Office's assignment records show that Allied Domecq B.V. received its rights in U.S. Trademark Reg. No.

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motion to dismiss all or some of the claims at issue here. Were this to come to pass, Allied Domecq would have no objection to the Court consolidating the two motions for argument.

865,462 in January 2001 by virtue of an assignment from PepsiCo, Inc. (which assignment was recorded on January 4, 2001);

- The U.S. Trademark Office's assignment records show that PepsiCo had received its rights in the subject registration in June 1991 by way of an assignment from the Soviet state entity VVO-SPI; and

- The U.S. Trademark Office has declared U.S. Trademark Reg. No. 865,462 for STOLICHNAYA to be "incontestable."

These facts, taken together, bar many of Plaintiffs' allegations against Allied Domecq.

As noted above, these facts are not in dispute: Plaintiffs admit that Allied Domecq B.V. received all rights in U.S. Trademark Reg. No. 865,462 ("the STOLICHNAYA Registration") from PepsiCo as of January 2001 (*see Amend.* Compl, ¶80); Plaintiffs admit that PepsiCo acquired its rights to the U.S. mark from VVO-SPI in June 1991 (*see Amend. Compl.*, ¶75);[2] and this Court has previously found that the STOLICHNAYA Registration was declared "incontestable" as of 1974. *See Financial Matters, Inc. v. PepsiCo, Inc.*, 1993 WL 378844, *1 (S.D.N.Y. 1993) (Owens, J.) (attached as Ex. A); *see also* 15 U.S.C. §1065 (the Trademark Office declares a trademark registration to be "incontestable" upon the trademark owner's filing of an appropriate affidavit). In the alternative, this Court may also take judicial notice pursuant to Fed. R. Evid. 201(b)(2) that that the STOLICHNAYA registration is owned by Allied Domecq B.V., was transferred from VVO-SPI to PepsiCo in 1991 and then to Allied Domecq B.V. in 2001,

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[2] In other paragraphs of the *Amended Complaint*, Plaintiffs trace the history of the ownership of U.S. Trademark Reg. No. 865,462 from 1967 to the present. (*See generally Amend. Compl.*, ¶¶24-25, 27, 65-67, 74-75, 80). In brief, as alleged by Plaintiffs, the ownership of the original STOLICHNAYA Registration first vested solely with the Soviet state entity known as the "All-Union Association Sojuzplodoimport" ("V/O-SPI") (*see id.*, ¶¶24, 65); which then transferred its ownership interest in 1969 to a U.S. company known as Kraus Bros. & Co. (*see id.*, ¶66), which was later acquired by PepsiCo, Inc. in 1973 (*see id.*, ¶67); which then later transferred ownership of the registration *back* to V/O-SPI in 1983 (*see id.*, ¶74), which was later reorganized (in 1990) into the "All-Union Foreign Economic Association Sojuzplodoimport" ("VVO-SPI") (*see id.*, ¶27); which then transferred ownership of the original STOLICHNAYA registration *back* to PepsiCo. in 1991 (*see id.*, ¶75); which, finally, assigned the registration to Allied Domecq B.V. in January 2001. (*See id.*, ¶80).

and has been declared incontestable, which notice is sufficient for purposes of the present motion. *See* Exs. B (copy of official records for U.S. Trademark Reg. No. 865,462), C (certified copy of complete assignment records), D (certified copy of V/O Sojuzpldoimport to Krause Bros. & Co., Inc. assignment), E (certified copy of Kraus Bros. & Co., Inc. to PepsiCo, Inc. assignment), F (certified copy of PepsiCo, Inc. to V/O Sojuzplodoimport assignment), G (certified copy of VVO-SPI / PepsiCo assignment), H (certified copy of PepsiCo / Allied Domecq B.V. assignment); *accord Allen v. WestPoint-Pepperell, Inc.*, 945 F.2d 40, 44 (2d Cir. 1991) (when considering a motion to dismiss, a district court may rely on matters of which judicial notice may be taken).[3]

## III.
## BRIEF OVERVIEW OF TRADEMARK LAW

Most of the claims Plaintiffs are asserting against Allied Domecq in this action (namely, Counts I, V, and IX-XII) relate in some way to the ownership or use of the STOLICHNAYA trademark in the United States. Unfortunately, however, throughout its "story," Plaintiffs have blurred the distinction between trademark rights that may or may not exist in foreign countries (such as in Russia) and trademark rights in the United States. This is a critical issue and one which must be clarified at the outset.

Simply put, the fact that a party may own (or claim to own) trademark rights in a phrase in one country has no bearing on the question of who owns the trademark rights in the United States. *See, e.g., Otokoyama Co. v. Wine of Japan Import, Inc.*, 175 F.3d 266, 272-73 (2d Cir. 1999) ("rights (or lack of rights) to a trademark in the United States

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[3] *See also, e.g., Omega S.A. v. Omega Engineering, Inc.*, 228 F. Supp.2d 112, 120 (D. Conn. 2002) (a court may take judicial notice of a certified copy of a trademark registration); *cf. Warren v. Fox Family Worldwide, Inc.*, 171 F. Supp.2d 1057, 1062, n.13 (C.D. Cal. 2001) (taking judicial notice of copyright registrations attached to a motion to dismiss did not convert motion into a motion for summary judgment).

cannot be established by the fact that [a party] was found by a foreign court to have (or not to have) rights over the same mark in a foreign country") (citing and applying *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633 (2d Cir. 1956) and *George W. Luft Co. v. Zande Cosmetics Co.*, 142 F.2d 536 (2d Cir. 1944)). Likewise, the rulings of any foreign government, court, agency, or trademark office purporting to expropriate an established ownership interest in a U.S. trademark also have no legal effect here. *See e.g., Financial Matters*, 1993 WL 378844 at *3 (citing *Bandes v. Harlow & Jones, Inc.*, 852 F.2d 661, 666-67 (2d Cir. 1988)). Rather, questions regarding ownership of the U.S. trademark rights in a mark and registration are subject to the same analysis as applied in any other case, as the U.S. rights exist *independent of* any foreign rights. *See id.*; *accord Berni v. International Gourmet Restaurants of Am., Inc.*, 838 F.2d 642, 646 (2d Cir. 1988).[4]

Thus, for example, while Plaintiffs may suggest that the "STOLICHNAYA Marks" were somehow "transfer[red]" between VZAO-SPI and ZAO-SPI in Russia in mid-1998 (*see Amend. Compl.*, ¶54), that is merely an example of Plaintiffs' loose use of language. As even Plaintiffs agree, PepsiCo acquired the *United States* rights in the STOLICHNAYA trademark in June 1991, and PepsiCo. maintained those rights until it transferred its ownership interest in the mark to Allied Domecq in January 2001. (*See id.*, ¶¶75, 80). Thus, while the ownership and control of the foreign trademarks and certain contractual reversionary rights may be difficult at times to ascertain, the ownership chain of the United States STOLICHNAYA trademark (as symbolized by U.S. Trademark Reg. No. 865,642) is clear, passing from VVO-SPI to PepsiCo in June 1991, and then, in

[4] *Berni* involved a situation where the U.S. registration was obtained based on a preexisting foreign registration under Section 44 of the Lanham Act (15 U.S.C. §1126(f)). *See* 838 F.2d at 646.

January 2001, from PepsiCo to Allied Domecq International Holdings B.V., which still owns good title today. (*See, e.g., id.*, ¶¶74-75, 80; *see also* n.2, *supra*; Exs. B-E).

## IV.
## GROUNDS FOR DISMISSAL

### A. Count I (Declaratory Judgment)

There is no legal basis for the relief sought. Plaintiffs' "claim" in Count I is emblematic of the type of systemic deficiencies that permeate the *Amended Complaint*. In Count I, Plaintiffs are not actually alleging any *legal cause of action* against Allied Domecq. (*See generally Amend. Compl.*, ¶¶112-15). Rather, Plaintiffs instead seek a blanket judicial decree that FTE is the "owner" of the STOLICHNAYA trademark as symbolized by U.S. Trademark Reg. No. 865,462, and ask by way of relief for an order directing the U.S. Trademark Office "to correct the Principal Register to accurately reflect that ownership." (*See id.*, ¶¶114-15, p. 40 (Prayer "A")).

As a matter of law, however, Allied Domecq's exclusive ownership of the STOLICHNAYA registration *cannot be challenged* by Plaintiffs because the mark has been declared by the U.S. Trademark Office to be "incontestable":

> To the extent that the right to use the registered mark has become incontestable under section 15 [of the Lanham Act (15 U.S.C. §1065)], the registration shall be conclusive evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce. Such conclusive evidence shall relate to the exclusive right to use the mark on or in connection with the goods or services [here, "vodka"; *see* Ex. B] specified in the affidavit filed under the provisions of section 15.

15 U.S.C. §1115(b) (emphasis added); *accord Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 193-96, 105 S. Ct. 658, 661-63 (1985) (discussing and affirming the

conclusive evidentiary effect of an incontestable federal registration). As such, Plaintiffs' request for a declaration that FTE is the "owner" of the mark must be dismissed.[5]

**B. Count IV (Misappropriation)**

The relief sought is time barred. In Count IV, Plaintiffs allege that Allied Domecq engaged in common law misappropriation when it supposedly "improperly obtained" the STOLICHNAYA marks without FTE's authorization. (*See Amend. Compl.*, ¶123). However, even if Plaintiffs' absurd factual contentions on this issue are true (which they are not), this cause of action nonetheless should also be dismissed as Plaintiffs' claim is time-barred under the controlling statute of limitations.

The statute of limitations for a claim of misappropriation brought under New York common law is three years. N.Y. C.P.L.R. §214; *see also, e.g., Demas v. Levitsky*, 738 N.Y.S.2d 402, 408 (Sup. Ct. 2002). Plaintiffs, however, acknowledge that Allied Domecq acquired the U.S. rights to the STOLICHNAYA marks on January 1, 2001, by way of an assignment from PepsiCo. (*See Amend. Compl.*, ¶80). Thus, at a minimum, Plaintiffs were on constructive notice as of January 4, 2001 (the date the assignment was recorded with the Trademark Office)[6] that Allied Domecq had acquired the U.S. rights to the STOLICHNAYA marks, *see, e.g.*, 15 U.S.C. §§1060(a)(3), 1072 ("[r]egistration of a mark ... shall be constructive notice of the registrant's claim of ownership thereof"),

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[5] This is not to suggest that a court could never divest a registrant of title to an incontestable registration *as a possible remedy* in an appropriate case where it had already been established that the registrant had committed some egregious violation of the law. *Cf.* 15 U.S.C. §1119. As noted above, however, Plaintiffs *are not alleging* in Count I that Allied Domecq violated the law in any way. Instead, they merely seek a declaration that FTE "owns" the mark and that Allied Domecq does not, which is exactly the sort of challenge that is statutorily barred by Section 33 of the Lanham Act (15 U.S.C. §1115).

[6] As it is a matter of public record that the PepsiCo./Allied Domecq assignment was recorded with the U.S. Trademark Office on January 4, 2001 (*see* Ex. C), this Court may take judicial notice of that fact.

which notice was provided to Plaintiffs more than three years before they filed the original *Complaint* on October 28, 2004.[7] As such, Count IV is also infirm.

## C. Count V (Statutory and Common Law Unfair Competition)

Plaintiffs' allegations in Count V are a confused muddle of separate claims for statutory unfair competition (under N.Y. Gen. Bus. L. §349) and common law unfair competition. Neither claim, however parsed out, can withstand a motion to dismiss as each is either time barred or fails for a lack of standing.

### 1. Statutory Unfair Competition

The section of the New York General Business Law under which Plaintiffs bring their statutory claim (Section 349) is a consumer protection law. That section thus does not create a private cause of action *unless* the action is brought either by a consumer or on behalf of a class of consumers. *E.g.*, *Franklin Elec. Publ., Inc. v. Unisonic Prod. Corp.*, 763 F. Supp. 1, 5-6 (S.D.N.Y. 1991); *Bangkok Crafts Corp. v. Capitolo di San Pietro in Vaticano*, 331 F. Supp.2d 247, 256 (S.D.N.Y. 2004) (dismissing claims brought under Section 349 where plaintiffs were commercial entities complaining of alleged private wrongs to them and not to the general public). As Plaintiffs have not alleged that Allied Domecq's supposed "unfair" acts have injured consumers (*cf. Amend. Compl.*, ¶128) (complaining only of "irreparable injury to Plaintiffs"), they lack standing.

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[7] Undoubtedly, Plaintiffs were also on actual notice prior to October 28, 2001, that Allied Domecq had acquired the U.S. rights to the STOLICHNAYA mark. (*See, e.g., Amend Compl.*, ¶¶95-105) (detailing various investigations, legal proceedings, and administrative actions taken by the government of Russia prior to October 28, 2001, concerning the ownership of the Russian rights in the STOLICHNAYA mark).

2. Common Law Unfair Competition

Plaintiffs' claim of unfair competition under the common law fares little better. If the basis for this vague claim is Plaintiffs' mistaken belief that Allied Domecq's acquisition of the STOLICHNAYA mark in January 2001 was somehow "unfair" (*see Amend. Compl.*, ¶126) (incorporating ¶¶122-25 by reference), then this claim is time-barred for the reasons discussed *supra* in Section IV.B. *Cf. Capitol Records, Inc. v. Naxos of Am., Inc.*, 262 F. Supp.2d 204, 216 (S.D.N.Y. 2003) (a claim of unfair competition based on misappropriation is subject to a three-year statute of limitations under New York law). Alternately, if Plaintiffs are contending that Allied Domecq is unfairly competing by selling vodka in the United States under the STOLICHNAYA mark, Plaintiffs' claims are deficient for a different, but equally fatal, set of reasons.

A claim of unfair competition under New York common law is "a virtual cognate of the federal Lanham Act" and is "predicated on the theory of the misappropriation of a claimant's commercial goodwill." *Bangkok Crafts*, 331 F. Supp.2d at 256 (emphasis added); *see also Eagle Comtronics, Inc. v. Pico Products, Inc.*, 682 N.Y.S.2d 505, 506 (Sup. Ct. 1998). However, when the Soviet Union or its instrumentality assigned all of its "rights, title, and interest in the U.S." in the STOLICHNAYA mark to PepsiCo. in June 1991, that assignment *included* any "goodwill" that theretofore had been developed in the STOLICHNAYA brand. (*See Amend. Compl.*, ¶75; *see also* Exs. C, D); *cf. Berni*, 838 F.2d at 646 (a trademark "is a mere symbol of the goodwill of the business with which it is associated" and cannot be transferred independent of the goodwill it represents). Moreover, in January 2001, PepsiCo. then assigned all of *its* rights in STOLICHNAYA (which assignment, again, included all of the "goodwill" the mark represents; *see* Ex. E) to Allied Domecq, which means that all of the "goodwill" ever

symbolized by the STOLICHNAYA mark as the result of its use in the United States since the 1960s now vests with Allied Domecq and not Plaintiffs.

As Plaintiffs have not alleged (and cannot allege) any facts to support the inference that they currently posses any "goodwill" in the United States in the name "STOLICHNAYA" (*cf., e.g., Amend. Compl.*, ¶¶70-72) (detailing the creation of goodwill in the brand by PepsiCo, which goodwill was then transferred to Allied Domecq), it is legally impossible for them to maintain a cause of action predicated on the supposed "misappropriation" from them of that non-existent goodwill. As such, Count V should be dismissed on this basis as well.

**D. Count IX (Paris Convention – Art. 10 *bis*)**

There is no independent cause of action under the Paris Convention. In Count IX, Plaintiffs try something new and invoke "the protection of Article 10 bis of the Paris Convention" as a supplement to, and independent of, the other Counts, including their allegations in Count XIII under Section 43(a) of the Lanham Act. (*See Amend. Compl.*, ¶¶147, 164-69). However, while a claim under the Paris Convention certainly is creative, it, like the rest of Plaintiffs' allegations, is legally deficient.

The Paris Convention, as implemented by Section 44 of the Lanham Act (15 U.S.C. §1126), does not afford a foreign party with any substantive rights beyond those otherwise provided to domestic parties. *Vanity Fair*, 234 F.2d at 640-644. Rather, Section 44 merely *extends* existing Lanham Act protections available to U.S. parties to foreign nationals conducting business in this country, thereby putting them on an equal footing with their U.S. counterparts. *See id.; Scotch Whiskey Assoc. v. Majestic Distilling Co.*, 958 F.2d 594, 597 (4th Cir. 1992). Thus, "the Paris Convention gives no greater

protection for claims of trademark infringement than that already provided by Section 43(a) of the Lanham Act," and claims brought under Article 10 *bis* of the Paris Convention should be dismissed as duplicative of claims brought under Section 43(a). *Scotch Whiskey*, 958 F.2d at 597 (dismissing claim under Article 10 *bis* as duplicative of Lanham Act claim); *accord Piccoli v. Calvin Klein Jeanswear Co.*, 19 F. Supp.2d 157, 172 (S.D.N.Y. 1998) (applying *Vanity Fair*); *Eli Lily & Co. v. Roussel Corp.*, 23 F. Supp.2d 460, 482 (D. N.J. 1998); *Piaggio & C.S.P.A. v. Scooterworks USA, Inc.*, 1999 WL 674749, *3-4 (N.D. Ill. 1999) (attached as Ex. I).

**E. Count X (Cancellation of Marks)**

The cited statute does not give the courts jurisdiction over a claim for cancellation. In Count X, Plaintiffs switch gears and rely on Section 14 of the Lanham Act (15 U.S.C. §1064) as the basis for their request to "cancel" a number of STOLICHNAYA trademark applications owned by Allied Domecq. (*See Amend. Compl.*, ¶¶150-154). Section 14 of the Lanham Act, however, only provides the statutory basis under which a party may petition the U.S. Trademark Office to seek to cancel a registered mark; it "does not ... authorize suits for cancellation in district courts." *See Windsurfing Int'l Inc. v. AMF Inc.*, 828 F.2d 755, 758 (Fed. Cir. 1987); 15 U.S.C. §1064. Moreover, the deficiencies in the pleadings also include the fact that at the time Plaintiffs filed the *Amended Complaint*, none of the listed marks they sought to "cancel" were actually registered, which is a predicate to "cancellation."[8] (*See Amend. Compl.*, ¶154).

[8] In January 2005, two of the sixteen subject applications finally issued to registration. The issuance of these registrations, however, in no way changes that fact that Section 14 does not authorize a suit for cancellation that is brought in a district court. *Cf. Windsurfing Int'l*, 828 F.2d at 758.

## F. Count XI (Federal Trademark Infringement)

Plaintiffs lack standing to assert this cause of action. Count XI is yet another claim that fails to meet the most basic of requirements. Specifically, the statutory section under which Plaintiffs seek relief (namely, Section 32 of the Lanham Act) (15 U.S.C. §1114) only authorizes a claim for federal trademark infringement brought "by the registrant" of a registered trademark. *See* 15 U.S.C. §1114(1). However, as Plaintiffs admit (and as has been established by the evidence nonetheless; *see generally* Section IV.A. *supra*; Exs. B-E; 15 U.S.C. §1115(b)), *Allied Domecq*—and not either of Plaintiffs—is the "registrant" of the STOLICHNAYA registration. (*See, e.g., Amend. Compl.*, ¶¶80-82, 1114). As such, Plaintiffs lack standing to bring a federal trademark infringement claim. *Accord, e.g., Berni*, 838 F.2d at 645-46 (affirming the dismissal of a claim brought under Section 32 where the plaintiff was not the "registrant").

## G. Count XII (Federal Trademark Dilution)

Plaintiffs lack standing under the Federal Trademark Dilution Act as well. Count XII sets forth a claim for federal trademark dilution, which claim can only be brought by "[t]he owner of a famous mark." *See* 15 U.S.C. §§1125(c) (Section 43(c) of the Lanham Act). As has been discussed, however, Plaintiffs do not own the STOLICHNAYA mark in the Untied States as symbolized by U.S. Trademark Reg. No. 865,462 (*see* Section IV.A., *supra*), nor do they have any claim to the "goodwill" symbolized by that mark (*see* Section IV.C.2., *supra*).[9] Consequently, Plaintiffs cannot be the "owner[s] of a famous

[9] Moreover, Plaintiffs have not even tried to claim (nor can they) that they somehow own a famous "STOLICHNAYA" mark *other than* the mark that was developed by PepsiCo and which is symbolized by the STOLICHNAYA registration now owned by Allied Domecq. (*See generally Amend. Compl.*, ¶¶65-80).

mark" for the name "STOLICHNAYA" in the United States, and therefore lack standing to bring a claim alleging the dilution of that mark.

## H. Count XIII (Federal Unfair Competition)

This Count is deficient for a number of reasons, including Plaintiffs' lack of standing. Count XIII under Section 43(a) of the Lanham Act (15 U.S.C. §1125) can be dismissed on any number of grounds, including some of those already discussed above. *See generally* Sections IV.A. (Plaintiffs are not the "owners" of the STOLICHNAYA trademark), and IV.C.2. (Plaintiffs do not posses any "goodwill" in the name "STOLICHNAYA" in the United States). However, in addition to the various aforementioned bases for dismissal, Plaintiffs have failed even to allege that they have standing to maintain a Section 43(a) claim, thus making the analysis quite simple.

The burden of alleging standing rests squarely on the party seeking to invoke federal jurisdiction. *E.g., Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61, 112 S. Ct. 2130, 2136 (1992). The Second Circuit has held that standing to assert a claim under Section 43(a) is limited to "a purely commercial class of plaintiffs." *Berni*, 838 F.2d at 647-48 (quote omitted). As such, while Plaintiffs need not have alleged that they are direct competitors of Allied Domecq in the sale of vodka in the United States, they at a minimum had to allege sufficient facts to establish that they are likely to suffer "a commercial or competitive injury" as a result of the supposed "unfair competition." *See id.* (citing cases). Plaintiffs clearly have not done so here.

As has already been established, Plaintiffs do not have any ownership interest in the STOLICHNAYA mark in the United States, nor can they claim rights to any of the goodwill the mark represents. *See generally* Sections IV.A., IV.C.2., *supra*. In addition,

Plaintiffs have not alleged any facts suggesting that they have what the Second Circuit has termed a "present commercial interest" that is capable of being injured by the alleged acts (*e.g.*, Plaintiffs do not allege that they sell vodka in the United States, or that they are planning on selling vodka in the United States in the near future), nor have they alleged that they have "a direct pecuniary interest" worthy of protection by their Section 43(a) claim. Consequently, Plaintiffs have failed to establish the potential for a commercial or competitive injury and, thus, lack standing to bring their Lanham Act claim. *Accord Berni*, 838 F.2d at 648 (affirming dismissal of claim under Section 43 for lack of standing where plaintiffs did not have an ownership interest in the mark and failed to allege facts sufficient to suggest either a present commercial interest or a pecuniary interest).

## I. Count XIV (Copyright Infringement)

The copyright laws of the United States do not protect a Soviet era registration, even were one to exist. In their final count, Plaintiffs allege infringement of a copyright that supposedly exists in a STOLICHNAYA label created in the Soviet Union in 1953. (*See Amend. Compl.*, ¶¶170-173 ). This claim is deficient for multiple reasons.

As a preliminary matter, however, it is curious that Plaintiffs, which purport to be acting on behalf of the Russian Federation, cannot locate any evidence relating to the Soviet copyright registration that supposedly was issued to protect that early label, nor do they offer any contemporaneous evidence of what that label may actually have looked like. (*See id.*, ¶171) (alleging ownership of a Soviet copyright registration "[u]pon information and belief," and not offering contemporaneous evidence of the label design). Instead, the "true and correct copy" of the "STOLICHNAYA label" that Plaintiffs

attached as "Exhibit M"[10] is merely a photograph of a vodka bottle produced by *Plaintiff*, FTE, which entity did not even *exist* until December 2001. (*See Amend. Compl.*, ¶110). As such, that exhibit can hardly be a copy of a STOLICHNAYA label from 1953. A detailed exposition of these issues, however, is outside the scope of the present motion as such an effort is not necessary in view of other notable deficiencies.

Significantly, the former Soviet Union was not a signatory to any international copyright protection treaty until it acceded to the Universal Copyright Convention (also known as the "Geneva Copyright Convention") on Feb. 27, 1973. *See generally* "The Universal Copyright Convention as an Instrument of Repression: The Soviet Experiment," *Journal of Int'l Law and Economics*, Vol. 9, pp. 286-91 (1974) (and sources cited therein) (hereinafter "*JILE* Article") (attached as Ex. J); *accord UNESCO Copyright Bulletin*, No. 2/3 (1973) at 3. The international protections of the Universal Copyright Convention, however, did not apply retroactively. *See JILE* Article, n.41; Universal Copyright Convention, Art. VII, 6 U.S.T. 2731. As a result, any labels "published" in the Soviet Union prior to May 27, 1973 (the effective date of the Soviet Union's adherence to the Convention), were injected into the public domain immediately upon their first use, and cannot now form the basis for a legitimate copyright infringement claim. *Accord JILE* Article, n.41. Thus, Count XIV of the *Amended Complaint* should be dismissed.

In addition, Plaintiffs' claim in Count XIV is also legally deficient by virtue of the simple fact that Plaintiffs have not set out a proper chain of title to the asserted copyright. For example, although Plaintiffs allege that the "STOLICHNAYA label" was "created by Valentin Alexsandrovich Yakovlev in the course of his job duties for the Moscow Art-

[10] In Allied Domecq's copy of the *Amended Complaint*, Exhibits "M" and "N" seem to be reversed, (continued)

Study Workshop of the Trust 'Sojuzprodoformlenie'" (*see Amend. Compl.*, ¶171), there is no allegation that any rights owned by Mr. Yakovlev were voluntarily passed to the "All-Union Chamber on Advertising and Drawing up of Goods," which supposedly registered the work in its name. (*See id.*). Similarly, there is no suggestion that the exclusive ownership and control of the subject copyright (again, assuming it even existed) was transferred by the Soviet Union (if it ever owned such an interest) to the Russian Federation, and then on to the Plaintiffs.

This is not merely a technical matter. In this case, Ost-Alco, an allegedly private entity, is purporting to exercise rights supposedly owned by the Russian Federation in Mr. Yakovlev's work. However, in direct response to concerns that the former Soviet Union was requiring authors to execute involuntary assignments to the state, Congress in 1976 amended U.S. copyright laws to provide that "[w]hen an individual author's ownership of a copyright ... has not previously been transferred *voluntarily* by that individual author, no action by any ... organization purporting to ... exercise rights of ownership with respect to the copyright ... shall be given effect under [U.S. copyright laws]." *See* 17 U.S.C. §201(e) (emphasis added); *Schnapper v. Foley*, 667 F. 2d 102, 116 (D.C. Cir. 1981); *cf. JILE* Article, pp. 297-300 (detailing U.S. fears). As such, absent proof that Mr. Yakovlev's assignment of any copyright interests was voluntary (to the extent that there even was an assignment, which Plaintiffs have not even alleged), Ost-Alco lacks standing pursuant to Section 201 of the Copyright Act to maintain Count XIV.

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with "Exhibit M" being a copy of an Allied Domecq label, and "Exhibit N" appearing to be a FTE label.

## V.
## CONCLUSION

As set forth above, each of the claims alleged by Plaintiffs against Allied Domecq is legally deficient and cannot form the basis for a successful action. Thus, Allied Domecq respectfully requests that this Court dismiss Counts I, IV, V, and IX-XIV of the *First Amended Complaint* as asserted against Allied Domecq pursuant to Fed. R. Civ. P. 12(b)(6) for failing to state a claim upon which relief may be granted.

Respectfully submitted,

Dated: February 4, 2005

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12535/22:DC537716

# EXHIBIT 7

**UNITED STATES DISTRICT COURT**
**SOUTHERN DISTRICT OF NEW YORK**

FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCII "OST-ALCO",

Plaintiffs,

-against-

SPIRITS INTERNATIONAL N.V.; SPI SPIRITS LIMITED; SPI GROUP SA; YURI SHEFLER; ALEXEY OLIYNIK; ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V.; and ALLIED DOMECQ SPIRITS & WINES USA, INC., d/b/a ALLIED DOMECQ SPIRITS, USA,

Defendants.

04 Civ. 08510 (GBD)

**PLAINTIFFS' MEMORANDUM IN OPPOSITION TO THE ALLIED DOMECQ DEFENDANTS' MOTION TO DISMISS FIRST AMENDED COMPLAINT**

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Plaintiffs respectfully submit this memorandum of law in opposition to the motion to dismiss the First Amended Complaint, dated and served February 4, 2005, by defendants Allied Domecq International Holdings B.V. and Allied Domecq Spirits & Wines USA, Inc., d/b/a Allied Domecq Spirits, USA. The issues raised herein may become moot, as plaintiffs have also filed a Motion for Leave to Amend, along with a [Proposed] Second Amended Complaint, seeking permission to amend the Complaint.[1]

## PRELIMINARY STATEMENT

This action arises out of the January 1, 2001 fraudulent assignment of STOLICHNAYA and other related trademarks (the "Marks" or the "STOLICHNAYA Marks") from PepsiCo, Inc. ("PepsiCo") to Allied Domecq International Holdings B.V ("ADIHBV"), and defendants' ongoing sale of non-Russian vodka under that world famous mark. Well aware that the Marks were owned by the Russian Federation (in fact, a final Russian court ruling to that effect issued on December 21, 2000, eleven days before that assignment), certain defendants misrepresented to PepsiCo that they were the rightful owners of the Marks and instructed PepsiCo to assign them to ADIHBV.

In reliance on these misrepresentations and instructions, on January 1, 2001, PepsiCo assigned the Marks to ADIHBV instead of to their rightful owner, the Russian Federation. In reliance on further misrepresentations made by defendants, on January 4, 2001, the United States Patent and Trademark Office (the "PTO") recorded the Marks as belonging to ADIHBV instead of to their rightful owner, the Russian Federation.

---

[1] Plaintiff's [Proposed] Second Amended Complaint is attached at Exhibit 1 to the March 10, 2005 Declaration of Jeffrey A. Conciatori, filed in support of Plaintiffs' Motion for Leave to Amend, and is expressly relied upon and incorporated herein.

ADIHBV and Allied Domecq Spirits & Wines USA, Inc., d/b/a Allied Domecq Spirits, USA (collectively the "AD Defendants") participated in and chose to aid and abet the fraud by, among other things: (1) knowingly allowing and facilitating the assignment of the STOLICHNAYA Marks from PepsiCo to ADIHBV, instead of to their rightful owner, the Russian Federation; (2) knowingly allowing and facilitating the recording of such fraudulent assignment by the PTO; and (3) deliberately turning a blind eye to facts within their possession or knowledge that were clear indications that there was fraud, such as the December 21, 2000 Russian court ruling adverse to ADIHBV's legal chain of title to said marks.[2]

Rather than respond to the merits of the charges, the AD Defendants have moved to dismiss the Complaint. In an effort to avoid time-consuming motion practice, plaintiffs Federal Treasury Enterprise Sojuzplodoimport and Ost-Alco (collectively, "Plaintiffs" or "FTE") proposed filing an amended complaint. The AD Defendants, however, refused to stipulate to such a filing. For this reason, Plaintiffs have been forced to oppose the motion to dismiss and separately bring a motion for leave to file a Second Amended Complaint.

The AD Defendants make three primary arguments in their motion to dismiss: (1) any foreign decisions are irrelevant to a determination of trademark rights in the United States; (2) ADIHBV's ownership of the U.S. STOLICHNAYA registration is incontestable and, thus, cannot be challenged; and (3) FTE lacks standing to bring Lanham Act or unfair competition

---

[2] The AD Defendants' knowledge of the underlying fraud, as well as of the Moscow Court of Arbitration's final decision adverse to ADIHBV's legal chain of title to the Marks, is established and confirmed by the language in paragraph 26 of the November 30, 2000 Trademark Supply and Distribution Agreement between the AD Defendants and Spirits International and SPI Spirits (the "ADIHBV Agreement"), which expressly acknowledges the Russian litigation exposing the underlying fraud. *See* First Amended Complaint (the "Complaint") ¶ 85.

claims because it is not the current U.S. registrant of the STOLICHNAYA Mark. Each of these arguments either misses the point or seeks to mislead the Court.

First, the fundamental legal issue raised by this action is not who currently owns the U.S. registrations to the STOLICHNAYA Marks, but whether defendant Spirits International had the right and ability to direct PepsiCo to assign them to defendant ADIHBV on January 1, 2001. It is well established that, if a foreign decision is competent evidence of a relevant fact (*e.g.*, fraud or flaw in chain of legal title), it is admissible to prove that fact. *See Otokoyama Co. v. Wine of Japan Import, Inc.*, 175 F.3d 266, 273 (2d Cir. 1999); *Omega Importing Corp. v. Petri-Kine Camera Co.*, 451 F.2d 1190 (2d Cir. 1971); *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 293 F. Supp. 892, 908 (S.D.N.Y. 1968).

Second, whether the STOLICHNAYA Mark is incontestable is irrelevant. FTE is not seeking to cancel the STOLICHNAYA Mark, which was registered in 1967. Instead, FTE is merely seeking to set aside a fraudulent conveyance of said mark, recorded within the past five years, on January 4, 2001. Moreover, ADIHBV's STOLICHNAYA registration is not incontestable for a number of reasons outlined below. *See infra* Section II.A.-D.

Third, one purpose of this action is to have the Court rectify the register, thus acknowledging FTE as the rightful owner and registrant of the STOLICHNAYA Marks, with standing to seek relief under the Lanham Act. Under the AD Defendants' theory, no party whose U.S. registrations were fraudulently assigned to another or otherwise stolen would have the right to seek relief under the Lanham Act. Further, the AD Defendants completely ignore the "famous marks" or "well known marks" doctrine, which provides an exception to the general "registration" requirement.

* * * *

Notwithstanding the AD Defendants' diversionary motion, plaintiff FTE is the rightful owner of the STOLICHNAYA marks in the United States, and defendants are improperly distributing vodka in this country using the STOLICHNAYA label. Clearly, defendants' continued use of the mark and the unique STOLICHNAYA label constitutes ongoing infringement, both of the mark and the label copyright. Moreover, contrary to representations made on the bottles themselves, the vodka being distributed by defendants is not "Russian vodka," but is in fact made in Latvia. As such, defendants' ongoing distribution of vodka using the copyrighted STOLICHNAYA label, including false statements on their vodka bottles claiming that the product is "Russian vodka," also constitutes false advertising and unfair competition.

For these reasons, and as discussed in greater detail below, Plaintiffs respectfully request that the motion to dismiss be denied in its entirety.

## ARGUMENT

It is well established that a court may dismiss an action under Rule 12(b)(6) of the Federal Rules of Civil Procedure only if "it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief." *Ramapo Homeowners' Ass'n v. N.Y. State Office of Mental Retardation*, 180 F. Supp. 2d 519, 525 (S.D.N.Y. 2002) (citing *Conley v. Gibson*, 355 U.S. 41, 45-46 (1957)). In deciding whether that is so, the court must accept as true all of the factual allegations set out in the complaint, draw inferences from those allegations in the light most favorable to plaintiff, and construe the complaint liberally. *See Ramapo*, 180 F. Supp. 2d at 525; *see also Desiderio v. Nat'l Ass'n of Sec. Dealers*, 191 F. 3d 198, 202 (2d Cir. 1999). Here, the AD Defendants' motion does not even come close to meeting the stringent requirements of Rule 12(b)(6).

## I.

## FOREIGN COURT PROCEEDINGS ARE DIRECTLY RELEVANT TO THIS ACTION

The AD Defendants argue that "the fact that a party may own (or claim to own) trademark rights in a phrase in one country has no bearing on the question of who owns the trademark rights in the United States." *See* AD Defendants' Memorandum in Support of Motion to Dismiss at 4 [hereinafter "AD Mem."]. That assertion both misstates the law and is deliberately misleading. The Russian judicial decisions referenced in the Complaint never attempted to determine trademark rights in the United States. *See* Complaint ¶¶ 100, 104-08. Instead, the Russian courts explicitly limited their decisions to (1) issues of corporate legal succession between Russian companies (purely a matter of internal Russian law); and (2) the validity of the December 26, 1997 assignment of the STOLICHNAYA Marks between Russian companies, executed in Russia (also a matter of Russian law). The legal issue raised by this action is not who currently owns the U.S. registrations to the STOLICHNAYA Marks, but whether defendant Spirits International (which purports to have received title to those marks from a Russian company) had the right and ability to direct PepsiCo to assign them to defendant ADIHBV on January 1, 2001.

The AD Defendants cite *Otokoyama* for the proposition that foreign decisions can have no effect on trademark rights in this country. *See* AD Mem. at 5. Yet, *Otokoyama* explicitly holds that, "[w]hether a foreign decision is relevant in a trademark case in our courts depends on the purpose for which it is offered. . . . [I]f . . . the foreign decision is competent evidence of a relevant fact, it is relevant and admissible to prove that fact." 175 F.3d at 273.

Here, the Russian court proceedings evidence defendants' fraud and lack of legal title to the STOLICHNAYA Marks (*i.e.*, a relevant fact); thus, they are admissible to prove that fact. *See, e.g.*, *Otokoyama*, 175 F.3d at 273 (holding that a decision of the Japanese Patent Office was admissible because it was offered to show that plaintiff fraudulently represented to the PTO that "otokoyama" was an arbitrary and fanciful term).

It is true that some cases, such as *Vanity Fair Mills, Inc. v. T. Eaton Co.*, have held that rights or lack of rights to a trademark in the United States cannot be established by the fact that a party was found by a foreign court to have or not have those rights. 234 F.2d 633 (2d Cir. 1956). However, such cases are inapposite, as the decisions of the Russian courts cited by Plaintiffs in the Complaint do not concern the trademark rights of the parties. *See* Complaint ¶¶ 100-08. More specifically, they concern corporate law and fraud (*i.e.*, whether the Foreign Economic Joint Stock Company Sojuzplodoimport ("VAO-SPI") was the proper legal successor to the All-Union Foreign Economic Association Sojuzplodoimport ("VVO-SPI"); whether VVO-SPI's assets, including STOLICHNAYA and related marks, were fraudulently misappropriated; and whether the purported assignment of said marks from Foreign Economic Closed Joint Stock Company Sojuzplodoimport ("VZAO-SPI"), the legal successor of VAO-SPI, to Closed Action Company Sojuzplodimport (missing the letter "o" between the "d" and the "i" in "Sojuzplodoimport") ("ZAO-SPI"), which subsequently assigned said mark to Spirits International, was null and void).

Such decisions can be granted comity and preclusive effect. *See, e.g.*, *Omega Importing*, 451 F.2d at 1196 (acknowledging collateral estoppel effect of West German judgment regarding the legal status of a West German corporation in a dispute over ownership of trademark rights); *see also Carl Zeiss*, 293 F. Supp. at 908. Thus, the Russian courts' decisions

referenced and incorporated in the Complaint are directly relevant to the U.S. litigation in the instant matter.

## II.

## ADIHBV'S RIGHT TO USE THE MARKS IN THE UNITED STATES IS NOT INCONTESTABLE

The AD Defendants' argument that ADIHBV's ownership of the STOLICHNAYA registration "cannot be challenged by Plaintiffs because the [STOLICHNAYA] Mark has been declared by the U.S. Trademark Office to be incontestable" (AD Mem. at 6) fails for several reasons. First, whether or not the STOLICHNAYA Mark is incontestable is irrelevant. FTE is not seeking to cancel the STOLICHNAYA Mark, which was registered in 1967. Instead, FTE is merely seeking to set aside a fraudulent conveyance of said mark, recorded within the past five years, on January 4, 2001. The Court has the power to "rectify the register with respect to the registrations of any party to the action," *see* 15 U.S.C. § 1119, whether or not the underlying mark is contestable or incontestable.

Second, the AD Defendants cannot rely on the fact that the PTO recorded the assignment from PepsiCo, Inc. to ADIHBV as a defense or proof of their legal right to use the STOLICHNAYA Mark. Pursuant to the PTO's own rules, "The recording of a document pursuant to § 3.11 [*i.e.*, an assignment] is not a determination by the Office of the validity of the document or the effect that document has on the title to an application, a patent, or a registration." PTO Effect of Recording Rule, 37 C.F.R. § 3.54 (2005).

Third, pursuant to Section 15 of the Lanham Act, 15 U.S.C. § 1065, ADIHBV's ownership of the STOLICHNAYA Mark is not incontestable for the following reasons: (1) ADIHBV obtained the STOLICHNAYA registration fraudulently; (2) ADIHBV obtained said

registration contrary to the requirements of Section 1052; (3) ADIHBV has used, or permitted the use of, the STOLICHNAYA Mark so as to misrepresent the source of the goods or services on or in connection with which said mark is used; and (4) there has been a final decision adverse to ADIHBV's claim of ownership of the STOLICHNAYA Mark.

**A. ADIHBV Fraudulently Obtained the STOLICHNAYA Registration.**

In arguing that its STOLICHNAYA Marks are incontestable, the AD Defendants have deliberately overlooked an important statutory exception. The Lanham Act provides that, "*Except on a ground for which application to cancel may be filed at any time under paragraphs (3) and (5) of section 1064 of this title*, the right of the registrant to use such registered mark in commerce shall be incontestable." 15 U.S.C. § 1065 (emphasis added). Section 14 of the Lanham Act explicitly states that an application to cancel a registration may be made at any time if the mark's "registration was obtained fraudulently." 15 U.S.C. § 1064(3).

The elements of a fraudulent registration claim, pursuant to 15 U.S.C. § 1119, are (1) the misrepresentation of a material fact; (2) knowledge by the party making the misrepresentation that it was false when made; (3) justifiable reliance upon the statement; and (4) damages. *See Dial-A-Mattress Operating Corp. v. Mattress Madness, Inc.*, 841 F. Supp. 1339, 2353 (E.D.N.Y. 1994); *Money Store v. Harriscorp Fin., Inc.*, 689 F.2d 666, 670 (7th Cir. 1982); 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 31:61 (4th ed. 2004) [hereinafter *McCarthy's*].

Here, the elements of fraud have been pleaded. *See* Complaint ¶¶ 83-93; *see also* [Proposed] Second Amended Complaint ¶¶ 83-94. As alleged, the AD Defendants knowingly presented and caused false information to be presented to the PTO, in reliance on which the PTO recorded the STOLICHNAYA Mark as belonging to ADIHBV instead of to its rightful owner,

the Russian Federation. FTE and Ost-Alco, which are exclusively licensed by the Russian Federation as the distributor and manufacturer, respectively, of STOLICHNAYA brand vodka, were directly damaged as a result.

To demonstrate that a federal trademark registration was fraudulently procured, a challenging party must adduce evidence that the registrant actually knew or believed that someone else had a right to the mark. *See, e.g., Marshak v. Treadwell*, 240 F.3d 184, 196 (3d Cir. 2001). Here, a final Russian court decision adverse to Spirits International's legal chain of title to the STOLICHNAYA Mark was issued on December 21, 2000, eleven days prior to ADIHBV's acceptance of the assignment of said mark. The AD Defendants clearly knew of this decision (as well as the underlying litigation), as evidenced by the language in paragraph 26 of the ADIHBV Agreement, acknowledging the possibility of suit by the Russian Federation. *See* Complaint ¶¶ 83-86. ADIHBV's knowledge of the adverse Russian court ruling provides sufficient evidence that ADIHBV (the registrant) actually knew or believed that someone else (*i.e.*, the Russian Federation) had a right to the STOLICHNAYA Mark.

The Trademark Board, the Federal Circuit and the Southern District of New York have consistently held that fraud in filing post-registration documents with the PTO, such as § 1058, § 1059 or § 1065 affidavits seeking continuance, renewal, or incontestability for a mark, falls within the prohibition against fraudulent registration in 15 U.S.C. § 1064(3). *See, e.g., Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46 (Fed. Cir. 1986) (registration cancelled for fraud in § 1059 renewal); *Polo Fashions, Inc. v. Extra Special Products, Inc.*, 208 U.S.P.Q. 421 (S.D.N.Y. 1980) (holding that filing renewal affidavits to maintain registration of a mark not used for many years is fraud in the "procuring" of a registration); *Le Cordon Bleu, S.A. v. BPC Publ'g, Ltd.*, 451 F. Supp. 63 (S.D.N.Y. 1978) (holding that fraud in § 1058 affidavit in

"obtaining" registration is an "obvious subterfuge" constituting fraud under Section 1064(3)); *Coldwater Seafood Corp. v. Magnusson*, 188 U.S.P.Q. 522 (T.T.A.B. 1975) (holding that fraud in § 1059 renewal application results in cancellation). Consequently, any fraud in recording an assignment or seeking a renewal (as ADIHBV did for the STOLI trademark in 2003) must also fall under Section 1064(3)'s broad rubric of fraudulent registration.

**B. ADIHBV Obtained the STOLICHNAYA Registration Contrary to the Requirements of 15 U.S.C. § 1052(a).**

Pursuant to Sections 1065 and 1064(3), a mark's registration may be contested if "its registration was obtained contrary to the provisions of subsection (a), (b) or (c) of section 1052 of this title." 15 U.S.C. § 1064(3). According to Section 1052(a), a mark shall be refused registration if it "[c]onsists of or comprises . . . matter which may . . . *falsely suggest a connection with . . . a geographical indication* which, when used on or in connection with wines or spirits, identifies a place other than the origin of the goods." 15 U.S.C. § 1052(a) (emphasis added). Here, as alleged, ADIHBV's STOLICHNAYA Mark falsely suggests a connection with Russia (*i.e.*, the terms "Russian Vodka," "Genuine Russian Vodka," "Imported Russian Vodka," "Distilled in Russia," and "Product of Russia" are used in advertising and on the label) when, in fact, the vodka sold under said mark is produced in Latvia. Further, the picture of the famous Moscow Hotel (which has long served as a symbol of Russia to the West) appears in the center of ADIHBV's STOLICHNAYA label, and falsely suggests yet another connection to Russia. *See* Complaint ¶¶ 88-91, 167; *see also* [Proposed] Second Amended Complaint ¶¶ 89-92.

To be contrary to the provisions of Section 1052(a), the mark must also be "first used on or in connection with wines or spirits by the applicant on or after one year after the date on which the World Trade Organization Agreement (as defined in Section 3501(9) of Title 19)

enters into force with respect to the United States." 15 U.S.C. § 1052(a). The WTO Agreement entered into force, with respect to the United States, on April 15, 1994, and the ADIHBV first used the STOLICHNAYA trademark more than a year after that date. As a result, ADIHBV's right to the STOLICHNAYA Mark is clearly contestable, as ADIHBV's use of said mark is directly contrary to Section 1052(a).

### C. ADIHBV Has Misrepresented the Source of Goods Under the STOLICHNAYA Mark.

Pursuant to Sections 1065 and 1064(3), a mark may be contested if "it is being used so as to misrepresent the source of the goods or services on or in connection with which the mark is used." 15 U.S.C. § 1064(3). Misrepresentation applies to passing off. *See, e.g., Cuban Cigar Brands v. Upmann Int'l, Inc.*, 457 F. Supp. 1090, 1101 (S.D.N.Y. 1978) (holding that where an infringer misused its trademarks to prevent the plaintiff's continued use of its similar mark, to blur whatever distinctions existed between parties' products, and to trade upon the plaintiff's renown and reputation, defendant's rights to such marks were not incontestable), *aff'd mem.*, 607 F.2d 995 (2d Cir. 1979). Here, ADIHBV has deliberately sought to pass off its goods as those of FTE, using virtually identical STOLICHNAYA labels to those previously used by VVO-SPI (the legal predecessor to FTE).

### D. ADIHBV's Right to the STOLICHNAYA Mark May Be Contested Because There Was a Final Decision Adverse to Its Claim of Ownership.

Pursuant to Section 1065(1), the registration of a mark may be contested if there was a "final decision adverse to registrant's claim of ownership of such mark." 15 U.S.C. § 1065(1). Here, there have been a number of such decisions. On December 21, 2000, the Russian Federation Moscow Court of Arbitration issued a ruling holding that VAO-SPI was not a legal successor to VVO-SPI. *See* Complaint ¶¶ 100-01, Ex. F. On October 16, 2001, that

decision was upheld by the Russian Supreme Court. *Id.* ¶ 104, Ex. H. Further, on January 30, 2002, the Moscow Court of Arbitration held that the December 26, 1997 assignment of the STOLICHNAYA Marks from VZAO-SPI (the legal successor of VAO-SPI) to ZAO-SPI, which subsequently assigned said mark to Spirits International, as well as the January 12, 1998 amendment thereto, were null and void. *Id.* ¶¶ 106-07, Ex. I. Because Spirits International directed that the STOLICHNAYA Mark be assigned to ADIHBV, the above final decisions were directly adverse to ADIHBV's legal chain of title to the STOLICHNAYA Mark.

**III.**

**PLAINTIFFS' MISAPPROPRIATION CLAIM IS NOT TIME-BARRED**

The only thing "absurd" regarding the misappropriation claim in this action is the AD Defendants' attempt to argue that it should be subject to a three-year statute of limitations. *See* AD Mem. at 7. First, the AD Defendants fail to even specify which provision of Section 214 of the New York Civil Practice Law and Rules ("CPLR") should apply to FTE's misappropriation claim. In fact, Section 214 is not intended to apply to misappropriation of trademarks. *See, e.g., Mario Valente Collezioni, Ltd. v. AAK Ltd.*, 280 F. Supp. 2d 244, 258 (S.D.N.Y. 2003) (holding that Section 214(4)'s three-year statute of limitations for "injury to property" is not appropriate when applied to trademark claims, where the crux of the claim, as it is here, is fraud).

Second, misappropriation claims, much like unfair competition claims, should fall under the statute of limitations for the most analogous cause of action. *See, e.g., id.* at 258 (holding that the most analogous claim to a common law unfair competition claim in the trademark context is fraud, which is subject to a six-year statute of limitations). Here, as in *Mario Valente*, Plaintiffs have brought common law unfair competition and misappropriation

claims for misappropriation of trademarks. Thus, as in *Mario Valente*, the Court should hold that the most analogous cause of action is fraud, and apply the six-year statute of limitations. *Id.*

Third, and alternatively, New York courts, including the Southern District of New York, have repeatedly held that CPLR 213(1)'s six-year statute of limitations applies to most types of misappropriation claims. *See, e.g., Rosner v. Codata Corp.*, 917 F. Supp. 1009 (S.D.N.Y. 1996) (holding that New York's six-year catch-all statute of limitations [*i.e.*, Section 213(1)] applied to unspecified allegation of misappropriation of technology); *Toscano v. Toscano*, 285 A.D.2d 590, 728 N.Y.S.2d 189 (2d Dep't 2001) (holding that six-year statute of limitations, rather than a three-year statute of limitations, applied to causes of action alleging diversion of corporate assets); *Dolgoff Holophase, Inc. v. E.I. Du Pont de Nemours & Co.*, 212 A.D.2d 661, 622 N.Y.S.2d 769 (2d Dep't 1995) (holding that misappropriation of an idea, which is similar to misappropriation of a trademark, fell under Section 213(1)'s six-year limitations period); *Lait v. Leon*, 19 A.D.2d 540, 240 N.Y.S.2d 509 (2d Dep't 1963); (holding that misappropriation of corporate property was subject to the six-year statute of limitations). Therefore, even if the Court chooses not to apply the six-year limitations statute for fraud, Plaintiffs' misappropriation claim should still not be time-barred under CPLR 213(1).

## IV.

## PLAINTIFFS HAVE STANDING TO ASSERT THE N.Y. GEN. BUS. L. § 349, COMMON LAW UNFAIR COMPETITION, AND LANHAM ACT CLAIMS

### A. Statutory Unfair Competition

To state a claim for deceptive practices under Section 349, a plaintiff must allege "(1) that the act, practice, or advertisement was consumer-oriented; (2) that the act, practice, or advertisement was misleading in a material respect; and (3) that the plaintiff was injured as a

result of the deceptive practice, act, or advertisement." *Excellus Health Plan, Inc. v. Tran*, 287 F. Supp. 2d 167, 179 (W.D.N.Y. 2003); *see also Pelman v. McDonald's Corp.*, 237 F. Supp. 2d 512, 525 (S.D.N.Y. 2003); *Stutman v. Chem. Bank*, 731 N.E.2d 608, 95 N.Y.2d 24, 29 (N.Y. 2000).

Plaintiffs have adequately pleaded these elements by alleging that (1) the AD Defendants distributed and marketed STOLICHNAYA brand vodka in the United States (*i.e.*, consumer-oriented conduct) (*see, e.g.*, Complaint ¶ 87); (2) such practice was misleading because the AD Defendants advertised STOLICHNAYA vodka as "Russian Vodka," "Genuine Russian vodka," "Imported Russian Vodka," "Distilled in Russia," and "Product of Russia" when, in fact, it was manufactured and distilled in Latvia (*see, e.g.*, Complaint ¶¶ 88-93; *see also* [Proposed] Second Amended Complaint ¶¶ 89-94.); and (3) Plaintiffs were injured as a result of this deceptive practice (*see, e.g.*, Complaint ¶ 128).

By arguing that Plaintiffs lack standing to bring a Section 349 claim because they are not consumers and are not acting "on behalf of a class of consumers" (AD Mem. at 8), the AD Defendants again seek to mislead the Court. There is no requirement that claims under Section 349 be brought by a consumer or on behalf of consumers. In fact, the Second Circuit has repeatedly held that "corporate competitors now have standing to bring a claim under this [statute] so long as some harm to the public at large is at issue." *Securitron Magnalock Corp. v. Schnabolk*, 65 F.3d 256, 264 (2d Cir. 1995); *see also Boule v. Hutton*, 328 F.3d 84, 94 (2d Cir. 2003). "The critical question, then, is whether the matter affects the public interest in New York, not whether the suit is brought by a consumer or competitor." *Securitron*, 65 F.3d at 264.

The AD Defendants' conduct, in advertising STOLICHNAYA vodka as "Russian Vodka," "Genuine Russian Vodka," "Imported Russian Vodka," "Distilled in Russia," and

"Product of Russia," when such vodka is actually manufactured and bottled in Latvia, certainly affects the public interest. *See, e.g.*, *Securitron*, 65 F.3d at 264 (holding that where lock manufacturer gave false information to regulatory agency, a business competitor had standing to bring claim under Section 349, as such improper acts by the lock manufacturer affected public interest); *Excellus Health Plan*, 287 F. Supp. 2d at 180 (holding that allegations by competitor that HMO caused harm to the public at large by engaging in deceptive conduct designed to limit consumers' health care choices in community was sufficient to state claim for violation of statute prohibiting deceptive business practices).

Further, in *Construction Technology, Inc. v. Lockformer Co.* the Southern District held that the focus in Section 349 claims should be on whether deception was practiced against consumers, not on any separate "public interest" question:

> [D]irect deception against ordinary consumers where the chief injury is to the consumer, rather than competitors, would appear clearly within the scope of Gen. Bus. §§ 349-350 . . . . Inquiry in such cases thus need focus only on whether deception was practiced, not on any separate "public interest" question. And either the consumer or an injured competitor may sue.

704 F. Supp. 1212, 1222 (S.D.N.Y. 1989) (citing Richard A. Givens, *Practice Commentaries on Gen. Bus. §§ 349, 350*, at 569 (McKinney 1988)) (*abrogated in part on other grounds*).

**B. Common Law Unfair Competition**

The AD Defendants' argument that FTE's unfair competition claim is time-barred (*see* AD Mem. at 9) fails for the same reasons as those outlined in Section III. *See supra*. Further, it is well established law that unfair competition claims in New York are subject to a six-year statute of limitations. *See, e.g.*, *Mario Valente*, 280 F. Supp. 2d at 257-58 (specifically rejecting the defendants' argument that the plaintiffs' common law unfair competition claim was barred by CPLR 214's three-year statute of limitations, and holding that it, in fact, fell under

CPLR 213's six-year statute of limitations); *see also Charles Atlas, Ltd. v. DC Comics, Inc.*, 112 F. Supp. 2d 330, 334 (S.D.N.Y. 2000).

The AD Defendants' argument that FTE lacks standing because it is not the registered owner of the STOLICHNAYA Marks in the United States and, thus, does not currently possess any goodwill in these marks (*see* AD Mem. at 9-10) is circular and misses the point. One purpose of this action is to have the Court rectify the register, thus acknowledging FTE as the rightful owner and registrant of the STOLICHNAYA Marks, and, as such, possessing commercial goodwill in said marks. Under the AD Defendants' theory, no party whose U.S. registrations were fraudulently assigned to another or otherwise stolen would have the right to seek relief under the Lanham Act or related claims, such as common law unfair competition.[3]

Finally, the AD Defendants' ignore the "famous marks" or "well known marks" doctrine, "a legal concept under which a trademark or service mark is protected within a nation if it is well known in that nation even though the mark is not actually used or registered in that nation." *McCarthy's* § 29:61. Thus, if a junior user were to register and use a mark in the United States that is confusingly similar to the famous foreign mark, then there would, by definition, be a likelihood of confusion among United States customers. *See McCarthy's* § 29:4; *see also Empresa Cubana del Tabaco v. Culbro Corp.*, No. 97 Civ. 8399, 2004 WL 602295, at *40 (S.D.N.Y. Mar. 26, 2004).

Pursuant to the "famous marks" doctrine, a plaintiff need not be the registrant of the mark to bring Lanham Act claims. *See, e.g., Empresa Cubana del Tabaco v. Culbro Corp.*, 213 F. Supp. 2d 247, 286 (S.D.N.Y. 2002) (rejecting the defendants' argument that plaintiff was

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[3] *See Bangkok Crafts Corp. v. Capitolo di San Pietro in Vaticano*, 331 F. Supp. 2d 247, 255 (S.D.N.Y. 2004) (holding that "[t]he standard of unfair competition under New York law is a virtual cognate of the federal Lanham Act").

not the owner of the COHIBA Mark in the United States because it was not the U.S. registrant of such mark, and holding that the plaintiff had standing to bring federal trademark infringement and dilution claims under the Lanham Act); *Empresa Cubana*, 2004 WL 602295, at *30, *52 (same); *see also Grupo Gigante S.A. de C.V. v. Dallo & Co.*, 391 F.3d 1088, 1094 (9th Cir. 2004) (holding that exception to "territoriality principle" exists, allowing an earlier foreign user of trademark to gain priority over a later user of mark in United States, when the foreign use of mark had achieved certain level of fame for that mark within the United States, prior to the defendant's first U.S. use).

*Empresa Cubana*, 213 F. Supp. 2d 247, is directly parallel to the instant action. In that case, the plaintiff (a Cuban corporation and the owner of the COHIBA mark in Cuba) brought an action for cancellation of marks, trademark infringement and dilution, and unfair competition against the defendant (the owner and registrant of the COHIBA mark in the United States). *Id.* at 251. The defendant sought to dismiss the Lanham Act and unfair competition claims because the plaintiff was not the registrant or owner of the COHIBA mark in the United States. However, the court explicitly held that trademark infringement can be found even if plaintiff's mark is not registered in the United States and its product is not sold in United States. *See id.* at 273-74.

Here, much as in *Empresa Cubana*, the plaintiff (*i.e.*, FTE), a Russian corporation and owner of the STOLICHNAYA Mark in Russia, brought various Lanham Act claims against the defendant (*i.e.*, ADIHBV), the owner and registrant of the STOLICHNAYA Mark in the United States. Again, much as in *Empresa Cubana*, FTE's STOLICHNAYA Mark was already "famous" and/or "well known" in the United States prior to ADIHBV's first use of said mark in the U.S. *See* Complaint ¶¶ 71-72. Therefore, as in *Empresa Cubana*, FTE has standing to bring

Lanham Act claims against the defendants, even though FTE is not the current registrant of the STOLICHNAYA Marks in the United States.

C. **Lanham Act Violations**

Plaintiffs' federal trademark infringement and dilution claims (Counts XI and XII of the Complaint, respectively) survive the AD Defendants' motion to dismiss for the same reasons. It is circular to argue that the rightful owner of a mark whose registrations were fraudulently assigned to another has no relief under Lanham Act Sections 32 and 43(a). One purpose of this action is to have the Court rectify the register, thus acknowledging FTE as the rightful owner and registrant of the U.S. STOLICHNAYA Marks.

In an analogous case, *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, the defendant East German corporation claimed title to certain U.S. trademark registrations, as the purported successor to a prior German foundation which registered them. 293 F. Supp. 892, 908 (S.D.N.Y. 1968). However, the court held in favor of the West German plaintiff, who claimed to be the true legal successor to the prior German registrant and the rightful owner of said marks. *Id.* at 921-22. Here, much as in *Carl Zeiss*, two entities (ADIHBV and FTE) claim to be the rightful successors and/or assignees of the original Russian registrant (VVO-SPI). Thus, FTE is entitled to pursue its trademark infringement claim and, if FTE prevails on its First Claim for Declaratory Relief and is found to be the true legal successor to VVO-SPI and the rightful owner of the STOLICHNAYA Marks, to collect damages from the AD Defendants for trademark infringement, as well as its other Lanham Act claims.

Further, as the senior foreign user of marks which became "famous" and/or "well known" in this country before defendants' first use of said marks, FTE has standing to pursue its trademark infringement and dilution claims whether or not it is found to be the rightful registrant

of the STOLICHNAYA Marks in the United States. *See McCarthy's* § 29:61; *see also Grupo Gigante*, 391 F.3d at 1094; *Empresa Cubana*, 2004 WL 602295, at *30, 52; *Empresa Cubana*, 213 F. Supp. 2d at 286.

Additionally, pursuant to, Section 45 of the Lanham Act "[t]he terms 'applicant' and 'registrant' embrace the legal representatives, predecessors, successors and assigns of such applicant or registrant." 15 U.S.C. § 1127. VVO-SPI, the legal successor to the initial registrant of the STOLICHNAYA Mark (V/O-SPI) and the predecessor to the current registrant (*see* Complaint ¶¶ 74-75) held the U.S. registrations to the STOLICHNAYA Marks on behalf of the Russian government, which has subsequently assigned said marks to FTE. Thus, FTE also has standing to assert its Lanham Act claims under Section 1127.

**D. Plaintiffs Have a Direct Pecuniary Interest in the STOLICHNAYA Marks.**

In arguing that Plaintiffs did not allege any potential for commercial or competitive injury stemming from ADIHBV's use of the STOLICHNAYA Marks (*see* AD Mem. at 13), the AD Defendants engage in semantics. Plaintiffs expressly alleged that the AD Defendants are using the STOLICHNAYA Marks in the United States "in a manner that is likely to cause, and is calculated to create, confusion as to the origin and sponsorship of those goods, as well as the affiliation between the AD Defendants and FTE." *See* Complaint ¶ 166.

A "plaintiff has standing [under § 43 of the Lanham Act] whether he or she is in direct or indirect competition with the alleged violator. What matters is whether a commercial party has a 'reasonable interest to be protected' against the alleged false advertising." *PPX Enters. Inc. v. Audiofidelity, Inc.*, 746 F.2d 120, 125 (2d Cir. 1984) (citations omitted); *see also Rare Earth, Inc. v. Hoorelbeke*, 401 F. Supp. 26, 39 (S.D.N.Y. 1975). "[T]here is nothing novel

about awarding standing under the Lanham Act to one who has a direct pecuniary interest at stake." *PPX Enters.*, 401 F. Supp. at 125.

In *Lujan v. National Wildlife Federation*, the Supreme Court held that at the pleading stage, general allegations of injury resulting from the defendant's conduct may suffice, for on a motion to dismiss the court "presumes that general allegations embrace those specific facts that are necessary to support the claim." 497 U.S. 871, 889 (1990). Therefore, the fact that Plaintiffs plan to distribute and market their own vodka under the STOLICHNAYA brand in the United States should be presumed from the more general allegations in the Complaint. As the AD Defendants advertise their vodka as "Genuine Russian Vodka" when, in fact, it is manufactured and bottled in Latvia (*see* Complaint ¶¶ 88-91), Plaintiffs clearly have straight-forward commercial and direct pecuniary interest that could reasonably be affected by the AD Defendants' improper conduct.

Further, Plaintiffs have asked the AD Defendants to stipulate to the filing of the [Proposed] Second Amended Complaint, which specifically alleges that (1) Ost-Alco plans to sell vodka under the STOLICHNAYA brand in the United States (*see* [Proposed] Second Amended Complaint ¶ 171); and (2) Ost-Alco already exports for sale in the United States super premium Russian vodkas, including, without limitation, the very highly regarded JEWEL OF RUSSIA brand vodka (*see* [Proposed] Second Amended Complaint ¶ 12). The AD Defendants refused to so stipulate, thus necessitating the filing of this opposition.

V.

**THIS COURT HAS JURISDICTION TO CANCEL ADIHBV'S MARKS**

Although the AD Defendants correctly point out that 15 U.S.C. § 1064 provides a statutory basis for only the U.S. Patent and Trademark Office, not the federal courts, to cancel a

registration (*see* AD Mem. at 11), they ignore 15 U.S.C. § 1119, which extends that same power to the federal district courts. "In any action involving a registered mark the court may determine the right to registration, order the cancellation of registrations, in whole or in part, restore canceled registrations, and otherwise rectify the register with respect to the registrations of any party to the action." 15 U.S.C. § 1119.[4]

The grounds for cancellation under Sections 1119 and 1064 are virtually identical. *See, e.g., Aini v. Sun Taiyang Co.*, 964 F. Supp. 762, 780 (S.D.N.Y. 1997) (holding that, pursuant to Section 1119, court may cancel registrations on any grounds allowed under Section 1064); *Shakespeare Co. v. Silstar Corp. of Am., Inc.*, 9 F.3d 1091, 1092 (4th Cir. 1993) (holding that district courts are limited by the language of the statutes controlling the Trademark Board, and that the grounds for cancellation under §§ 1119 and 1064 are the same).

Further, although it is correct that the Court may not cancel pending applications before they register, according to ADIHBV itself, two of said pending applications have already been registered (*see* AD Mem. at 11 n.8) and the rest will most probably be registered before this case comes to trial. Thus, to settle all potential claims in one lawsuit and avoid wasteful, duplicative litigation, Plaintiffs believe it is appropriate to allow their Tenth Claim, for Cancellation of Marks, to proceed as is.

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[4] The [Proposed] Second Amended Complaint corrects the inadvertent citation to Section 1064 rather than Section 1119. Notwithstanding that such requests are usually granted with extreme liberality, particularly at such an early stage in the proceeding where no party had yet engaged in discovery, ADIHBV refused to consent to allow the filing of the proposed amended pleading. The [Proposed] Second Amended Complaint amends and corrects any prior omission by expressly citing Section 1119 in support of the Tenth Claim, for Cancellation of Marks.

## VI.

## U.S. COPYRIGHT LAW PROTECTS PLAINTIFFS' STOLICHNAYA COPYRIGHT

"To establish [copyright] infringement, two elements must be proven: (1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991); *see also Medforms, Inc. v. Healthcare Mgmt. Solutions, Inc.*, 290 F.3d 98, 109 (2d Cir. 2002). Plaintiffs have alleged ownership of the STOLICHNAYA copyright (*see* Complaint ¶ 171), and have alleged that the STOLICHNAYA labels used by Plaintiffs and the AD Defendants are strikingly similar. *See* Complaint ¶ 172.

The AD Defendants' contention that Plaintiffs' STOLICHNAYA copyright is not entitled to protection because Plaintiffs attached FTE's contemporary STOLICHNAYA label as an exhibit to the Complaint, rather than the original STOLICHNAYA label created in 1953 (*see* AD Mem. at 14-15), is nonsensical. The STOLICHNAYA label currently used by FTE is strikingly similar to the original 1953 label, and ADIHBV does not (and cannot) suggest otherwise. Once again, ADIHBV seems to forget that, "In deciding a Rule 12(b)(6) motion, the Court must accept the facts alleged in the complaint as true and assume that plaintiff would be able to prove them were the case to go to trial." *In re Cedar Hill Cemetery Litig.*, 853 F. Supp. 706, 709 (S.D.N.Y. 1994); *see also Lujan*, 497 U.S. at 889.

ADIHBV's argument that Plaintiffs' STOLICHNAYA label is not protected by copyright because it was first published prior to the Soviet Union's accession to the Berne Convention for Protection of Literary and Artistic Works (the "Berne Convention") is deficient, among other reasons, because it fails to consider the Berne Convention's "Rule of Retroactivity."

Article 18 of the Berne Convention provides: "This Convention shall apply to all works which, at the moment of its coming into force, have not yet fallen into *the public domain in the country of origin* through the expiry of the term of protection." Berne Convention Art. 18 (Paris text 1971) (emphasis added). ADIHBV argues that the Stolichnaya copyright was in the public domain in the United States, but it fails to present any evidence that the copyright fell into the public domain in its *country of origin*, Russia.

Further, following United States' admission to the Berne Convention, Congress enacted Section 104A of the Copyright Act. This section provides for the *automatic* restoration of copyrights which may have entered into the public domain in the United States to the source country of such copyright, as of January 1, 1996. *See* 17 U.S.C. § 104A. Pursuant to subsection 104A(h)(8), the source country is Russia, and the ownership of the restored rights vest first in the author or initial right-holder as determined by Russian law. Because the STOLICHNAYA label was created as a work-for-hire, the rights passed to the State enterprise which employed the author, and then to the State (*i.e.*, the Soviet Union, succeeded to by the Russian Federation). *See* Complaint ¶ 171.

To qualify as a "restored work," the copyright must (1) be an original work of authorship; (2) not be in the public domain in its source country; (3) be in the public domain in the United States due to noncompliance with formalities imposed at any time by United States copyright law or lack of national eligibility; and (4) have at least one author or right-holder who was, at the time the work was created, a national or domiciliary of an eligible country, and if published, was first published in an eligible country and not published in the United States during the 30-day period following publication in such eligible country. *See* 17 U.S.C. § 104A(h)(6)(A)-(D).

Plaintiffs' STOLICHNAYA copyright meets all four of the above requirements: (1) the STOLICHNAYA Copyright is an original work of authorship; (2) it is not in the public domain in Russia; (3) it was interjected in the public domain in the United States through either non-compliance with U.S. law or Russia's lack of eligibility at the relevant time; and (4) Russia is an "eligible country" because it acceded to the Berne Convention on March 13, 1995. Moreover, Plaintiffs have alleged publication in Russia in 1953, far greater than 30 days prior to publication in the United States, which is alleged to have occurred in the early 1970s. *See* Complaint ¶¶ 66-67.

Finally, the AD Defendants' arguments that Mr. Yakovlev's rights in the STOLICHNAYA Copyright were somehow forced from him (*i.e.*, "involuntarily transferred," *see* AD Mem. at 16) or that the Russian Federation somehow did not succeed to the Soviet Union's rights in the copyright are mere grasping at straws. As specifically alleged in the Complaint, Mr. Yakovlev was an employee of the Moscow Art-Study Workshop of the Trust "Sojuzprodoformlenie" when he created the STOLICHNAYA label (*see* Complaint ¶ 171). Therefore, the ownership of the label automatically vested with that enterprise, pursuant to Russian law (based on principles similar to the U.S. "work-for-hire" doctrine). Likewise, pursuant to international law, the Russian Federation inherited the Soviet Union's assets, including the rights to the STOLICHNAYA label; and the Russian Federation subsequently exclusively licensed Ost to exploit the STOLICHNAYA label and copyright in the United States. *See id.* ¶ 12.

## CONCLUSION

Throughout their motion to dismiss, the AD Defendants consistently ignore the fundamental requirement that, for purposes of a Rule 12(b)(6) motion, "[t]he court should accept all factual allegations in the complaint as true and construe all reasonable inferences in favor of the plaintiff." *Giordano v. Gerber Scientific Prods., Inc.*, 24 Fed. Appx. 79, 81 (2d Cir. 2001) (citing *Branum v. Clark*, 927 F.2d 698, 705 (2d Cir. 1991)). To prevail, the AD Defendants have to show "that no relief could be granted under any set of facts that could be proved consistent with allegations." *Hishon v. King & Spalding*, 467 U.S. 69, 73 (1984). The AD Defendants have failed to meet that heavy burden. For all the foregoing reasons, FTE respectfully requests that the AD Defendants' motion to dismiss be denied in its entirety.

Dated: New York, New York
March 11, 2005

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# EXHIBITS 8

**IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCHII "OST-ALCO",<br><br>*Plaintiffs*,<br><br>v.<br><br>SPIRITS INTERNATIONAL N.V., SPI SPIRITS LIMITED, SPI GROUP SA, ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V., ALLIED DOMECQ SPIRITS & WINE USA, INC., and YURI SHEFLER and ALEXEY OLIYNIK (both individuals),<br><br>*Defendants.* | Case No.: 1:04-cv-08510 (GBD) |

**ALLIED DOMECQ'S REPLY BRIEF IN SUPPORT OF ITS MOTION TO DISMISS COUNTS I, IV, V, AND IX-XIV OF THE FIRST AMENDED COMPLAINT**

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Defendants, Allied Domecq Spirits & Wine USA, Inc. ("Allied Domecq USA") and Allied Domecq International Holdings B.V. ("Allied Domecq B.V.") (collectively, "Allied Domecq"), submit the following reply brief in support of their motion to dismiss Counts I, IV, V, and IX-XIV of the *First Amended Complaint* as asserted by Plaintiffs, Federal Treasury Enterprise Sojuzplodoimport ("FTE") and Obschestvo s Ogranichennoi Otvetstvennost'yu Chernogolovskii Zavod Alkogol'noi Prodykchii "Ost-Alco" ("Ost-Alco") (collectively, "Plaintiffs") against Allied Domecq.

## I.
## INTRODUCTION

One the more unfortunate legal tactics that has developed over the years is that if you ever need to withstand a motion to dismiss, you should just allege fraud. After all, a court considering a motion to dismiss must accept all of the factual allegations concerning the supposed "fraud" as true. Thus, while it is disappointing that Plaintiffs have resorted to conjuring up the spectre of wrongful conduct in an effort to preserve the key counts of their much publicized case, it unfortunately is not wholly surprising.

Wrongfully impugning the character of a corporate citizen, however, cannot salvage a fundamentally flawed legal theory. Moreover, when one closely studies Plaintiffs' allegations of fraud against Allied Domecq (which, curiously, were never raised in either the original or the first amended complaint—that is, *before* Allied Domecq filed the present motion), one realizes that Plaintiffs never actually specify what *exactly* Allied Domecq supposedly did that Plaintiffs would have this Court declare to have been "fraudulent." As such, and despite these last-minute maneuvers, Plaintiffs' key claims remain factually deficient and legally incurable, and they should be dismissed.

## II.
## BACKGROUND FACTS

In its original filing, Allied Domecq set forth a few basic and undisputed facts that make it clear that the causes of action Plaintiffs assert cannot succeed. *See* D.I. 23, pp. 2-4. In their responsive papers, however, Plaintiffs continue to use vague language and to blur important concepts when discussing the trademarks at issue. Thus, it is worth restating a few of those facts here and underscoring their significance:

- The Soviet entity VVO-SPI assigned all of its U.S. rights and any goodwill it had in the STOLICHNAYA mark to PepsiCo in June 1991, including all goodwill that resulted from any use of the mark in the U.S. since the 1960s. *See* D.I. 23, Ex. G (transferring "the goodwill of the business associated with the [mark]"); *see also id.*, Exs. D, E, F (assignments of goodwill dating back to the 1960s).

- PepsiCo, in turn, assigned all of its rights, including the goodwill it received from VVO-SPI through the June 1991 Agreement, to Allied Domecq in January 2001. *See id.*, Ex. H.

- The U.S. Trademark Office has declared the STOLICHNAYA trademark registration to be "incontestable." *See id.*, Ex. A.

These undisputed facts are of critical importance here, and their impact evidently is not understood (or at least not acknowledged) by Plaintiffs. Thus, for example, when Plaintiffs suggest on page one of their brief (in a prelude of things to come) that the STOLICHNAYA marks "were owned by the Russian Federation" as of January 2001, they are flatly wrong: no one in Russia has "owned" the U.S. marks since June 1991 when the Soviet government assigned all of its rights to PepsiCo. Likewise, despite Plaintiffs' allusion to the contrary, there was never any "Russian court ruling" (*see Pl. Mem.* at 1, 6, 11-12) on the ownership interests in the mark

because neither of the parties involved (OAO Plodovaya Kompania and VAO-SPI) has ever owned the mark either.[1]

Instead, what Plaintiffs seem to mean when they refer to "trademark rights" is apparently the contractual rights granted by PepsiCo in June 1991. For purposes of the present motion, however, it is not necessary to delve deeply into the contracts involving VVO-SPI, VAO-SPI, and PepsiCo because Plaintiffs lack the *trademark rights* necessary to sustain the *trademark causes of action* they allege here. Nonetheless, a brief overview of those contracts is helpful as it shows *why* Plaintiffs' claims against Allied Domecq are deficient even if Plaintiffs' factual allegations are to be believed.

In the June 1991 Agreement that assigned to PepsiCo all U.S. trademark rights in STOLICHNAYA, PepsiCo agreed that (1) it would only use the mark on vodka that it bought from the Soviet corporation known as V/O Sojuzplodoimport ("VVO SPI"), and (2) it would not transfer its trademark rights to any other party without the permission of the Soviet corporation. *See* D.I. 36, Ex. 1 ("*Second Am. Compl.*"), ¶¶27, 74-75[2]; Ex. A (copy of June 1991 Agreement). That Agreement, however, was later modified in February 1992 (with the consent of PepsiCo) to reflect that a new private entity ("VAO-SPI") was the legal successor-in-interest to VVO-SPI. *See Second Am. Compl.*, ¶76; Ex. B (copy of Feb. 1992 Amendment). Thus, when PepsiCo assigned its trademark rights to Allied Domecq in January 2001, it naturally first sought

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[1] Similarly, when Plaintiffs talk about the "fame" of the STOLICHNAYA mark in this country "prior to [Allied Domecq's] first use" of the mark (*see, e.g., Pl. Mem.* at 17, 18) they again fail to appreciate trademark law. Because Allied Domecq acquired all of the "goodwill" build up through the use of the mark since the 1960s, no one has "used" the mark before Allied Domecq because Allied Domecq's "first use" relates back to the date the mark was first used by Allied Domecq's predecessors-in-interest, which include PepsiCo., Kraus Bros., Monsieur Henri Wines, VVO-SPI, and V/O-SPI.

[2] Plaintiffs are seeking leave to file a second amended complaint. *See generally* D.I. 36. In an earlier filing, Allied Domecq explained that although it opposes Plaintiffs' attempt to add three new causes of action (namely, new Counts II, IX, and XV), it does not object to Plaintiffs' request to change or add generally to the factual provisions (continued)

permission from Defendant Spirits International, which is the successor-in-interest to VAO-SPI and with whom Pepsi had been dealing under the vodka supply contract. *See Second Am. Compl.*, ¶¶77-80.

According to Plaintiffs, though, VAO-SPI was not the legal successor to VVO-SPI, and the General Director of VVO-SPI (Mr. Sorochkin) supposedly lacked the authority to bind that state entity to the February 1992 Amendment. *See id.*, ¶¶31-32, 36, 39-40; *cf.* Ex. A. However, if Plaintiffs' factual allegations are to be believed (as we must here), then Plaintiffs' true argument would be that the June 1991 VVO/Pepsi Agreement remains in effect and that, as a result, PepsiCo has been in breach of that agreement since February 1992 by using the STOLICHNAYA mark on vodka products purchased from companies (such as VAO-SPI) other than VVO-SPI. *See Second Am. Compl.*, ¶¶76-78; *cf.* Ex. A, ¶5. Further, Plaintiffs would undoubtedly contend that PepsiCo breached the VVO/Pepsi agreement again in January 2001 when, upon the expiration of that agreement, PepsiCo transferred the STOLICHNAYA mark to Allied Domecq without the consent of VVO-SPI. *See Second Am. Compl.*, ¶¶80, 121; *cf.* Ex. A, ¶¶4, 6, 10.

Plaintiffs, however, have not sued PepsiCo for breach of contract, nor have they asserted any other contractual right they claim to possess.[3] Instead, Plaintiffs are seeking to pursue

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of the original complaint. *See generally* D.I. 36, pp. 2-3. For simplicity, Allied Domecq will therefore use the numbering system of the proposed second amended complaint.

[3] The reason why Plaintiffs have elected not to pursue a claim against Pepsi are immaterial: perhaps Plaintiffs do not want to sue PepsiCo for political reasons (PepsiCo does a substantial amount of business today in the Russian Federation) or perhaps it is because Plaintiffs realize that they do not actually *have* a valid contractual cause of action against PepsiCo. After all, the New York breach of contract statute of limitations is six years, and according to Plaintiffs, PepsiCo stopped buying vodka from VVO-SPI more than *thirteen years ago*. *See Second Am. Compl.*, ¶¶76-78, Ex. A. Moreover, not only does it appear that Mr. Sorochkin had the authority (either actual or apparent) to bind the state entity he ran (VVO-SPI) to the terms of the February 1992 Amendment, but the Russian government arguably *ratified* that authority by failing to take any action against PepsiCo regarding any supposed breach of the June 1991 Agreement at any time over the next eight years of the contract's life, which contract expired on December 31, 2000.

trumped up trademark/unfair competition claims against Allied Domecq based on Plaintiffs' supposed trademark rights. As noted above, however, no one in Russia (including the Soviet and Russian governments) has owned any U.S. trademark rights in the name STOLICHNAYA since the Soviet Union voluntarily assigned all of those rights (and any goodwill relating thereto) to PepsiCo in June 1991. *See supra*; *see also* D.I. 23, 2-4, Exs. D-H. Thus, Plaintiffs' attempt to use the blunt instrument of a "trademark" lawsuit in an effort to reacquire the very same rights the Soviet Union gave to Pepsi in June 1991 in exchange for certain *contractual considerations* is no more than a veiled attempt to renationalize those former trademark rights. Politics and government motives aside, however, the law is clear: Plaintiffs' legal claims cannot stand.

## III.
## ALLIED DOMECQ'S RIGHTS IN THE MARK ARE INCONTESTABLE

As Allied Domecq explained in its opening brief, the incontestable status of its ownership of the STOLICHNAYA registration is a critical fact that is determinative of many of the causes of action alleged here. *See, e.g.*, D.I. 23, pp. 6-7. In response, Plaintiffs argue that incontestability is irrelevant because they are "merely seeking to set aside a fraudulent conveyance," and they further suggest that this Court "has the power to 'rectify the register'" without regard to incontestable status. *See Pl. Mem.* at 7. Plaintiffs' rhetoric, however, is inconsistent with their claims in Count I, wherein they seek a declaration that FTE is the owner of the STOLICHNAYA mark and that Allied Domecq is not. *See Second Am. Compl.*, ¶¶114-118. Such a direct attack on Allied Domecq's ownership of the mark is just the sort of action foreclosed by the incontestable nature of the STOLICHNAYA registration. *Cf.* 15 U.S.C.

§1115(b) (an incontestable registration "shall be conclusive evidence ... of the registrant's ownership of the mark").[4]

Moreover, Plaintiffs' invocation of this Court's power to "rectify the register" as a supposed "trump card" to incontestability is likewise unsupported. Section 37 of the Lanham Act is merely the statutory provision that gives a federal court concurrent power over a trademark registration maintained by the U.S. Trademark Office when the rights secured by that registration are directly at issue in a judicial proceeding. *See* 15 U.S.C. §1119. As no less than the U.S. Supreme Court has made clear, however, that provision does not trump the statutory rights afforded to a registrant under the Lanham Act, including the protections that flow from a declaration of incontestability. *See Park 'N Fly, Inc. v. Dollar Park and Fly*, 469 U.S. 189, 203, 105 S. Ct. 658, 666 (1985) ("the power of the courts ... 'to otherwise rectify the register' [as provided in Section 37] must be subject to the specific provisions concerning incontestability").

As a fallback to their pleas of "irrelevancy," Plaintiffs go on to recite a litany of supposed statutory exceptions to incontestable status, which exceptions seemingly were cut and pasted from the Lanham Act and into Plaintiffs' brief without any consideration for the meaning of the cited provisions. *See Pl. Mem.* at 7-12. Then, Plaintiffs repeat the mantra of "fraud" to create the illusion that they have alleged a serious challenge to the incontestability of the STOLICHNAYA mark. *See id.* As with most illusions, however, the deficiencies in Plaintiffs' arguments become apparent upon close examination.

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[4] As Allied Domecq previously noted (*see* D.I. 23, n.5), although a court has the power to order that title to an incontestable registration be transferred *as a possible remedy* to an egregious violation of the law, a plaintiff must first establish what that violation is, including pleading all of the requisite elements of the cause of action. Thus, although Plaintiffs would be free to ask that this Court "rectify the register" as one possible remedy if Allied Domecq is shown to have obtained the mark through "fraud" (*see Pl. Mem.* at 7), they first must allege a valid cause of action for "fraud," which Plaintiffs have not (and cannot) do. *Cf.* D.I. 36, pp. 4-5 (explaining why Plaintiffs lack standing to allege fraud). Moreover, *even if* Plaintiff could plead such a claim, Count I (which merely seeks a "declaration") would still need to be dismissed.

## A. Plaintiffs Have Not Alleged Any Fraud on the Trademark Office

Like all allegations of fraud, a claim that a trademark owner has committed a fraud on the Trademark Office must be pled with the particularity required of Federal Rule 9(b). *See, e.g., Kash 'N Gold Ltd. v. Samhill Corp.*, 1990 WL 196089, *3 (S.D.N.Y. 1990) (attached as Ex. A). Thus, among other things, the party pleading fraud on the Trademark Office must "specify the statements that [it] contends were fraudulent" and "explain why the statements were fraudulent." *See Shields v. Citytrust Bancorp, Inc.*, 25 F.3d 1124, 1128 (2d Cir. 1994). This requirement serves multiple purposes, including providing a defendant with fair notice of the claims and protecting the defendant's reputation or goodwill from the harm caused by baseless cries of "fraud." *See, e.g., Di Vittorio v. Equidyne Extractive Indus., Inc.*, 822 F.2d 1242, 1247 (2d Cir. 1987).

After reviewing Plaintiffs' allegations of fraud, however, one still wonders just what *exactly* are Plaintiffs suggesting that Allied Domecq told the Trademark Office that was supposedly fraudulent? *See generally Pl. Mem.* at 8-10; *Second Am. Compl.*, ¶¶83-94 (described by Plaintiffs as where "the elements of fraud have been pled").[5] Indeed, instead of pleading "fraud" with specificity (as is required under Rule 9(b)), Plaintiffs merely level the conclusory charge that Allied Domecq supposedly "caused false information to be presented" to the Trademark Office, *see Pl. Mem.* at 8-9; *Second Am. Compl.*, ¶122, and never bother to say what that "false information" was, why it was false, or why Allied Domecq knew that information was false, assuming, of course, that the "information" (whatever it was) *was* false in the first place.

[5] None of the "support" paragraphs to which Plaintiffs cite even *refer* to communications involving the Trademark Office, let alone identify a "fraudulent" statement. *See Second Am. Compl.*, ¶¶83-94.

Such allegations do not even come close to meeting the standards of Rule 9(b) and must be dismissed.[6]

**B. Plaintiffs Misquote and Misapply Section 2(a) of the Lanham Act**

Plaintiffs' next attack on incontestability is to allege that Allied Domecq somehow "obtained" the STOLICHNAYA registration contrary to Section 2(a) of the Lanham Act. *See Pl. Mem.* at 10-11. This claim is wholly nonsensical, and had Plaintiffs given this challenge any critical thought, they would have realized that it is not applicable here.[7]

To begin with, it should be noted that Plaintiffs' creative use of ellipses has led to the recitation of statutory language nowhere found in the U.S. Code. *See Pl. Mem.* at 10 ("quoting" the statute as referring to "matter which may ... falsely suggest a connection with ... a geographical indication"). Rather, Section 2(a) has distinct subparts:

> No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it ... consists of or comprises ...
>
> matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute; or
>
> a geographical indication which, when used on or in connection with wines or spirits, identifies a place other than the origin of the goods and is first used on or in connection with wines or spirits by the applicant on or after one year after the date on which the WTO Agreement ... enters into force with respect to the United States

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[6] This is not a mere academic exercise. For example, are Plaintiffs contending that the representation that Pepsi owned the U.S. trademark rights and was assigning them to Allied Domecq was somehow "false"? *Cf. Pl. Mem.* at 10 (alluding to "fraud in recording an assignment"). If so, then such a claim could easily be shown to be deficient as it is undisputed that Pepsi owned the U.S. trademark registration for STOLICHNAYA and later assigned those rights to Allied Domecq. *See* D.I. 23, Exs. D-H.

[7] In the list of statutory challenges to incontestability found in Section 14 of the Lanham Act, the challenge that a mark was obtained "contrary to the provision" of Section 2(a) immediately follows the challenge of fraud and precedes the challenge that a mark is being used "to misrepresent the source" of the goods sold under the mark. *See* 15 U.S.C. §1064(3). This reality of statutory geography perhaps explains why Plaintiffs have included this challenge in their kitchen sink attack on incontestability, sandwiching it right between their allegations of "fraud" and of "misrepresentation" as to source.

15 U.S.C. §1052(a) (emphasis added to the "or") (semicolons in original text). As such, Plaintiffs' complaint that the STOLICHNAYA mark "falsely suggests a connection with Russia" (*see Pl. Mem.* at 10) is not even an actionable claim. *Cf.* 15 U.S.C. §1052(a).

More fundamentally, however, Section 2(a) focuses on whether the *trademark* sought to be registered "consists of or comprises" any misdescriptive matter. *See id.* Here, that "trademark" is the word "STOLICHNAYA." *See* D.I. 23, Ex. B. The "trademark" does not include the term "Russian Vodka," the phrase "Distilled in Russia," or any other trade dress element (such as the hotel) that Plaintiffs contend may suggest a connection between any goods sold and Russia. *Cf. Pl. Mem.* at 10. Thus, Allied Domecq's STOLICHNAYA mark does not even include *any* "geographical indication," let alone one that identifies Russia as the country of origin for the goods.

Finally, and perhaps most glaringly, a wine or spirits geographical indication alleged to be geographically misdescriptive under Section 2(a) is only actionable if it was "first used on or in connection with wines or spirits by the applicant on or after one year after" the date the WTO Agreement came into force. *See* 15 U.S.C. §1052(a) (emphasis added). Not to be dissuaded by this clear statutory language referring to "the applicant," Plaintiffs simply substitute "Allied Domecq" for "applicant" when discussing this statutory language, thus allowing them to argue that this temporal provision has been met because Allied Domecq supposedly "first used the STOLICHNAYA trademark more than a year after that date." *See Pl. Mem.* at 10-11. It is undisputed, however, that Allied Domecq is merely the current registrant of the incontestable STOLICHNAYA mark; it was not the "applicant." As such, the cited provision does not even apply here as Allied Domecq's predecessors-in-interest (including the original applicant, V/O-SPI) first used the STOLICHNAYA mark at least as early as the 1960s, which was long before

the WTO Agreement came into force. *See Second Am. Compl.*, ¶65; *accord* Senate Rep. No. 103-412 at 226-227 (1994) (discussing the proposed changes to Section 2(a) and explaining that "any mark containing a geographical indication that is currently registered or in use, or that is registered or in use during the period before the [WTO Agreement] becomes effective" would not be subject to the new provision) (emphasis added).

**C. Plaintiffs Misunderstand "Misrepresentation as to Source"**

Plaintiffs' third attack on incontestability fares little better. To state a claim for relief under Section 14(3) that a registered mark is being used "to misrepresent the source of the goods" on which the mark is used, a plaintiff must plead that the trademark owner engaged in a "deliberate and blatant misrepresentation of source wherein the registration is merely a vehicle for the misuse rather than evidence of even a colorable ownership claim," or that the trademark owner intentionally displayed the mark "in such a manner as to facilitate passing off the goods as those of another." *Global Maschinen GmbH v. Global Banking Sys., Inc.*, 227 U.S.P.Q. 862, 863 n.3 (Trademark Tr. & Appeal Bd. 1985) (citing cases) (attached as Ex. B). In other words, a plaintiff must "allege and prove a blatant and aggressive misuse of a registered mark by a defendant ... in order to trade upon *the renown and reputation* of the plaintiff ...." *McDonnell Douglas Corp. v. National Data Corp.*, 228 U.S.P.Q. 45, 46 (Trademark Tr. & Appeal Bd. 1985) (emphasis added) (attached as Ex. C); *accord Osterreichischer Molkerei-und Kasereiverband v. Marks and Spencer Ltd.*, 203 U.S.P.Q. 793 (Trademark Tr. & Appeal Bd. 1979) ("the term 'misrepresentation of source' ... refers to situations where it is deliberately misrepresented by ...

the registrant that goods ... originate from a manufacturer or other entity when in fact those goods ... originate from another party").[8]

Here, Plaintiffs have made no allegations that Allied Domecq is representing that its vodka product is anything other than vodka sold by Allied Domecq and produced by Defendants SPI. *Cf. Second Am. Compl.*, Ex. N (picture of Allied Domecq label clearly identifies Defendant SPI Group as the manufacturer of the vodka being sold); *cf. also Cuban Cigar Brands N.V. v. Upmann Int'l, Inc.*, 457 F. Supp. 1090, 1099-1101 (S.D.N.Y. 1978) (in the case cited by Plaintiffs [*see Pl. Mem.* at 11], the defendant had engaged in a deliberate scheme to make it appear as if the goods it sold were made by the plaintiff). Moreover, as discussed previously, Plaintiffs *do not have* any "goodwill" (that is, "renown and reputation") in this country as relates to vodka for Allied Domecq to trade upon. After all, the Soviet government *assigned* all of its "goodwill" to PepsiCo in the June 1991 Agreement; PepsiCo assigned all of its goodwill to Allied Domecq in January 2001; and no one other than Allied Domecq has used the mark in this country since then (nor can they as Allied Domecq is the lawful registrant). *See* D.I. 23, Exs. D-H. Thus, Plaintiffs have no more ability to sustain a claim for misrepresentation of source than would any other third party who likewise possesses no "goodwill" under the mark.

**D. Plaintiffs Cannot Rely on Section 15 as a Challenge to Incontestability**

In their final argument, Plaintiffs attempt to invoke Section 15 of the Lanham Act (15 U.S.C. §1065(1)) as a statutory challenge to incontestability, arguing (without support) that §1065(1) somehow provides that "the registration of a mark may be contested if there was a 'final decision adverse to registrant's claim of ownership of such mark.'" *See Pl. Mem.* at 11

[8] *See also, e.g., SunAmerica Corp. v. Sun Life Assurance Co. of Canada*, 890 F. Supp. 1559, 1581-82 (N.D. Ga. 1994) (denying claim for "misrepresentation" where there was no evidence that trademark owner with excellent reputation had "attempted to trade on the strength of the [plaintiff's] reputation") ("the contention that [defendant] would deliberately confuse the source of its products to trade on the reputation of [plaintiff] is implausible").

(quoting 15 U.S.C. §1065(1)). It does not. The statutory challenges to incontestability are enumerated in Section 14(3) of the Lanham Act,[9] and the related statutory defenses are set forth in Section 33(b). *See* 15 U.S.C. §§1064(3), 1115(b)). Section 15 merely sets forth the *procedural mechanism* by which a registrant first files a claim for incontestability. *See generally* 15 U.S.C. §1065 (setting forth the criteria that, if satisfied, will lead the Trademark Office to declare a mark to be incontestable).[10]

Moreover, it again has to be noted that decisions of Russian courts as to corporate succession are legally irrelevant here. *See Pl. Mem.* at 11-12. Indeed, we must *assume* for purposes of the present motion to dismiss that VAO-SPI was not the legal successor-in-interest to VVO-SPI, as Plaintiffs have alleged. However, it simply does not matter. None of the successors to VVO-SPI—including VAO-SPI, VZAO-SPI, ZAO-SPI, and Defendants SPI—has ever owned the STOLICHNAYA mark in the United States, which mark passed from VVO-SPI to Pepsi to Allied Domecq. *See* D.I. 23, Exs. D-H. Rather, those corporate entities controlled the contractual rights granted by Pepsi, and foreign judicial decisions purporting to address *trademark rights* are both irrelevant and inadmissible. *See Vanity Fair Mills, Inc. v. T. Easton Co.*, 234 F.2d 633, 639 (2d Cir. 1956) ("when trademark rights within the United States are being litigated in an American court, the decisions of foreign courts concerning the respective trademark rights of the parties are irrelevant and inadmissible") (citing *George W. Luft Co. v.*

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9 Section 14(3) also incorporates certain provisions contained in Sections 2(a)-(c) and 4.

10 Following Plaintiffs' logic, if Section 15 sets forth grounds to defeat a claim of incontestability, then the mere fact that Plaintiffs have *filed this litigation* would be sufficient to overcome incontestability in and of itself, given that Section 15(2) requires that there be "no proceeding involving [the trademark] rights pending ... in a court and not finally disposed of." *See* 15 U.S.C. §1065(2). This, obviously, is not the law. Rather, as discussed above, Section 15 just sets forth the conditions that must exist as of the time the trademark owner files a claim for incontestability (which is known as a "Section 15 Affidavit"). *See id.*

*Zande Cosmetics Co.*, 142 F.2d 536, 539 (2d Cir. 1944); *see also Calzaturificio Rangoni S.P.A. v. United States Shoe Corp.*, 868 F. Supp. 1414, 1418 (S.D.N.Y. 1994).

As discussed previously, however, Plaintiffs are not attempting to pursue a contract case against the contracting party to the June 1991 Agreement (*i.e.*, PepsiCo). Instead, Plaintiffs are attempting to litigate Lanham Act claims on the basis of trademark rights that they do not own. And it is those claims that must be dismissed.

## IV.
## ALL OF THE ASSERTED COUNTS REMAIN DEFECTIVE

In its original *Motion to Dismiss*, Allied Domecq alleged that Plaintiffs had failed to state a claim upon which relief could be granted as to Counts I, IV, V, and IX-XIV of the *First Amended Complaint*. By way of a motion for leave to amend, Plaintiffs have withdrawn original Count IX, have substituted a new Count X (seeking cancellation of marks under Section 37 of the Lanham Act) for old Count X (which sought cancellation under Section 14 of the Lanham Act), and have added new Counts II, IX, and XV. Thus, the scope of the present motion is limited to remaining original Counts I, IV, V, and XI-XIV (all as factually amended)[11], and Allied Domecq will limit its responses accordingly. Allied Domecq, however, reserves the right to challenge new Counts II, IX, X, and XV in a later motion should this Court grant Plaintiffs leave to amend. *But see* D.I. 36.

### A. Count I (Declaratory Judgment)

Plaintiffs have not changed the legal basis underlying Count I. To wit, Plaintiffs are still seeking a judicial declaration that they "own" the STOLICHNAYA mark and registration, and that Allied Domecq does not. *See Second Am. Compl.*, ¶¶116, 118. As previously explained, however, Allied Domecq's ownership of the STOLICHNAYA mark cannot be directly

challenged as a matter of law because the registration is incontestable and thus constitutes "conclusive evidence" of Allied Domecq's ownership of the mark. *See* D.I. 23, pp. 6-7; 15 U.S.C. §1115(b); *see also Park 'N Fly*, 469 U.S. at 198, 203, 105 S. Ct. at 663, 666 (a court's power to rectify the register is "subject to the specific provisions concerning incontestability") ("The incontestability provisions ... provide a means for the registrant to quiet title in the ownership of his mark.").

Consequently, unless Plaintiffs are able to state a claim based upon which a court could conclude that the STOLICHNAYA registration is not "incontestable," Count I fails and must be dismissed. *Cf.* 15 U.S.C. §1115(b); *Park 'N Fly*, 469 U.S. at 203, 105 S. Ct. at 666. As has already been discussed, however, *see generally* Section III, *supra*, none of the supposed "challenges" that Plaintiffs now raise against the incontestable status of the STOLICHNAYA registration are even cognizable. Thus, Count I cannot stand.

**B. Count IV (Misappropriation)**

After originally pleading a generic claim for common law misappropriation and running afoul of the three-year statute of limitations, *cf. Demas v. Levitsky*, 738 N.Y.S.2d 402, 408 (Sup. Ct. 2002); N.Y. C.P.L.R. §214(4), Plaintiffs shift gears and now suggest that their claim sounds in fraud and thus should be governed by a six-year period. *See Pl. Mem.* at 12-13. Further, Plaintiffs go on to make the sweeping statement that "Section 214 is not intended to apply to misappropriation of trademarks," *see id.*, citing a Southern District case that arose *under the Lanham Act* (and not "common law misappropriation"), and where the court's conclusion that the alleged acts "more closely resemble[d] ... fraud rather than injury to property" was based on the fact that the activity complained of was an ongoing and a very sophisticated fraudulent

[11] *See* n. 2, *supra*.

scheme. *Cf. Mario Valente Collezioni, Ltd. v. AAK Ltd.*, 280 F. Supp.2d 244, 258 (S.D.N.Y. 2003).[12]

Here, while it is not clear, it appears that Plaintiffs are suggesting only that Allied Domecq somehow "misappropriated" (*i.e.*, "stole") the STOLICHNAYA trademark and registration from PepsiCo. *Cf. Second Am. Compl.*, ¶128. If so, then that is a claim for "injury to property" and is governed by the three-year statute of limitations.[13] *See* N.Y. C.P.L.R. §214(4). Moreover, even if Plaintiffs now dress up their misappropriation claim with allegations of "fraud" (*but see infra*), that still does not avoid the three-year statute of limitations period. *See, e.g., Powers Mercantile Corp. v. Feinberg*, 490 N.Y.S.2d 190, 192-93 (Sup. Ct. 1985) (refusing to apply the statute of limitation for fraud to a claim for common law misappropriation where the supposed fraud merely "represent[s] the means of accomplishing the alleged misappropriation") ("courts will not apply the fraud statute of limitations if the fraud allegation is only incidental to the claim asserted").

Of course, even if one were to apply the six-year statute of limitations, Plaintiffs claims would still fail. To begin with, there is no explanation in the complaint as to what "false information" Allied Domecq supposedly gave to PepsiCo. *Cf. Second Am. Compl.*, ¶¶127-130 ("Count IV"); *see also id.*, ¶122 (merely making the conclusory allegation that Allied Domecq

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[12] The *Mario Valente* court described the "crux of the claims" against the defendants as "involving the surreptitious selling by undisclosed agents of the [defendants] in violation of the exclusive distributorship of Plaintiff by means of false and misleading representations made on behalf of the [defendants] to Plaintiff's customer ...." *Mario Valente*, 280 F. Supp.2d at 258.

[13] There is, however, some question as to whether New York would even *recognize* a claim for common law misappropriation of a trademark given that a mark is an "intangible asset." *See National Football League Prop., Inc. v. Dallas Cowboys Football Club, Ltd.*, 922 F. Supp. 849, 856 (S.D.N.Y. 1996) (explaining that "[m]isappropriation claims that concern intangible rights are generally not recognized," but allowing a claim for misappropriation of revenue to proceed). Moreover, while we are at it, given that the STOLICHNAYA mark Allied Domecq allegedly "misappropriated" was owned by PepsiCo (and not by Plaintiffs), there is also a serious question as to whether Plaintiffs would have standing to pursue such a claim. Allied Domecq, however, does not see the need to pursue these further defects in Count IV more fully at this time given that any claim that arguably could be alleged would already be time-barred.

"knowing caus[ed] false information to be presented to PepsiCo, in reliance on which PepsiCo assigned the STOLICHNAYA [marks] to [Allied Domecq]"). As such, Plaintiffs' allegations of fraud do not satisfy Federal Rule 9(b). *Cf. Shields*, 25 F.3d at 1128 (a plaintiff must "specify the statements that [it] contends were fraudulent").

Moreover, Plaintiffs' allegation that PepsiCo "relied" on the "false information" from Allied Domecq (whatever that "false information" may have been) is also wholly unsupported. *See Second Am. Compl.*, ¶122.[14] It is well settled, however, that "bald contentions, unsupported characterizations, and legal conclusions are not well-pleaded allegations, and will not suffice to defeat a motion to dismiss." *Highlands Ins. Co. v. PRG Brokerage, Inc.*, 2004 WL 35439 at *2 (S.D.N.Y. 2004) (attached as Ex. D). As such, this is yet another independent reason for dismissing this cause of action.

C. **Count V (Statutory and Common Law Unfair Competition)**

Recognizing that their statutory claim for unfair competition was defective, Plaintiffs have now amended their pleadings so as to convert their allegations into a straight-forward claim for false advertising. *See Second Am. Compl.*, ¶132; *compare with First Am. Compl.*, ¶¶126-129; *accord Pl. Mem.* at 14. As this is a new legal theory (and seeing how the claim as originally pled

[14] In fact, if we were to assume that the unidentified "false information" to which Plaintiffs refer is some statement supposedly made by Allied Domecq to Pepsi to the effect that the SPI Defendants were the "rightful owners" of the June 1991 contractual rights and, thus, could authorize Pepsi to assign the mark to Allied Domecq (*see Pl. Mem.* at 1) (arguing that "*certain defendants* misrepresented to PepsiCo that they were the rightful owners of the Marks") (emphasis added), then it would be clear that any belief as to Pepsi's *reliance* on such a statement supposedly made by Allied Domecq in late-2000 (when the assignment was negotiated) would be completely unjustified. After all, not only had Pepsi been regularly working with the SPI Defendants under a multi-million dollar vodka supply agreement since at least as early as February 1992 (and with nary a peep from Plaintiffs or the Russian government as to a claim of "breach"; *see generally* Section II, *supra*), but the evidence of record shows that it was Pepsi who expressly represented and warranted *to Allied Domecq* in the *Deed of Assignment* that Pepsi had the legal authority to sell Allied Domecq the STOLICHNAYA marks. *See* D.I. 23, Ex. H ("[PepsiCo] represents and warrants that is has all necessary title and right to grant the assignment and rights transferred hereunder") (emphasis added).

was defective), Allied Domecq reserves the right to challenge this modified Count in a later motion should this Court grant leave to amend.

Plaintiffs' claim for common law unfair competition, however, remains defective. As has been explained, Plaintiffs do not have any "goodwill" in the STOLICHNAYA mark. *See* D.I. 23, Exs. D-H. As such, they may not maintain an unfair competition claim for the misappropriation of that "goodwill." *See Bangkok Crafts Corp. v. Capitolo di San Pietro in Vaticano*, 331 F. Supp. 2d 247, 255 (S.D.N.Y. 2004) (unfair competition under New York common law is "a virtual cognate of the federal Lanham Act" and is "predicated on the theory of the misappropriation of a claimant's commercial goodwill").

Plaintiffs respond that this is all somehow unfair and "misses the point." *See Pl. Mem.* at 16. They suggest that because they are alleging that they *should be declared* the "owner" of the STOLICHNAYA mark, they can sue for infringement of the goodwill the mark symbolizes. *See id.* As previously discussed, however, Plaintiffs fail to state a proper claim challenging the incontestable status of the mark. *See* Section III, *supra.* Consequently, because Plaintiffs cannot make even a *prima facie* claim that they "own" the mark, they are foreclosed from attempting to enforce the rights the mark represents.

Not only is this conclusion the logical one,[15] it is precisely the result reached by Judge Keenan in a similarly structured case involving a foreign entity that was claiming (with the support of a foreign court order) that it was the rightful owner of a trademark for which a U.S. company held an incontestable registration. *See Calzaturificio Rangoni*, 868 F. Supp. at 1417,

[15] Were this not the case, we would soon enter the Theatre of the Bizarre. For example, were Plaintiffs to attempt to sell vodka labeled "STOLICHNAYA" in this country, such a product would be a counterfeit and subject to immediate seizure and destruction by U.S. Customs. Following Plaintiffs' logic, however, as long as they *allege* that they should be declared the "owner," they should be able to import and sell such product, as well as exercise all of the other rights associated with the mark, including suing other parties (such as Allied Domecq) for infringement. This is simply not the law.

1420-21. Tellingly, once he concluded that the foreign entity could not sustain a claim for fraudulent registration and challenge the incontestability of the mark under Lanham Act Section 14(3) (and, therefore, defeat the "conclusive evidence" of the U.S. company's ownership), Judge Keenan held that "[t]he other Lanham Act causes of action [were] likewise barred because the mark is incontestable." *Id.* at 1421 (emphasis added) (dismissing claims for trademark infringement and false designation of origin)[16]; *accord Oreck Corp. v. Thomson Consumer Elec., Inc.*, 796 F. Supp. 1152, 1161 (S.D. Ind. 1992) (where plaintiff could not state a claim challenging the incontestable status of the defendant's mark, "the remaining [trademark] claims are without merit by nature of the 'incontestable' status of the [trademark]" and the remaining claims "are also subject to dismissal as each fails to state a claim upon which relief can be granted").

The same result should be reached in this case. That is, once it is found that Plaintiffs have failed to state a claim upon which relief may be granted in Count I (wherein they seek a declaration of "ownership"), each of the remaining "trademark" counts—namely, Counts V, XI, XII, and XIII (excluding those portions of the claims limited to "false advertising") (discussed *infra*)—should be dismissed.[17]

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[16] Although dismissing the Lanham Act claims, the Court did not directly rule on the viability of the pendant state law causes of actions, electing simply to dismiss them instead for lack of jurisdiction. *See Calzaturifico Rangoni*, 868 F. Supp. at 1421. Plaintiffs agree, however, that "[t]he standard of unfair competition under New York law is a virtual cognate of the federal Lanham Act." *See Pl. Mem.* at n.3. As such, there is no reason to think that the state law claims would have fared any better in that case.

[17] Plaintiffs' arguments regarding the "famous marks" doctrine (*see Pl. Mem.* at 16-18) are hardly worth mentioning. To show entitlement under the "famous marks" doctrine, a foreign entity must show that its mark was exceedingly well known (perhaps by as many as 50% of all prospective consumers) *before* the "first use" by the U.S. trademark owner. *See generally Grupo Gigante SA de CV v. Dallo & Co.*, 391 F.3d 1088, 1093-99 (9th Cir. 2004). However, because Allied Domecq succeeded to the rights of Pepsi, Kraus Bros., Monsieur Henri Wines, VVO-SPI, and V/O-SPI through the series of assignments of the mark's goodwill (*see* D.I. 23, Exs. D-H), Allied Domecq's "first use" of the mark was, in fact, *the very first use of the mark in this country*. Moreover, there is no suggestion that the STOLICHNAYA mark was "famous" before it was first used here in the 1960s, and even if Plaintiffs were to make such an allegation (which they have not), they would be estopped from pursuing such an (continued)

## D. Count XI (Federal Trademark Infringement), Count XII (Federal Trademark Dilution), Count XIII (Federal Unfair Competition)

As explained above, because Plaintiffs fail to state a claim challenging Allied Domecq's incontestable ownership rights in the STOLICHNAYA mark, they cannot sustain any of their asserted trademark causes of action in Counts XI, XII, or XIII. *See generally* Section IV.C., *supra*; *see also Calzaturificio Rangoni*, 868 F. Supp. at 1417, 1420-21; *Oreck*, 796 F. Supp. at 1161. As such, each of these claims should be dismissed for failure to state a claim pursuant to Federal Rule 12(b)(6).

The one exception to the requirement for dismissal is Plaintiffs' claim for "false advertising" under Section 43(a) of the Lanham Act.[18] In view of Plaintiffs' amendment to allege that Ost-Alco is presently selling vodka in the United States (*see Second Am. Compl.*, ¶12; *Pl. Mem.* at 20), Ost-Alco (but not FTE) would appear to have standing to maintain a claim for false advertising. Of course, such a claim has nothing at all to do with any of the allegations concerning ownership of the "STOLICHNAYA" mark, nor does it in any way involve the SPI Defendants. Indeed, such a claim for false advertising could have been brought by any distributor of vodka in the United States.

Moreover, the fact that Ost-Alco may have standing to *allege* a claim for false advertising, certainly does not mean that they will succeed; they will not. Indeed, Ost-Alco's allegations (namely, that it amounts to false advertising to refer to vodka distilled in Russia as "Russian Vodka"; *see Second Am. Compl.*, ¶173) border on the frivolous. Nonetheless, Ost-Alco

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argument given that the Soviet Union assigned all of its "goodwill" to PepsiCo in June 1991, and no successor-in-interest to the Soviet government could now claim to possess rights that trump those previously assigned rights.

[18] In Count XIII, Plaintiffs actually allege two causes of action: (1) a claim for "unfair competition" (*see Second Am. Compl.*, ¶172), and (2) a claim for "false advertising" (*see id.*, ¶173). For the reasons discussed above, the "unfair competition" component of the count should be dismissed even though the allegations of "false advertising" are now sufficient (as amended) to survive a Rule 12(b)(6) motion.

has at least for once stated a claim (as amended, of course) upon which a court *could* grant relief if it accepted all of Plaintiffs' factual allegations as true.

**E. Count XIV (Copyright Infringement)**

Despite a wholesale rewrite through "amendments," Plaintiffs' copyright claims remain defective. As explained in Allied Domecq's opening brief, any copyrighted material published in the Soviet Union prior to May 27, 1973 was injected into the public domain of the United States immediately upon first use abroad. *See* D.I. 23, pp. 14-15 (citing sources). Thus, the original STOLICHNAYA label supposedly created by Mr. Yakovlev in the Soviet Union in 1953 was not subject to protection in this country.

Plaintiffs respond by pointing out that when the United States acceded to the Berne Convention, it enacted Section 104A of the Copyright Act, which provided for the automatic restoration of foreign copyrighted works that had lapsed into the public domain here in the Untied States. *See* 17 U.S.C. §104A; *Pl. Mem.* at 23-24. On this point, Plaintiffs are indeed correct. However in their haste to claim the benefits afforded by Section 104A, Plaintiffs have ignored the *obligations* they bear to claim those benefits.

As a preliminary matter, however, it must be pointed out that there are significant questions as to whether the 1953 Stolichnaya Label is eligible to qualify as a "restored work." Likewise, the chain of title in the label design remains highly suspect, especially considering the various contractual agreements between the parties.[19] However, it is not necessary to discuss such issues in detail here because *even if* the 1953 Label qualifies as a "restored work" that is

[19] For example, the Soviet Union apparently authorized Pepsi to use the Stolichnaya Label design in the early-1980s, which design forms the basis for U.S. Trademark Reg. No. 1,852,552. In January 2001, Pepsi then assigned its incontestable rights in that trademark design to Allied Domecq.

owned by Plaintiffs (as has been alleged), Plaintiffs still may not pursue a cause of action for copyright infringement against Allied Domecq.

Under the facts as alleged by Plaintiffs, the Stolichnaya Label used by Allied Domecq in the United States is a "derivative work" that incorporates protected expressions contained in the original 1953 Stolichnaya Label. *See Second Am. Compl.*, ¶¶177-78, Exs. N, P; 17 U.S.C. §101 (defining a "derivative work" as "a work based upon one or more preexisting works"). That label design, however, has not been substantively changed since the early-1980s, when it was first used by Pepsi. *See* Ex. E (copy of U.S. Trademark Reg. No. 1,852,552) (claiming a "first use" of June 1983)[20]; *compare with Second Am. Compl.*, Ex. N. Thus, according to Plaintiffs' allegations, the 1983 Stolichnaya Label would qualify as a "derivative" work as well.

Now, it is undisputed that Russia became an "eligible country" in March 1995 (*see Pl. Mem.* at 24), and that if PepsiCo "breached" its agreements with VVO-SPI when it began to do business with VAO-SPI (*see* Section II, *supra*), the date of that breach was February 1992.[21] As such, we have a situation where a party (PepsiCo) began selling product using a "derivate" label prior to March 1995 without the permission of the supposed copyright owner (alleged to be the Soviet government; *see Pl. Mem.* at 24), which action would have amounted to copyright infringement (according to Plaintiffs) but for the fact that the 1953 Stolichnaya Label was in the public domain in this country at that time. *See* 17 U.S.C. §106(2) (sale of "derivate" work infringes copyright). Further, PepsiCo continued to sell vodka bearing its registered Stolichnaya

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[20] Given the time constraints for responding to Plaintiffs amended pleading, the copy of U.S. Trademark Reg. No. 1,852,552 is not a certified copy. When Allied Domecq receives a certified copy from the U.S. Trademark Office, it will endeavor to substitute the exhibit. *Cf. Omega S.A. v. Omega Eng'g, Inc.*, 228 F. Supp .2d 112, 120 (D. Conn. 2002) (a court may take judicial notice of a certified copy of a trademark registration); *Allen v. WestPoint Pepperell, Inc.*, 945 F.2d 40, 44 (2d Cir. 1991) (when considering a motion to dismiss, a court may rely on matters of which judicial notice may be taken).

[21] Of course, if there was no "breach" (that is, if VAO-SPI lawfully succeeded to all of the rights of VVO-SPI), then Plaintiffs could not sustain any claim, including those alleged here (except for false advertising).

Label *after* Russia became an "eligible country," and it subsequently assigned all rights it had in U.S. Trademark Reg. No. 1,852,552 to Allied Domecq in January 2001. *See* D.I. 23, Ex. H.

In copyright parlance, this means that Pepsi qualifies as a "reliance party" with regard to the 1953 Stolichnaya Label design (the "work"), and that Allied Domecq, as Pepsi's assignee of all STOLICHNAYA copyright and trademark rights (*see id.*), therefore qualifies as a "reliance party" with regard to that work as well. The definition of "reliance party" as used in the Copyright Act is set for in Section 104A(h):

> The term "reliance party" means any person who—
>
> (A) with respect to a particular work, engage in acts, before the source country of that work becomes an eligible country, which would have violated section 106 if the restored work had been subject to copyright protection, and who, after the source country becomes an eligible country, continues to engage in such acts; [or]
>
> * * *
>
> (C) as the result of the sale or other disposition of ... significant assets of a person described in subparagraph (A) ... is a[n] ... assignee ... of that person.[22]

17 U.S.C. §104A(h) (emphasis added).

Allied Domecq's status as a "reliance party" therefore defeats Plaintiffs' assertion of a copyright claim, even if one assumes all of the facts as alleged by Plaintiff to be true. Specifically, Sections 104A(d)(2)(A) and (B) impose certain *formal notice requirements* on the owner of a restored copyrights before it may commence an infringement action against a "reliance party." *See* 17 U.S.C. §§104A(d)(2)(A)-(B). Further, the Copyright Act also provides

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22 This section also discusses "existing derivative works" as defined in Section 104A(d)(3) of the Copyright Act, and it appears that the 1983 Stolichnaya Label, as embodied in U.S. Trademark Reg. No. 1,852,552, would qualify as such a work. As such, even if Plaintiffs were able to maintain the present cause of action (which they cannot for the reasons discussed in the main body of text), Allied Domecq reserves the right to raise any of the additional issues and defenses provided by Section 104A(d)(3). *See generally* 17 U.S.C. §104A(d)(3). As just one example, the owner of a restored copyright cannot enjoin a party from continuing to exploit an "existing derivative work" provided that it receive "reasonable compensation" for such use, which amount may be set by a court. *See id.*; *see also Hoepker v. Kruger*, 200 F. Supp.2d 340, 346, nn.8-9, 11 (S.D.N.Y. 2002) (discussing "existing derivative works").

for a twelve month "grace period", which means that *even if* Plaintiffs were now to comply with the formal notice provisions (as there is no allegation that they have previously complied), their copyright claim must still be dismissed:

> Infringement actions against reliance parties can be commenced (1) only after the restored copyright owner has provided notice of intent to enforce the restored copyright (either by filing a notice with the Copyright Office for publication in the Federal Register or by service such a notice on the reliance party) and (2) only for those acts of infringement that either commence or continue 12 months or more after such notice is given.

*Hoepker v. Kruger*, 200 F. Supp.2d 340, 346 (S.D.N.Y. 2002) (emphasis added) (citing 17 U.S.C. §104A(d)(2)(A)-(B)); *see also id.* at 345 ( "Congress was careful to limit the [copyright] restoration statute's potential for unanticipated infringement claims").

* * *

The causes of action Plaintiffs allege here are the wrong claims against the wrong party. Plaintiffs cannot assert trademark claims based on trademark rights they do not possess, nor may they challenge Allied Domecq's incontestable ownership of those rights on the outlandish theory that the SPI Defendants thirteen years ago somehow cut the Russian government out of proceeds later received from PepsiCo (both during the life of the vodka supply agreement and from Pepsi's assignment of rights to Allied Domecq). Any claims arising from such conduct (if Plaintiffs' allegations are to be believed, and assuming the claims are not stale) could only sound in contract (against PepsiCo) and in tort (against SPI); they are not, however, *trademark, tort, or contract claims* to be levied against Allied Domecq. The continued prosecution of such claims would be in bad faith, as evidenced by Plaintiffs' latest allegation they should be allowed to recover for some "fraud" Allied Domecq supposedly foisted upon PepsiCo, even though PepsiCo itself is not alleging that such a "fraud" ever occurred. *See* D.I. 36. As such, the claims should be dismissed.

## V.
## CONCLUSION

For the reasons set forth above and in Allied Domecq's *Motion to Dismiss Counts I, IV, V, and IX-XIV of the First Amended Complaint*, Counts I, IV, V, and XI-XIV (all as factually amended) remain critically deficient and should be dismissed either in whole (with regard to Counts I, IV, XI, XII, and XIV) or in part (Counts V and XIII) (excluding "false advertising"). Allied Domecq also believes that Counts II, IX, X, and XV are deficient as well, but reserves the right to address those claims in a later motion should this Court grant Plaintiffs the requested leave to amend in order to add those claims.

Respectfully submitted,

Dated: April 14, 2005

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# EXHIBIT 9

**UNITED STATES DISTRICT COURT**
**SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCII "OST-ALCO",<br><br>Plaintiffs,<br><br>-against-<br><br>SPIRITS INTERNATIONAL N.V.; SPI SPIRITS LIMITED; SPI GROUP SA; YURI SHEFLER; ALEXEY OLIYNIK; ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V.; and ALLIED DOMECQ SPIRITS & WINES USA, INC., d/b/a ALLIED DOMECQ SPIRITS, USA,<br><br>Defendants. | 04 Civ. 8510 (GBD) |

**[PROPOSED] SUR-REPLY MEMORANDUM OF LAW IN OPPOSITION TO DEFENDANTS' MOTION TO DISMISS THE FIRST AMENDED COMPLAINT**

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Plaintiffs Federal Treasury Enterprise Sojuzplodoimport and Ost-Alco (collectively, "Plaintiffs" or "FTE") respectfully submit this sur-reply memorandum of law in further opposition to the Allied Domecq Defendants' ("ADIHBV" or "Defendants") Motion to Dismiss Plaintiffs' First Amended Complaint.

## PRELIMINARY STATEMENT

After FTE moved for Leave to Amend because ADHIBV would not consent to the filing of an amended complaint, Defendants' Motion to Dismiss the First Amended Complaint ("MTD") was largely mooted. As a result, Defendants turned their 24-page reply in support of the MTD (the "Reply") into an unauthorized supplemental opposition to FTE's Motion for Leave to Amend. This cannot have been what the Court envisioned when it granted Defendants permission to file a longer reply brief on *this* motion.[1]

Defendants' improperly submitted arguments fail for a number of reasons. First, ADIHBV seeks to avoid any responsibility for their participation in a fraudulent heist of extraordinarily lucrative vodka rights by suggesting that Plaintiffs can pursue damages only from non-party PepsiCo, an apparent unwitting participant in the defendants' fraudulent scheme, effectively leaving Plaintiffs no remedy for their irreparable injury. In ADIHBV's view, this result is compelled by the incontestability provisions of the Lanham Act, which shield any party that claims "ownership" of United States trademark registrations, no matter how they were obtained.

[1] In fact, Defendants filed their lengthy reply brief before the Court granted leave to do so. Plaintiffs suggest that because ADIHBV's Reply purports to attack the allegations of the [Proposed] Second Amended Complaint rather than the current operative pleading (*see* ADIHBV's Reply Br. at 3-4 n.2), the Court should deem ADIHBV's opposition to the Motion to Amend waived. Further, because ADIHBV's attacks on the [Proposed] Second Amended Complaint come as a reply brief rather than a properly noticed motion, Plaintiffs request that the Court defer ruling on ADIHBV's objections until properly briefed on a noticed motion. Without waiving these requests, Plaintiffs seek leave to file this Sur-Reply in the event the Court is inclined to address the merits of ADIHBV's arguments now.

ADIHBV's characterization of the incontestability provisions is not the law, as discussed in FTE's opposition to the MTD (the "Opposition").[2]

Second, Defendants grossly distort the facts by arguing that "no one in Russia has owned the U.S. [STOLICHNAYA] marks since June 1991 when the Soviet government assigned all its rights to PepsiCo." Reply at 2. Defendants ignore the "reversionary interest" held by the Soviet Union in the marks.[3] As the successor to the original registrant, and thus the rightful owner of the STOLICHNAYA Marks and all associated goodwill[4] based on its reversionary interest under the June 1991 Agreement, FTE has standing to pursue the Lanham Act and related claims pleaded in the Complaint.

Third, Defendants' sole objection to FTE's Copyright Claim – that ADIHBV was not provided with proper notice – fails because ADIHBV is not a "reliance party" within the meaning of 17 U.S.C. § 104A. In any case, FTE provided proper notice in a July 11, 2002 letter to ADIHBV, advising it that FTE held itself out as the rightful owner of the STOLICHNAYA Marks and all related rights in the United States, and that FTE was going to take measures to recapture those rights. *See* Declaration of Jeffrey A. Conciatori, dated April 22, 2005 (the "Conciatori Decl."), Ex. A.

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[2] Defendants' reliance on the "incontestable" status of the STOLICHNAYA Mark is misplaced because (1) ADIHBV obtained the STOLICHNAYA registration fraudulently; (2) ADIHBV obtained said registration contrary to the requirements of 15 U.S.C. § 1052(a); (3) ADIHBV has used, or permitted the use of, the STOLICHNAYA Mark so as to misrepresent the source of the goods or services on or in connection with which said mark is used; and (4) there have been a number of final decisions adverse to ADIHBV's claim of ownership of said mark. *See* Opp. Br. at 7-12.

[3] Pursuant to the June 1991 agreement, the STOLICHNAYA Marks were to revert to the Soviet Union upon expiration of the agreement, effectively making the Russian Federation the owner of the reversionary interest (as well as the associated goodwill) in said marks. *See* [Proposed] Second Am. Compl. (hereinafter "Compl.") ¶¶ 69-70, 75; *see also* MTD Suppl. Ex. A.

[4] FTE stands in the shoes of the Russian Federation, as the assignee of the Russian Federation.

## ARGUMENT

### I.

### DEFENDANTS' 24-PAGE REPLY IMPROPERLY ATTEMPTS TO ATTACK THE [PROPOSED] SECOND AMENDED COMPLAINT AND SHOULD BE DISREGARDED

Defendants' lengthy reply brief is an unauthorized attempt to supplement the opposition to FTE's Motion for Leave to Amend. Although Spirits International ("Spirits") agreed to stipulate to the filing of the [Proposed] Second Amended Complaint, ADIHBV refused to do so and insisted that the Court decide this motion. Thereafter, Defendants surreptitiously requested the Court's permission to file a longer reply brief in support of the this motion, for the purpose of filing what is, in essence, a supplemental opposition to Plaintiffs' Motion for Leave to Amend. This is clearly improper and for this reason the reply brief should be disregarded.

Defendants' Reply addresses the allegations of the [Proposed] Second Amended Complaint. Thus, Defendants apparently concede that it should be deemed filed. *See, e.g.*, Reply at 3-4 n.2; *see also id.* at 4, 7, 9-11. However, the Federal Rules do not permit a party to seek the dismissal of a "proposed" complaint. *See, e.g.*, Fed. R. Civ. P. 12. Because the Second Amended Complaint has only been lodged, Defendants cannot seek dismissal of that proposed pleading. Moreover, Defendants' refusal to confine their Reply to the issues before the Court on this motion confuses the record and disrupts the orderly conduct of this lawsuit.

### II.

### ADIHBV CONCEDES THAT PLAINTIFFS HAVE STANDING TO SUE

In the opening memorandum, ADIHBV argued that Plaintiffs lacked standing to bring their claims. *See* MTD at 12-14. Unable to dispute the legal authority cited by Plaintiffs, which clearly establish such standing (*see* Opp. Br. at 18-20),[5] ADIHBV now abandons that argument but

[5] In summary, as the successor to the original registrant of the STOLICHNAYA Mark, and as the rightful *current* owner and proprietor of the STOLICHNAYA Marks and associated goodwill as a result of its reversionary rights under

would limit Plaintiffs to a contract claim against PepsiCo. ADIHBV states that "no one in Russia . . . has owned any U.S. trademark rights in the name STOLICHNAYA since the Soviet Union voluntarily assigned all of those rights . . . to PepsiCo in June 1991" (Reply at 5), thus ignoring the very limited nature of the grant to PepsiCo and the Russian Federation's unequivocal reversionary interest in the STOLICHNAYA Marks.

Under the express terms of the June 1991 agreement between PepsiCo and what was then the Soviet state entity VVO-SPI (the "PepsiCo Agreement"), the STOLICHNAYA Marks were to revert to the Soviet Union upon the agreement's expiration. *See* Compl. ¶¶ 1, 69, 75; *see also* MTD Suppl. Ex. A. Thus, PepsiCo was effectively an exclusive licensee of the STOLICHNAYA Marks for a 10-year term, and Plaintiffs stood to recover the Marks and all goodwill associated with STOLICHNAYA in 2001. It was only through the fraudulent conduct of the ADIHBV and Spirits defendants, just months before Plaintiffs were to retake their proper ownership of all U.S. STOLICHNAYA rights, that the U.S. rights – subject to the jurisdiction of the U.S. courts – were wrongfully diverted to ADIHBV. Compl. ¶¶ 1, 75, 79-85.

ADIHBV's own evidence on this motion shows how toothless PepsiCo's alleged prior "ownership" of the U.S. STOLICHNAYA business was. Pursuant to the 2001 "assignment" from PepsiCo, ADIHBV paid a mere $10.00 for *all* the U.S. STOLICHNAYA Marks and goodwill.[6] *See*

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the PepsiCo Agreement (Compl. ¶¶ 65, 69, 74-75, 110-11), FTE plainly has standing to bring a trademark infringement claim against Defendants under 15 U.S.C. § 1114. *See* Opp. Br. at 19. Moreover, FTE's reversionary interest in the STOLICHNAYA marks confers standing to bring unfair competition and dilution claims under Section 43 of the Lanham Act, which confers standing upon "[a]ny 'commercial party' which 'has a reasonable interest to be protected.'" *Tri-Star Pictures, Inc. v. Leisure Time Prods., B.V.* 749 F. Supp. 1243, 1250 (S.D.N.Y. 1990) (quoting *Nat'l Ass'n of Pharm. Mfrs. v. Ayerst Labs.*, 850 F.2d 904, 915 (2d Cir. 1988)) (holding that "royalty interest, stripped of all other property rights, is sufficient to confer standing under § 43(a)").

[6] This does not constitute true and valid consideration. "A mere pretense of bargain does not suffice, as where there is a false recital of consideration or where the purported consideration is merely nominal." *Rest. 2d Contr.* § 71, Comm. b; *see also In re Greene*, 45 F.2d 428 (S.D.N.Y. 1930) (holding that $1.00 consideration was considered nominal and insufficient to support a promise to pay hundreds of thousands of dollars); *Robertson v. Garvan*, 270 F. 643 (S.D.N.Y. 1920) (same); *Contractors Constr. Corp. v. Michael Dev. Corp.*, 213 So. 2d 430, 433 (Fla. Dist. Ct. App. 1968) (holding that sum of $10.00 was insufficient consideration to subordinate a $190,800 mortgage and that "[t]he

MTD, Ex. H. In contrast, pursuant to its November 2000 Agreement with the Spirits defendants, ADIHBV was required to make three unspecified, and presumably much larger, payments to Spirits "in consideration for the assignment of the Trademarks to ADIHBV." *See* Compl. Ex. D, ¶ 7 (Spirits/ADIHBV Agreement, in which financial terms are redacted). Any suggestion by ADIHBV that PepsiCo was responsible for the transaction between Spirits and ADIHBV is not only incredible, but is directly contradicted by the Spirits/ADIHBV Agreement, which states that PepsiCo was merely acting at Spirits' "direction."[7] *Id.* ¶ 8. That agreement also confirmed that Spirits was acting as the true owner of the assets, stating that "[Spirits] wishes to appoint ADIHBV as exclusive owner/user in the Territory of all Trademark rights associated with the Brands." *Id.* (third "Whereas" clause).[8]

The transaction was an "assignment" in name only. Under the Spirits/ADIHBV Agreement, ADIHBV can assign its interests in said marks only to an affiliated company. *Id.* ¶ 30. Any other assignment requires Spirits' written consent. *Id.* ¶ 10.6. ADIHBV is prohibited from prosecuting any additional trademarks or modifying the Marks without Spirits' written consent. *Id.* ¶¶ 10.10, 10.11. Spirits can terminate the "assignment" if ADIHBV engages in prohibited acts, such as importing another vodka (*Id.* ¶ 12.3) or merging with another company (*Id.* ¶ 12.4). ADIHBV is

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words 'other good and valuable consideration' are generalities that sound plausible, but the words cannot serve as consideration where the facts reveal that nothing good or valuable was actually given at the time the contract was made").

[7] Defendants state, among other things, that PepsiCo "sought permission" from Spirits to assign the STOLICHNAYA marks to ADIHBV (*see* Reply at 3-4), a characterization of events that appears nowhere in the Complaint or in the exhibits attached thereto.

[8] In fact, in a 2004 statement by its General Counsel, defendant SPI Group SA (the parent company of defendants Spirits International and SPI Spirits Limited) held itself out as the "sole owner" of the STOLICHNAYA trademark in the United States, and referred to Allied Domecq Spirits, USA as a mere "exclusive importer and distributor" of products under the STOLICHNAYA Mark in the United States. *See* Compl. Ex. E. Further, it is certainly the perception of the public and the press that the Spirits defendants are the STOLICHNAYA Marks' (purported) true owners. *See* Conciatori Decl. Exs. B, C, D. In fact, in an article posted on Defendant Spirits International's website, ADIHBV's Director of Corporate Affairs, Jane Mussared, is quoted as saying, following a Russian court ruling adverse to Spirits' ownership of the STOLICHNAYA Marks, "It doesn't matter who owns it [the STOLICHNAYA Mark], we have the distribution rights in the U.S. and we will continue to market it . . . ." *Id.* Ex. C. Thus, ADIHBV has also acknowledged that it does not "own" the marks.

prohibited from taking any actions that might impair the value of the Marks or the goodwill. *Id.* ¶ 10.7. ADIHBV is required to obtain Spirits' approval of all marketing plans, and to use a certain minimum level of "skill, knowledge and effort" in promoting and advertising the products. *Id.* ¶ 17. ADIHBV is also obligated to notify Spirits of any infringements. *Id.* ¶ 10.3. And, ADIHBV must seek approval from Spirits before encumbering any of the "assigned" assets. *Id.* ¶ 10.5.[9]

Defendants do not dispute the Russian Federation's reversionary right, but simply ignore it. Nor do they dispute that Plaintiffs properly hold this right as a matter of Russian law, by virtue of a legal determination which not only is relevant, but is central to this case. As the foregoing description of the rights and obligations between the parties shows, this "reversionary right" amounts to a present ownership interest in the Marks and their appurtenant goodwill.[10] *See, e.g., Blue Planet Software, Inc. v. Games Int'l, LLC*, 334 F. Supp. 2d 425, 436-39 (S.D.N.Y. 2004) (holding that the defendant's presumption of ownership from trademark registration, even if the trademark is incontestable, cannot supersede the plaintiff's contractual reversionary rights); *Major-Prodotti Dentari-Societa v. Shimer*, 161 U.S.P.Q. 437, 438 (T.T.A.B. 1968) (holding that the "ownership" of

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[9] *See Edwin K. Williams & Co. v. Edwin K. Williams & Co.-East*, 542 F.2d 1053, 1059 (9th Cir. 1976). There, the parties entered into an agreement which stated the grantor "'does hereby grant, bargain and sell unto [grantee] the exclusive right, title and interest to sell, market and promote all [products and services] under said names . . . , which now are used . . . or which hereafter are developed by [grantor].'" *Id.* at 1055 (quoting agreement). The court held that this language, and the facts and circumstances of the parties' relationship, created a license and not an assignment:

> We agree with the district court that the words "grant, bargain, and sell" used in the 1952 Agreement, which are ordinarily associated with a sale, were used here to convey to [defendant] only the limited right to do business in the Eastern territory under West's tradenames.
>
> Here, the parties intended to maintain an ongoing relationship when they executed the 1952 Agreement. East's concession that the 1968 Revised Agreement essentially renewed the terms of the 1952 Agreement supports the court's finding that the parties in 1952 intended to create a licensing relationship. One can renew a license but not a sale. If the parties had made a sale in 1952, there would have been no need to renew it in 1968.

*Id.* at 1059 (citation omitted).

[10] ADIHBV's repeated argument that no one except the STOLICHNAYA Mark's U.S. registrant may have any goodwill in said mark (*see, e.g.*, Reply at 19) is unavailing. In its Agreement with PepsiCo, ADIHBV expressly acknowledged that, notwithstanding the assignments made pursuant to this agreement, "nothing in this Agreement

a U.S. mark, as between the plaintiff foreign manufacturer and the defendant U.S. exclusive distributor, is a matter of agreement between the parties and, "it is clear that when the agreement expired, any rights which [the distributor] may have had in the mark during the life of the agency immediately reverted to [the manufacturer]").

Thus, ADIHBV's argument that Plaintiffs have brought "trumped up trademark/ unfair competition claims" (*see* Reply at 3-5) has no basis in fact or law, and its contention that Plaintiffs should be suing PepsiCo for breach of contract would give Plaintiffs no remedy for the theft of its trademark rights. Notably, however, even this argument by ADIHBV presumes that Plaintiffs are the proper parties to claim ownership of the U.S. rights in issue in this case; otherwise, Plaintiffs could not have any claim against PepsiCo. Because the reversionary right bestows true ownership of the STOLICHNAYA Marks and goodwill in the United States, and is the right that Plaintiffs claim to rightfully own, the Complaint asserts the proper claims against the proper parties.[11]

## III.

## ADIHBV'S NEW ARGUMENTS IN SUPPORT OF THE INCONTESTABLE STATUS OF ITS STOLICHNAYA MARK DO NOT SHIELD DEFENDANTS FROM LIABILITY

Defendants have failed to address most of the arguments raised in FTE's Opposition to the MTD.[12] Instead, they raise a number of new arguments to support their purportedly

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conveys or assigns to ADIHBV ownership of any reversionary rights retained by [Spirits] . . . and the goodwill associated therewith." *See* Compl. Ex. D, ¶ 10.2.

[11] If ADIHBV truly believed that PepsiCo had liability, it could have joined PepsiCo under Rule 14 or filed a third-party complaint. Barring this, the Court should ignore ADIHBV's attempt to deflect liability to PepsiCo, which no longer possesses the marks at issue.

[12] For example, Defendants fail to address the fact that FTE does not seek to cancel the STOLICHNAYA Mark, which was registered in 1967, but, instead, is merely seeking to set aside a fraudulent conveyance of said mark in January 2001. Likewise, Defendants repeatedly rely on the PTO's recording of the January 2001 assignment of the STOLICHNAYA Mark from PepsiCo to ADIHBV as proof that their ownership of the mark is incontestable (*see* Reply, at 2), but fail to respond to the fact that, according to the PTO's own rules, "The recording of a document pursuant to § 3.11 [*i.e.*, an assignment] is not a determination by the Office of the validity of the document or the effect that

incontestable rights in the STOLICHNAYA Mark. In particular, Defendants allege that (a) ADIHBV's acts somehow fail to violate 15 U.S.C. § 1052(a); and (b) this Court should ignore 15 U.S.C. § 1065 because it is purely a procedural mechanism.[13]

**A. Defendants Misinterpret 15 U.S.C. § 1052(a).**

Defendants do not deny that their STOLICHNAYA brand vodka is Latvian, not Russian, vodka. *See* Reply at 8-9. Instead, ADIHBV meritlessly contends that it is not the "applicant," but is merely the current "registrant," for the purposes of 15 U.S.C. § 1052(a). Pursuant to 15 U.S.C. § 1127, "[t]he terms 'applicant' and 'registrant' embrace the legal representatives, predecessors, successors and assigns of such applicant or registrant." *Id.*; *see also In re Wella A.G.*, 787 F.2d 1549, 1555 (Fed. Cir. 1986) (Nies, J., concurring). Clearly, as PepsiCo's assignee, ADIHBV falls within Section 1052's meaning of the term "applicant."

Likewise, Defendants needlessly take issue with FTE's use of ellipses in quoting the relevant statute. *See* Reply at 8. Defendants' extended quotation of Section 1052(a) does not change the meaning of the statute, which prohibits the use of any mark that "consists of or comprises" a false geographical indication. *See* 15 U.S.C. § 1052(a). Here, the term "STOLICHNAYA," which means "from the capital" in Russian, comprises a false geographical indication, because it is a Russian word

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document has on the title to an application, a patent, or a registration." PTO Effect of Recording Rule, 37 C.F.R. § 3.54 (2005).

[13] Defendants also allege that FTE failed to plead fraud upon the PTO with sufficient specificity. However, as made clear in FTE's Reply in support of its Motion to Amend, although Fed. R. Civ. P. 9(b) generally requires that the complaint set forth precisely the fraudulent statements made, how they were fraudulent, and when, where, and by whom they were made, "there is a recognized exception to this rule where the facts supporting a fraud claim are particularly within defendant's knowledge. In such cases, plaintiff need only plead facts upon which his belief is based." *Volmar Distrib., Inc. v. New York Post Co.*, 825 F. Supp. 1153, 1162 (S.D.N.Y. 1993) (citation omitted); *see also DiVittorio v. Equidyne Extractive Indus., Inc.*, 822 F.2d 1242, 1247 (2d Cir. 1987) (same). Here, the specific details of the fraud are within Defendants' peculiar possession, and FTE cannot be expected to have personal knowledge of such facts prior to discovery.

Plaintiffs did recently obtain a specific example of fraud – ADIHBV's Combined Declaration of Use in Commerce & Application for Renewal of Registration of Mark Under Sections 8 & 9 for the STOLI trademark, wherein ADIHBV falsely informed the U.S. Patent and Trademark Office that it is that mark's rightful owner, and that

indicating that the product is from the capital, and, moreover, the vodka is marketed as a "genuine" Russian product. That obviously immediately leads consumers to conclude that the products sold under that mark come from Russia.[14]

ADIHBV also misinterprets Section 1052(a) by arguing that its provisions do not apply to Defendants' misdesignation because Defendants' predecessors-in-interest first used the STOLICHNAYA Mark before the WTO Agreement came into force. *See* Reply at 9-10. The statute is clear on its face. "First use" of the mark, for the purposes of Section 1052(a), occurs when the mark (i) identifies a place other than the origin of the goods; *and* (ii) is first used on or in connection with spirits on or after one year after April 15, 1994 (the date the WTO Agreement entered into force with respect to the United States).[15]

Here, PepsiCo never used the STOLICHNAYA mark as a false indication of geographic origin because, until the assignment to ADIHBV, the STOLICHNAYA vodka sold in the United States was truly Russian. Thus, the first time the STOLICHNAYA Mark was used to identify a place other than the origin of the goods took place more than a year after the entry into force of the WTO Agreement. Consequently, "first use," for the purposes of Section 1052, occurred some time following April 2002, when ADIHBV first began distributing Latvian vodka instead of Russian vodka. *See* Conciatori Decl. Ex. A; *see also* Compl. ¶¶ 89-92, 173.

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STOLICHNAYA and STOLI vodkas are 'genuine" Russian vodkas, "imported from Russia." *See* Conciatori Decl. Ex. E.

[14] Further, one of the trademarks fraudulently assigned to ADIHBV in January 2001 is "STOLICHNAYA RUSSIAN VODKA." *See* Compl. ¶ 80. In fact, Defendants cite to this very trademark as an example of the STOLICHNAYA labels they currently use in the United States. *See* Reply at 21, Ex. E. Thus, even under the Defendants' mistaken reasoning, the STOLICHNAYA RUSSIAN VODKA mark consists of, or comprises, an indication of geographic origin (*i.e.*, Russia). This geographic designation is false, as the vodka sold under the STOLICHNAYA RUSSIAN VODKA mark actually comes from Latvia. Accepting the Complaint's allegations as true (as the Court must, on a Rule 12(b)(6) motion), use of said mark is in clear violation of Section 1052(a).

[15] A mark shall be refused registration if it consists of or comprises "a geographical indication which, when used on or in connection with wines or spirits, identifies a place other than the origin of the goods *and* is first used on or in connection with wines or spirits by the applicant on or after one year after the date on which the WTO Agreement . . . enters into force with respect to the United States." 15 U.S.C. § 1052(a) (emphasis added).

## B. Defendants Misinterpret 15 U.S.C. § 1065.

Section 1065 is clear on its face. A mark "shall be incontestable: Provided, that: (1) there has been no final decision adverse to registrant's claim of ownership of such mark for such goods or services, or to registrant's right to register the same or to keep the same on the register." 15 U.S.C. § 1065. Defendants cite no case law or other legal support for the proposition that this statute is purely a "procedural mechanism." *See* Reply at 12. Any reading of Section 1065 would suggest that a mark is *not* incontestable if there has been a final decision adverse to registrant's chain of title. Here, there have been a number of such decisions. *See* Compl. ¶¶ 101-02, 105, 107-09.[16]

# IV.

# ALL CLAIMS IN THE FIRST AMENDED COMPLAINT ARE PLEADED PROPERLY

## A. Defendants Concede That If the STOLICHNAYA Mark Is Not Incontestable, FTE's Declaratory Relief, Lanham Act, and Unfair Competition Claims Should Proceed.

Defendants concede that that, if Plaintiffs are able to state a claim upon which a court could conclude that the STOLICHNAYA registration is not incontestable (i) FTE's declaratory relief claim should *not* be dismissed (*see* Reply at 14), and (ii) FTE's Lanham Act and unfair competition claims must also survive a motion to dismiss (*see* Reply at 17-19).[17]

As illustrated above, Plaintiffs have stated a number of such claims. *See supra* Part III; *see also* Compl. ¶¶ 101-02, 105-09, 122; Opp. Br. at 7-12. Further, it is well established that

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[16] Defendants' argument that foreign decisions can have no effect on U.S. trademark rights is unavailing. It is well established that, if a foreign decision is competent evidence of a relevant fact (*e.g.*, fraud or flaw in chain of legal title), it is admissible to prove that fact. *See Otokoyama Co. v. Wine of Japan Import, Inc.*, 175 F.3d 266, 273 (2d Cir. 1999); *Omega Importing Corp. v. Petri-Kine Camera Co.*, 451 F.2d 1190 (2d Cir. 1971)); *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 293 F. Supp. 892, 908 (S.D.N.Y. 1968). *Calzaturificio Rangoni v. United States Shoe Corp.*, 868 F. Supp. 1414 (S.D.N.Y. 1994), repeatedly relied upon by Defendants, is inapposite, as there an Italian court attempted to directly determine U.S. trademark rights, holding that defendant's "use of [plaintiff's] mark in the United States was unlawful." *Id.* at 1418. Here, the Russian courts never discussed U.S. trademark rights; instead, they limited the scope of their rulings to Russian corporate law and a determination of Russian trademark rights among Russian parties. *See* Compl. ¶¶ 101-09.

[17] Defendants also concede that Plaintiffs' Thirteenth Claim, for False Designation of Origin, should survive a Rule 12(b)(6) motion to dismiss, as currently pleaded in the Complaint. *See* Reply at 19 n.18.

allegations of fraud raise factual issues that confer standing to challenge a defendant's otherwise incontestable marks. *See, e.g., Blue Planet Software, Inc. v. Games Int'l, LLC*, 334 F. Supp. 2d 425, 436-39 (S.D.N.Y. 2004) (holding that allegations of fraudulent registration overcame the defendants' mark's incontestable status); *Eco Mfg. LLC v. Honeywell Int'l, Inc.*, 357 F.3d 649, 651 (7th Cir. 2004) (holding that "[t]he words 'incontestable' and 'exclusive' sound more impressive than the legal rights that the Lanham Act actually conveys").

In *Blue Planet*, the defendants sought a preliminary injunction based on the incontestable status of their mark. The plaintiffs argued that the defendants' mark was not incontestable because the defendants had perpetrated a fraud upon the PTO, registering their ownership of the mark pursuant to certain assignments, while aware that the assignors had no right to assign said mark and that another party claimed ownership of the mark. 334 F. Supp. 2d at 436. The court held that "these allegations present factual issues that cannot be decided at this state of the litigation," and denied the defendants' request for a preliminary injunction. *Id.* at 439. Here, much as in *Blue Planet*, Plaintiffs have alleged that, when Defendants accepted assignment and registered ADIHBV's purported ownership of the STOLICHNAYA Marks with the PTO, Defendants knew that FTE was the rightful owner (by right of its reversionary interest) in the marks. *See* Compl. ¶¶ 83-87, 122. Therefore, much as in *Blue Planet*, these allegations present factual issues that preclude a 12(b)(6) dismissal.

Because the Court must accept as true all of the factual allegations set out in the complaint, draw inferences from those allegations in the light most favorable to plaintiff, and construe the complaint liberally, *see Ramapo Homeowners' Ass'n v. N.Y. State Office of Mental Retardation*, 180 F. Supp. 2d 519, 524 (S.D.N.Y. 2002), Plaintiffs have properly pleaded their declaratory relief, Lanham Act, and unfair competition claims.

Moreover, FTE is asking the Court to correct the register in connection with more than 20 trademarks (*see* Compl. ¶ 80), yet Defendants have failed to assert the incontestable status of any mark other than STOLICHNAYA. Therefore, Defendants have failed to show why FTE's claims in connection with those other marks should be dismissed.

**B. Plaintiffs' Misappropriation Claim Is Not Time-Barred.**

Asserting that FTE's misappropriation claim is time-barred, Defendants fail to respond to any of the arguments raised in FTE's Opposition. Instead, ADIHBV merely repeats the same flawed analysis contained in its initial Motion to Dismiss. Defendants would distinguish *Mario Valente Collezioni, Ltd. v. AAK Ltd.*, 280 F. Supp. 2d 244 (S.D.N.Y. 2003), relied upon by FTE, by arguing that the *Valente* court refused to apply Section 214(4)'s three-year statute of limitations for "injury to property" because that fact pattern involved "a very sophisticated fraudulent scheme." *See* Reply at 14-15. That phrase, of course, precisely describes the series of acts engaged in by Defendants.

Defendants' reliance upon *Powers Mercantile Corp. v. Feinberg*, 109 A.D.2d 117 (N.Y. App. Div. 1985), is equally misplaced. *See* Reply at 15. In *Feinberg*, the court explicitly refused to apply the six-year statute of limitations because the fraud claim alleged was not at the crux of the claims asserted against defendants. *See* 109 A.D.2d at 120. Courts refuse to apply the fraud statute of limitations "where an allegation of fraud is not essential to the cause of action pleaded except as an answer to an anticipated defense of statute of limitations." *Id.* Here, by contrast, fraud is at the very heart of the litigation, and forms the crux of the claims asserted against the Defendants.

Because their Section 214(4) argument is inapposite, Defendants argue that FTE's misappropriation claim fails for lack of sufficiently specificity. As mentioned above (*see supra* at 8 n.13), there is a well recognized exception when the facts are peculiarly within the possession of the

defendant. *Volmar Distributors, Inc. v. New York Post Co.*, 825 F. Supp. 1153, 1162 (S.D.N.Y. 1993); *see also DiVittorio v. Equiayne Extractive Indus., Inc.*, 822 F.2d 1242, 1247 (2d Cir. 1987) (*accord*). Such a relaxation of the Rule 9(b) requirements particularly applies to cases which involve corporate or business fraud because "plaintiffs cannot be expected to have knowledge of all the details which undergird the alleged fraudulent scheme." *In re Catfish Antitrust Litig.*, 826 F. Supp. 1019, 1029 (N.D. Miss. 1993). Here, ADIHBV is precisely such a sophisticated defendant, and Plaintiffs need to engage in discovery to uncover the details behind Defendants' fraudulent scheme.[18]

## C. The Cases Relied Upon by Defendants to Oppose FTE's Statutory and Common Law Unfair Competition Claims Are Inapposite

Defendants effectively concede FTE's statutory claim for unfair competition, failing to respond to any of the arguments raised in FTE's Opposition. *See* Opp. Br. at 13-15; Reply at 16-17. The cases relied upon by Defendants are inapposite. In *Calzaturificio Rangoni v. United States Shoe Corp.*, 868 F. Supp. 1414 (S.D.N.Y. 1994), and *Oreck Corp. v. Thomson Consumer Electronics, Inc.*, 796 F. Supp. 1152 (S.D. Ind. 1992), the courts dismissed plaintiffs' Lanham Act claims only *after* they found that defendants' marks were truly incontestable. Here, ADIHBV's STOLICHNAYA registration is not incontestable (*see supra* Part III); therefore, *Rangoni* and *Oreck* do not apply.[19]

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[18] Defendants also attempt, for the first time, to argue that trademark misappropriation claims are not recognized in the State of New York. *See* Reply at 15 n.13. However, Defendants again misrepresent the law. The very case cited by Defendants, *National Football League Properties, Inc. v. Dallas Cowboys Football Club, Ltd.*, 922 F. Supp. 849 (S.D.N.Y. 1996), explicitly states, "Even if the Complaint only alleged that Defendants have misappropriated Club Marks, which are intangible, dismissal would *not* be warranted." *Id.* at 856 (emphasis added).

[19] Defendants provide no case law to support their contention that under the "famous marks" doctrine the term "first use" applies to the original owner and not the defendant. In fact, it is self-evident that for the purposes of this doctrine use refers to the first "infringing" use. Because such infringing use here began after the fraudulent assignment of the STOLICHNAYA marks to ADIHBV, Plaintiffs may pursue their claims under the "famous marks" doctrine.

## V.

## ADIHBV IS NOT A RELIANCE PARTY

ADIHBV is not a "reliance party" for the purposes of 17 U.S.C. § 104A. "The term reliance party means any person who – (A) with respect to a particular work engages in acts, before the source country of that work becomes an eligible country, which would have violated section 106 if the restored work had been subject to copyright protection, and who, after the source country becomes an eligible country, continues to engage in such acts." 17 U.S.C. § 104A(h)(4). In other words, ADIHBV would be a reliance party only if it (or its predecessor in interest) engaged in acts of copyright infringement prior to March 1995. *See* Reply at 21.

Here, no acts of trademark or copyright infringement are alleged to have taken place prior to 2001 because PepsiCo held the exclusive license to use the STOLICHNAYA marks and copyright in the United States under its 1991 agreement with VVO-SPI. *See* Compl. ¶¶ 1, 70. Defendants' acts in violation of the Copyright Act took place only following January 1, 2001 (the date Russia's reversionary interest was violated), which means that ADIHBV fails to qualify as a "reliance party." Accordingly, the notice requirement cited by Defendants (*see* Reply at 22-23) does not apply, as plaintiffs are only required to provide notice to reliance parties. *See* 17 U.S.C. § 104A(d)(1).

Moreover, the STOLICHNAYA label used by Defendants in the United States is not a derivative work. It is well established that for a work to qualify under the copyright law as a derivative work, "there must be at least some substantial variation from the underlying work, not merely a trivial variation." *Woods v Bourne Co.*, 60 F.3d 978, 990 (2d Cir. 1995); *see also Durham Indus., Inc. v. Tomy Corp.*, 630 F.2d 905, 909 (2d Cir. 1980) (holding that the original aspects of a derivative work must be more than trivial). Here, a comparison of the 1953 and current

STOLICHNAYA labels (*see* Compl. Exs. P and Q) confirms that there have been no "substantial variations."

Even assuming, however, that ADIHBV could somehow be considered to be a reliance party, FTE provided proper notice. On November 7, 2002, the General Director of FTE wrote to the Chief Executive Officer of ADIHBV, informing him that FTE was the rightful owner of the U.S. rights to the STOLICHNAYA Marks, and that FTE would take measures to restore said rights.[20] *See* Conciatori Decl. Ex. A. Significantly, Defendants argue that infringement actions against reliance parties can be commenced only: "(1) after the restored copyright owner has provided notice of intent to enforce the restored copyright (by service of such notice on the reliance party); and (2) only for those acts of infringement that either commence or continue 12 months or more after such notice is given." *See* Reply at 23. Thus, by Defendants' lights, FTE has complied with the notice requirement.

[20] The letter also informed Defendants that ADIHBV had been receiving Latvian vodka, not Russian vodka, under its contract with Spirits. "[D]eliveries of Russian vodka which could be used for [STOLICHNAYA] vodka's production outside Russia are currently stopped." Conciatori Decl. Ex. A. Therefore, at least as early as July 2002, ADIHBV had been put on notice that it was engaging in false advertising and deceiving American consumers by marketing Latvian vodka as "Genuine Russian Vodka," yet it persisted in its improper actions.

## CONCLUSION

Despite Defendants' sudden attempt to blame PepsiCo, FTE has asserted the proper claims against the proper parties. Should the Court buy into ADIHBV's arguments, Defendants will have perpetrated the perfect fraud, holding on to the fruits of their fraudulent scheme, while avoiding any risk of restitution. For the foregoing reasons, FTE respectfully requests that Defendants' Motion to Dismiss be denied.

Dated: New York, New York
April 25, 2005

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# EXHIBIT 10

**IN THE UNITED STATES DISTRICT COURT**
**FOR THE SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT AND OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ALKOGOL'NOI PRODUKCII "OST ALCO,"<br><br>*Plaintiffs,*<br><br>*v.*<br><br>SPIRITS INTERNATIONAL N.V., SPI SPIRITS LIMITED, SPI GROUP SA, YURI SHEFLER, ALEXEY OLIYNIK, ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V., ALLIED DOMECQ SPIRITS & WINE USA, INC. D/B/A ALLIED DOMECQ SPIRITS, USA,<br><br>*Defendants.* | Civil Action No. 1:04–CV–08510 (GBD)(THK)<br><br>**NOTICE OF MOTION** |

PLEASE TAKE NOTICE that, upon the annexed Declaration of Andrey Skurikhin, the attachments thereto, the accompanying Memorandum of Law in Support of the Motion to Dismiss of Defendants Spirits International, N.V., S.P.I. Spirits, S.P.I. Spirits (Cyprus) Limited, S.P.I. Group SA, Yuri Shefler, and Alexey Oliynik ("SPI Defendants"), submitted herewith, and all prior pleadings and proceedings in this action, the SPI Defendants, by their attorneys, Covington & Burling, will move this Court, before the Honorable George B. Daniels, United States District Judge, at the United States Courthouse, Courtroom 618, 40 Foley Square, New York, New York, as soon as counsel may be heard, for an order pursuant to Rules 12(b)(1), 12(b)(2), 12(b)(6), and/or 12(b)(7) of the Federal Rules of Civil Procedure dismissing all the claims asserted against the SPI Defendants (Claims 1–8, 14, and 15 of Plaintiffs' Second Amended Complaint), and for such other and further relief as the Court deems just and proper.

PLEASE TAKE FURTHER NOTICE that, pursuant to the Stipulation and Order setting forth a briefing schedule for this motion, Plaintiffs shall file their opposition within thirty days of the filing of this motion, and the SPI Defendants will file any reply within fifteen days of the filing of Plaintiffs' opposition.

May 31, 2005

Respectfully submitted,

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**IN THE UNITED STATES DISTRICT COURT**
**OF THE SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT AND OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ALKOGOL'NOI PRODUKCII "OST ALCO,"<br><br>*Plaintiffs,*<br><br>*v.*<br><br>SPIRITS INTERNATIONAL N.V., SPI SPIRITS LIMITED, SPI GROUP SA, YURI SHEFLER, ALEXEY OLIYNIK, ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V., ALLIED DOMECQ SPIRITS & WINE USA, INC. D/B/A ALLIED DOMECQ SPIRITS, USA,<br><br>*Defendants.* | Civil Action No. 1:04–CV–08510 (GBD) (THK) |

**MEMORANDUM OF LAW IN SUPPORT OF MOTION TO DISMISS OF DEFENDANTS SPIRITS INTERNATIONAL N.V., S.P.I. SPIRITS (CYPRUS) LIMITED, S.P.I. GROUP SA, YURI SHEFLER, AND ALEXEY OLIYNIK**


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**MEMORANDUM OF LAW IN SUPPORT OF MOTION TO DISMISS OF DEFENDANTS SPIRITS INTERNATIONAL N.V., S.P.I. SPIRITS (CYPRUS) LIMITED, S.P.I. GROUP SA, YURI SHEFLER, AND ALEXEY OLIYNIK**

Defendants S.P.I. Group SA, Spirits International N.V., S.P.I. Spirits (Cyprus) Limited, Yuri Shefler, and Alexey Oliynik (collectively the "SPI Defendants") move to dismiss all Claims asserted against them (Claims 1–8, 14, and 15) in the Second Amended Complaint:

- *First*, the trademark claims (Claims 1, 6–8, and 15) should be dismissed pursuant to Rule 12(b)(6) for failure to state a claim upon which relief may be granted because the rights of Allied Domecq B.V. ("AD") to the STOLICHNAYA marks in the United States are incontestable.
- *Second*, the claims for declaratory relief (Claims 1 and 15) should be dismissed under Rule 12(b)(1) for lack of subject matter jurisdiction because they are not ripe for adjudication.
- *Third*, the contributory trademark infringement and dilution claims (Claims 6 and 7) should be dismissed because Plaintiffs lack standing to assert them.
- *Fourth*, the contributory trademark dilution claim (Claim 7) should be dismissed on the additional ground that it fails to allege an essential element under the Federal Trademark Dilution Act.
- *Fifth*, the copyright claim (Claim 14) is legally deficient because, *inter alia*, the Second Amended Complaint fails to allege either a proper chain of title to the rights in the asserted foreign copyright or any rights to a U.S. copyright in the work.
- *Sixth*, the state law claims (Claims 2–5) should all be dismissed for lack of subject matter jurisdiction or, in the alternative, because they are time barred and fail to allege essential elements of the torts asserted.
- *Seventh*, and in the alternative to dismissal for the foregoing reasons, the Complaint should be dismissed under Rules 12(b)(7) and 19 for failure to join necessary parties—the Russian Federation and the Federal State Unitary Enterprise Foreign Economic Association Sojuzplodoimport ("FGUP").
- *Finally*, all claims against S.P.I. Group SA should be dismissed pursuant to Federal Rule 12(b)(2) because the Court does not have personal jurisdiction over the company.

## PRELIMINARY STATEMENT

The roots of this case lie in the Russian Government's decision in 2000 to re-nationalize the rights to STOLICHNAYA trademarks in Russia and abroad. The Russian Government

purported to expropriate the rights to the STOLICHNAYA trademarks in Russia without compensation—despite the Government's longstanding recognition of the trademark rights of Defendant Spirits International's predecessors in title. The Russian Government acted as it has in other well-publicized cases: businessmen were indicted, witnesses intimidated, and judgments issued without due process.

Plaintiffs now bring this action as the proxy for the Russian Government to cancel the AD Defendants' incontestable rights in the STOLICHNAYA trademarks ("STOLICHNAYA Marks") in the United States. They seek, in effect, to extend the Russian Government's confiscation of the STOLICHNAYA Marks in Russia to the STOLICHNAYA Marks in the United States. Plaintiffs' claims offend settled and consistently applied U.S. principles of private property rights and trademark and copyright law and disregard established limitations barring stale actions.

As explained below, all claims against the SPI Defendants should be dismissed, without the need to probe the legitimacy of Russian court decisions or to reach the issue whether U.S. law and public policy will allow Russia's confiscatory acts to extend to property in the United States. In an analogous case, another judge of this Court decided similar issues without reaching issues of Russian law. *See Financial Matters, Inc. v. PepsiCo, Inc.*, No. 92 Civ. 7497, 1993 WL 378844, at *8 n.4 (S.D.N.Y. Sept. 24, 1993) (Owen, J.) (Ex. A to AD's Mot. to Dismiss). The court found, with respect to the privatization of the Soviet government entity known as VVO-SPI, that "all evidence seems to indicate that this new private joint-stock company is indeed carrying on the functions of the old SPI," but held that issues of Russian law "are not necessary for determining ownership and infringement of the U.S. trademark rights." *Id.*

## THE RELEVANT FACTS

Defendant Spirits International N.V. ("Spirits International") is a Netherlands corporation that holds rights to the STOLICHNAYA Marks in most countries worldwide, with the notable exception of the Russian Federation, which purported to re-nationalize the marks in 2000. *See* Sec. Am. Compl. ¶¶ 56, 101–109. Spirits International holds reversionary rights to the STOLICHNAYA Marks in the United States pursuant to its contract with the Allied Domecq Defendants (the "AD Defendants"). *See* Sec. Am. Compl. ¶ 79 and Ex. D thereto. Defendant S.P.I. Spirits (Cyprus) Limited ("S.P.I. Spirits") is a Cypriot corporation which exports STOLICHNAYA vodka. *See* Sec. Am. Compl. ¶¶ 78, 91–92, 94. Both Spirits International and S.P.I. Spirits are subsidiaries of Defendant S.P.I. Group SA, a Swiss holding company. *See* Decl. of Andrey V. Skurikhin ("Skurikhin Decl.") ¶ 5) (attached to Notice of Motion). Defendant Yuri Shefler is the Director and majority shareholder of S.P.I. Group SA, and defendant Alexey Oliynik is an officer and a member of the Boards of Directors of S.P.I. Group SA and S.P.I. Spirits. *See id.* ¶¶ 5–6.

The undisputed history of the STOLICHNAYA Marks in the United States shows the Russian Government's knowledge of and acquiescence in Defendants' rights. In 1969, the All-Union Association Sojuzplodoimport ("V/O-SPI") registered the primary STOLICHNAYA mark in the United States. Sec. Am. Compl. ¶¶ 24, 65. V/O-SPI then assigned all U.S. marks to Kraus Bros. & Co., which subsequently was acquired by PepsiCo. *Id.* ¶¶ 66, 67. In 1983 PepsiCo reassigned the STOLICHNAYA mark to V/O-SPI. *Id.* ¶ 74. In January 1990 V/O-SPI was reorganized into the All-Union Foreign Economic Association Sojuzplodoimport ("VVO-SPI"). *Id.* ¶ 27. Then on June 19, 1991, V/O-SPI (then also known as VVO-SPI) assigned U.S. rights in the STOLICHNAYA and other marks back to PepsiCo. *Id.* ¶ 75. Plaintiffs' assertion that the

June 19, 1991 Agreement was a license, not an assignment, is flatly contradicted by the contract itself.[1]

The June 1991 Agreement assigning rights to PepsiCo provided in paragraph 4 that if the Agreement were not extended beyond its original term, PepsiCo would be required immediately to assign the STOLICHNAYA Marks back to V/O-SPI. *See id.* ¶ 69; Ex. 1 to Skurikhin Decl. The Agreement also provided in paragraph 8 that if the Soviet Union asked to have the Marks returned to V/O-SPI, PepsiCo would assign the Marks back to V/O-SPI.[2] *See* Sec. Am. Compl. ¶¶ 69, 75.

In January 1992, the Foreign Economic Joint Stock Company Sojuzplodoimport ("VAO-SPI") was registered with the Moscow Registration Chamber. Sec. Am. Compl. ¶ 31. On February 6, 1992, VAO-SPI and PepsiCo entered into an Addendum to the June 1991 Agreement, which recited that VAO-SPI "is the successor in interest" to VVO-SPI and deleted

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[1] The Contract provides that VVO "hereby assigns all right, title and interest in and to" the STOLICHNAYA and other marks "and the goodwill associated therewith" to PepsiCo. *See* Ex. 1 to Skurikhin Decl; *see also* 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 29:9 (4th ed. 2004). The Agreement included a "deed of assignment," which was recorded with the PTO. *See* Exhibit G to AD's Motion to Dismiss. The 1991 Agreement may be considered on a motion to dismiss because the Second Amended Complaint refers repeatedly to the Agreement and identifies it as the source of Plaintiffs' alleged rights. *See, e.g., In re AES Corp. Sec. Litig.*, 825 F. Supp. 578, 585 (S.D.N.Y. 1993) (contract between defendant corporation and another party incorporated by reference and thus considered on a motion to dismiss where the contract was discussed and partially paraphrased in paragraphs of the complaint).

[2] Plaintiffs erroneously assert that the mere fact that the 1991 Agreement was subject to a reversionary right in favor of V/O (then also known as VVO) made PepsiCo a licensee rather than an assignee of the marks. The law is clear, however, that a reassignment clause, termination clause, or reversionary interest clause in an otherwise valid assignment does not invalidate it or transform it into a license. *See Premier Dental Prods. Co. v. Darby Dental Supply Co.*, 794 F.2d 850, 855–56 (3d Cir. 1986) ("It is a well-established principle both of contract law and of trademark law that limitations in an otherwise valid assignment do not invalidate it. The assignment between [the parties] is therefore not invalidated by virtue of the limitations it imposes on the [Assignee's] rights over the trademark." (citations omitted)); 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* §§ 29:8–29:9 (4th ed. 2004).

paragraph 8 of the June 1991 Agreement. *See* Ex. 2 to Skurikhin Decl.[3] On February 3, 1994, VAO-SPI entered into another agreement with PepsiCo, which: (i) stated that VAO-SPI was the owner of the U.S. STOLICHNAYA marks; (ii) incorporated the June 1991 Agreement and the February 6, 1992 Addendum; and (iii) stated that VAO-SPI had assigned the marks to PepsiCo for the duration of the February 3, 1994 agreement, which was to run through December 31, 2000. *See* Sec. Am. Compl. ¶ 77 and Ex. B thereto. Then in November 2000, Defendants S.P.I. Spirits and Spirits International N.V.—as successor to VAO-SPI—entered into an agreement with the AD Defendants providing that S.P.I. Spirits would cause PepsiCo to assign the Marks to AD. PepsiCo did assign the Marks to AD as of January 1, 2001. *See* Sec. Am. Compl. ¶ 80 and Ex. D thereto. *Neither of the Plaintiffs nor any Soviet or Russian entity objected to any of the foregoing transactions until shortly before the original complaint was filed in this action in October 2004.*

## ARGUMENT

### I. ALL FEDERAL CLAIMS AGAINST THE SPI DEFENDANTS (CLAIMS 1, 6, 7, 8, 14, AND 15) SHOULD BE DISMISSED.

#### A. CLAIMS 1, 6, 7, 8, AND 15 ARE BARRED BY AD'S INCONTESTABLE RIGHTS IN THE STOLICHNAYA MARKS.

Plaintiffs cannot sustain the trademark causes of action asserted against the SPI Defendants because they have failed to state a claim challenging AD's incontestable ownership of U.S. rights in the STOLICHNAYA marks. *See also* AD Mot. to Dismiss at 1–4; AD Reply at 5–11. Section 33(b) of the Lanham Act provides that "[t]o the extent that the right to use the

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[3] The 1992 Addendum may also be considered on a motion to dismiss because the Second Amended Complaint refers to the Addendum, paraphrases it, and identifies it as a source of allegedly fraudulent statements. *See, e.g., Feinman v. Schulman Berlin & Davis*, 677 F. Supp. 168, 170 & n.3 (S.D.N.Y. 1988).

registered mark has become incontestable . . . the registration shall be conclusive evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce." 15 U.S.C. § 1115(b). Because AD's rights to the STOLICHNAYA registration are incontestable, Plaintiffs' claim for a declaratory judgment that FTE is the "owner" of the mark and its request that the Court "correct" the Federal Register to reflect FTE as the owner of the STOLICHNAYA registration necessarily fail.

AD's rights in the STOLICHNAYA registration are indisputably incontestable for three reasons. *First*, Plaintiffs acknowledge both that (i) AD acquired all of PepsiCo's rights in U.S. Trademark Reg. No. 865,462 ("the STOLICHNAYA Registration") as of January 1, 2001, *see* Sec. Am. Compl. ¶ 80, and (ii) PepsiCo acquired all of VVO-SPI's rights to the same registration in June 1991, *see id.* ¶ 75; Ex. 1 to Skurikhin Decl. *Second*, another judge of this Court has previously found that the STOLICHNAYA Registration, then held by PepsiCo, became "incontestable" as of 1974. *See Financial Matters, Inc. v. PepsiCo, Inc.*, No. 92 Civ. 7497, 1993 WL 378844, at *1 (S.D.N.Y. Sept. 24, 1993) (Owen, J.) (attached as Ex. A to AD's Motion to Dismiss). *Third*, the Court may take judicial notice that the STOLICHNAYA Registration is owned by Allied Domecq B.V. and has been declared incontestable. *See* AD's Mot. to Dismiss at 4 and Exs. B–H thereto.

### 1. Plaintiffs' Argument That Incontestability Is "Irrelevant" Has No Merit.

In opposing AD's motion to dismiss, Plaintiffs make the extraordinary statement that the incontestable status of AD's rights to the STOLICHNAYA Registration "is irrelevant." Pl. Mem. in Opp. to AD Mot. to Dismiss ("Pl. Mem.") at 3, 7. Indeed, they argue: (i) that FTE is not seeking to cancel the registration for STOLICHNAYA, but rather is "merely seeking to set

aside a fraudulent conveyance of said mark" and have itself declared the owner of the registration and (ii) that, under Section 37 of the Lanham Act, 15 U.S.C. § 1119, "the Court has the power to 'rectify the register with respect to the registrations of any party to the action,' whether or not the underlying mark is contestable or incontestable." *Id.* (quoting 15 U.S.C. § 1119). Both arguments are untenable.

**a. AD's Incontestable Registration is Conclusive Evidence of Its Ownership of the Marks.**

A registration that has become incontestable is "conclusive evidence" not only of the validity of the registration, but also of "the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce." 15 U.S.C. § 1115(b). FTE's distinction between canceling the registration and having itself substituted for AD as the registrant is thus immaterial. AD's incontestable registration of STOLICHNAYA is "conclusive evidence" of AD's "ownership of the mark" and of AD's "exclusive right to use the registered mark in commerce." 15 U.S.C. § 1115(b).

**b. Judicial Authority to Rectify the Register is Subject to the Specific Rules Governing Incontestability.**

Plaintiffs' remarkable interpretation of Section 37 of the Lanham Act would effectively nullify the incontestability provisions of the Act. A court's authority under Section 37 to "rectify the register with respect to the registrations of any party to the action" extends to an incontestable registration only where one or more of the exceptions to incontestability applies.

Section 37 is a remedial provision, found in Title VI of the Lanham Act, entitled "Remedies." Section 37 authorizes courts to "rectify the register" once the court has found a substantive violation of law that justifies such rectification and, in the case of an incontestable registration, has found one of the exceptions to incontestability applicable. This is confirmed by *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 203 (1985), which observed that the

power of federal courts to cancel registrations "must be subject to the specific provisions concerning incontestability." *See also Shakespeare Co. v. Silstar Corp. of Am.*, 9 F.3d 1091, 1097 (4th Cir. 1993) (federal court acting under its Section 37 cancellation power is limited to the statutorily enumerated grounds for challenging incontestability).

**2. The Exceptions to Incontestability Do Not Apply.**

Plaintiffs invoke four statutory exceptions to incontestability, but their allegations fail to establish any of them.

**a. Mere Recordation of an Assignment Cannot Constitute Fraud on the PTO.**

Plaintiffs cite no authority for the proposition that the mere recordation of an assignment with the PTO can ever be deemed to fall within the "registration was obtained fraudulently" exception to incontestability, and we are aware of none. The recordation with the PTO of the assignment of rights in the STOLICHNAYA mark from PepsiCo to AD cannot be a valid basis for claiming that the "registration was obtained fraudulently" under Sections 14 and 15 of the Lanham Act, 15 U.S.C. §§ 1064(3) and 1065. Recordation of an assignment with the PTO serves only to provide notice to other parties. It cannot constitute fraud on the PTO.[4] Even if it could, Plaintiffs' contention fails at the threshold because, as AD has observed, Plaintiffs have

[4] Plaintiffs acknowledge that there cannot be fraud on the PTO unless the PTO relied on a material misrepresentation of fact. *See* Pl. Opp'n at 8; 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 31:61 (4th ed. 2004). Plaintiffs also acknowledge that the recordation of an assignment by the PTO is a ministerial act that does not reflect any determination by the PTO as to the validity of the assignment. *See* Pl. Opp'n at 7; 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* §§ 18:11, 18:12 (4th ed. 2004) (describing the recording of a document as "a purely ministerial act" because "[t]he PTO neither examines the substance of documents submitted for recordation nor attests to the validity of the document or to its effect on the title of the mark").

failed to plead the alleged fraud with the particularity required by Rule 9(b). *See* AD's Reply, at 7–8.

**b. AD's Registration Was Not Obtained Contrary to Section 2(a) of the Lanham Act.**

The Court need not consider the merits of Plaintiffs' argument based on Section 2(a) of the Lanham Act because Section 2(a) applies only if the mark is "first used . . . by the applicant" on or after one year after January 1, 1995.[5] 15 U.S.C. § 1052(a); *see also* 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 14:40 (4th ed. 2004) (Section 2(a) requires proof that "the designation was first used on or in connection with wines or spirits after January 1, 1996"); AD's Reply at 9–10. Here, the applicant for the STOLICHNAYA Mark was V/O-SPI, which first used the Mark long before January 1, 1996. *See* Sec. Am. Compl. ¶¶ 65–72.

Plaintiffs try to salvage their Section 2(a) claim by arguing that AD is the "applicant" by virtue of its status as a successor to PepsiCo. Pl. Sur-Reply at 9 (citing Section 45 of the Lanham Act, 15 U.S.C. § 1127). Although AD did step into the shoes of its predecessors in interest when PepsiCo assigned the marks to it, the assignment also entitled AD to rely on the original applicant's first use of the mark—which Plaintiffs acknowledge was well before January 1, 1996. The grandfathering provisions of Section 2(a) cannot be read to apply only to those trademarks used before January 1, 1996, and not assigned after that date. To the contrary, it is clear from the legislative history of Section 2(a) that "*[a]ny mark* containing a geographical indication that is currently [*i.e.*, in 1994] registered or in use, or that is registered or in use during

[5] The World Trade Organization Agreement became effective in the United States on January 1, 1995, not April 15, 1994, as claimed by Plaintiffs. *See* Presidential Proclamation No. 6780, 60 Fed. Reg. 15,845 (Mar. 23, 1995); 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 14:40 (4th ed. 2004).

the period before the [WTO Agreement] becomes effective" is not subject to the new provision. S. Rep. No. 103–412 at 226–27 (1994) (emphasis added); *see* AD Reply at 10.

Moreover, even if Plaintiffs could surmount the grandfather provision of Section 2(a), which they cannot, their argument would still be invalid because the STOLICHNAYA trademark does not "consist[] of or comprise[]" a geographical indication to the American public.[6] American consumers cannot be charged with knowledge that in Russian the word "*Stolichnaya*" purportedly means "from the capital" (more accurately, it is the feminine adjectival form meaning "related to the capital") and, in any event, such designation does not point to any particular geographical location.

**c. Plaintiffs Have Failed to Allege Facts Supporting Deliberate Passing Off.**

The Second Amended Complaint does not support Plaintiffs' claim that AD's rights to the STOLICHNAYA Mark may be contested under Section 14(3) of the Lanham Act, 15 U.S.C. § 1064(3). A cancellation claim for misrepresentation under Section 14(3) requires an allegation that the registrant deliberately sought to pass off its goods as those of the claimant. *See Cuban Cigar Brands N. V. v. Upmann Int'l, Inc.*, 457 F. Supp. 1090, 1101 (S.D.N.Y. 1978); 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 20:60 (4th ed. 2004). The Second Amended Complaint does not allege, however, that any of the Defendants

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[6] Section 2(a) authorizes the PTO to refuse a registration application if, among other things, the trademark applied for "consists of or comprises":

> "a geographical indication which, when used on or in connection with wines or spirits, identifies a place other than the origin of the goods and is first used on or in connection with wines or spirits by the applicant on or after one year after the date on which the WTO Agreement . . . enters into force with respect to the United States."

15 U.S.C. § 1052(a).

deliberately used the STOLICHNAYA mark in a way designed to pass off Defendants' vodka for FTE's or Ost-Alco's.

Plaintiffs' argumentative assertions (*see* Pl. Mem. at 11 (AD "has deliberately sought to pass off its goods as those of FTE, using virtually identical STOLICHNAYA labels to those previously used by VVO-SPI (the legal predecessor to FTE)")) are no substitute for factual allegations in a complaint. Moreover, they are groundless. *First*, according to the Second Amended Complaint, Federal State Unitary Enterprise Foreign Economic Association Sojuzplodoimport ("FGUP"), not FTE, is the legal successor to VVO-SPI. *See* Sec. Am. Compl. ¶¶ 39, 110. *Second*, FTE was not created until December 2001, *id.* ¶ 111, and it has never sold vodka in the U.S. under a STOLICHNAYA label; accordingly, there would be no reason or basis for Defendants to pass off their vodka as FTE's. *Third*, VVO-SPI assigned its rights in the STOLICHNAYA Mark to PepsiCo, and PepsiCo assigned the same rights to AD, giving AD the exclusive right to sell vodka under the STOLICHNAYA Mark in the United States. *Finally*, as VVO-SPI is no longer selling STOLICHNAYA vodka in the United States and has not done so since June 1991, AD's sales in the U.S. cannot be deemed to constitute deliberate passing off, even if AD were using a label that is, as alleged, virtually identical to the label previously used by VVO-SPI.

**d. There Has Been No Decision Adverse to AD's Ownership of the U.S. STOLICHNAYA Marks.**

Plaintiffs' reliance on Section 15(1) of the Lanham Act, 15 U.S.C. § 1065(1), is also misplaced. Section 15(1) provides that for a mark to be declared incontestable, there must have been "no final decision adverse to registrant's claim of ownership of such mark . . . ." As a matter of law, however, Section 15(1) cannot be the basis of a challenge to an incontestable

registration.[7] An incontestable registration can be challenged only on the grounds set forth in Section 14(3) of the Lanham Act, 15 U.S.C. § 1064(3) and the related defenses in Section 33(b), 15 U.S.C. § 1115, which do not include Section 15(1). *See also* AD's Reply at 11–12.

Further, Plaintiffs may not rely on the Russian court decisions they cite. AD's rights to the STOLICHNAYA Marks in the United States were not at issue in those cases,[8] and certainly no "final decision" adverse to AD's rights to the Mark in the United States has been issued by any court. *Cf. Scott Paper Co. v. Scott's Liquid Gold, Inc.*, 439 F. Supp. 1022, 1051 (D. Del. 1977) (rejecting fraud claim based on failure to disclose a prior proceeding because the party's "ownership of its registered mark for the stated goods, its rights to register that mark and its right to maintain that registration" had not been at issue). Plaintiffs have cited no authority, and we are aware of none, for the proposition that a foreign court decision would ever qualify as a "final decision" within the meaning of Section 15(1).

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[7] Although failure to disclose a final decision adverse to a registrant's claim of ownership in an incontestability affidavit to the PTO could form the basis for a claim of fraud on the PTO, *see, e.g., Robi v. Five Platters, Inc.*, 918 F.2d 1439, 1444 (9th Cir. 1990), the existence of such a decision is not a defense to incontestability.

[8] The Russian Federation's status as the purported owner of the STOLICHNAYA Marks in Russia is irrelevant to the U.S. litigation. *See e.g., Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 639 (2d Cir. 1956) ("[W]hen trade-mark rights within the United States are being litigated in an American court, the decisions of foreign courts concerning the respective trade-mark rights of the respective parties are irrelevant and inadmissible."); *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1171 (S.D.N.Y. 1984) ("[A] trademark has a separate legal existence under each country's laws."); *see also* The Paris Convention for the Protection of Industrial Property, as amended July 14, 1967, art. 6(3); 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 29:1 (4th ed. 2004).

### B. CLAIMS 1 AND 15 SHOULD ALSO BE DISMISSED FOR LACK OF SUBJECT-MATTER JURISDICTION BECAUSE THERE IS NO CASE OR CONTROVERSY REQUIRING ADJUDICATION.

Claim 1, a claim for declaratory relief against all Defendants, and Claim 15, a claim for an order "certifying" that FTE is the true owner of the STOLICHNAYA Marks, are not ripe for adjudication under this Circuit's ripeness standards for declaratory actions concerning ownership of trademarks. *See Starter Corp. v. Converse, Inc.*, 84 F.3d 592, 595 (2d Cir. 1996).

*Starter Corp.* holds that "the test for an 'actual case or controversy' has two prongs, both of which must be satisfied to establish declaratory judgment jurisdiction." *Id. First*, the defendant's conduct must have created in the plaintiff a "real and reasonable apprehension of liability" should the latter enter the market. *Id. Second*, the plaintiff must have "engaged in a course of conduct which has brought it into adversarial conflict with the defendant." *Id.* (citing *Windsurfing Int'l Inc. v. AMF Inc.*, 828 F.2d 755 (Fed. Cir. 1987)).

Plaintiffs have failed to carry their burden of alleging, much less establishing, the second prong of this test. To determine whether a plaintiff's conduct has brought it into an adversarial conflict in a trademark case, the Second Circuit has adopted the "imminent intention and ability" test, which requires a trademark claimant to demonstrate a "definite intent and apparent ability to commence use" of the marks on the product. *Starter Corp.*, 84 F.3d at 596. Plaintiffs "must show more than a vague or general desire to use" the marks; they must be engaged in "meaningful preparation" such that they are "actively preparing to produce the article in question." *Id.* (internal quotations and citations omitted). They must have come to "the last point before the point of no return" before entering the relevant market. *Id.* (internal quotations and citation omitted); *see also G. Heileman Brewing Co. v. Anheuser-Busch, Inc.*, 873 F.2d 985, 990 (7th Cir. 1989) (no adversarial conflict without "adequate, meaningful, and active steps to prepare for . . . entry into the relevant market"); *Texas v. West Publ'g Co.*, 882 F.2d 171, 175

(5th Cir. 1989) (no adversarial conflict in copyright case where plaintiff failed to show "it has actually published or is preparing to publish the material that is subject to the defendant's copyright"). Plaintiffs allege no intentions or preparations to use the STOLICHNAYA Marks in the United States, hence they fail to satisfy the second prong of the *Starter Corp.* test.

### C. CLAIMS 6 AND 7 SHOULD ALSO BE DISMISSED BECAUSE PLAINTIFFS LACK STANDING TO ASSERT THEM.

Even if Plaintiffs could challenge AD's incontestable rights in the STOLICHNAYA Marks (which they cannot), their contributory trademark infringement and dilution claims (Claims 6 and 7) would still fail because Plaintiffs lack standing to assert them. *See also* AD's Mot. to Dismiss at 12–13. Section 32(1) of the Lanham Act explicitly provides that a civil action for trademark infringement shall be brought "by the registrant." 15 U.S.C. § 1114(1). Section 43(c) of the Lanham Act provides that only "[t]he owner of a famous mark" is authorized to bring a claim for trademark dilution. 15 U.S.C. § 1125(c). Neither Plaintiff is the registrant or the owner of the STOLICHNAYA Marks.

Nothing less than a written assignment of an allegedly infringed trademark confers standing to bring an infringement action under Section 32(1) of the Lanham Act, 15 U.S.C. § 1114(1). *See DEP Corp. v. Interstate Cigar Co.*, 622 F.2d 621, 622–23 (2d Cir. 1980). Plaintiffs concede that AD is the "registrant" of the STOLICHNAYA Registration, Sec. Am. Compl. ¶¶ 80–82, 117, and do not allege that AD has assigned the registration to any of them. Consequently, Plaintiffs lack standing to bring a federal trademark infringement or contributory infringement claim.

Plaintiffs' allegation that the Russian Federation owns U.S. rights to the STOLICHNAYA Marks cannot support their claims. *See* Sec. Am. Compl. ¶ 110. Plaintiffs make no allegation that FTE or Ost-Alco is the registrant (or the legal representative,

predecessor, successor, or assign of the registrant) of the Marks. *See* Pl. Opp'n at 19; 15 U.S.C. § 1127. As alleged in the Second Amended Complaint, FTE was not established by the Russian Government until December 2001. Sec. Am. Compl. ¶ 111. Although Plaintiffs assert that FTE is "the rightful owner of the [U.S. STOLICHNAYA Marks]," *id.* ¶ 11, they allege no facts to support that assertion and, to the contrary, assert that "the Marks have always been owned by either the Soviet Government or the Government of the Russian Federation which succeeded the Soviet Union." *Id.* ¶ 110. And while Plaintiffs allege that the Russian Federation has decreed that FTE may use 17 *Russian* STOLICHNAYA Marks, *id.* ¶ 112 and Ex. L thereto, there is no allegation that the Russian Federation has assigned the *U.S.* rights to the STOLICHNAYA Marks to FTE. Similarly, there is no allegation that Ost-Alco has any right to the STOLICHNAYA Marks in the United States.[9]

### D. CLAIM 7 SHOULD ALSO BE DISMISSED BECAUSE IT FAILS TO ALLEGE AN ESSENTIAL ELEMENT OF A CLAIM UNDER THE FEDERAL TRADEMARK DILUTION ACT.

The Second Amended Complaint fails to allege that the STOLICHNAYA Marks became famous before the SPI Defendants and their predecessors began to use them—a necessary element of a federal trademark dilution claim. Under Section 43(c) of the Lanham Act, "[t]he owner of a famous mark" is entitled to challenge another person's use of a mark or trade name, "*if such use begins after the mark has become famous* and causes dilution of the distinctive quality of the mark . . . ." 15 U.S.C. § 1125(c) (emphasis added).[10]

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[9]The Second Amended Complaint alleges only that Ost-Alco is the "licensed manufacturer of STOLICHNAYA vodka." Sec. Am. Compl. ¶ 12.

[10] *See also Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 215 (2d Cir. 1999) (overruled in part on other grounds by *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003)) (identifying five elements to a claim of dilution under the FTDA: (i) the senior mark must be famous; (ii) it must be distinctive; (iii) the junior use must be a commercial use in commerce; (iv) *it must begin after* (continued...)

The Second Amended Complaint fails to allege that the Marks had become famous before February 6, 1992, when VAO-SPI and PepsiCo entered into the Addendum to the June 19, 1991 Agreement between V/O-SPI and PepsiCo. *See* Ex. 2 to Skurikhin Decl. According to that Addendum and the Second Amended Complaint, VAO-SPI became the supplier of STOLICHNAYA vodka to PepsiCo under the terms of the Addendum and the 1991 Agreement and thus began "using" the STOLICHNAYA Marks in the United States at that time. *See id.* The Complaint contains no allegation that the STOLICHNAYA Marks became famous in the United States before this alleged "junior use" by the SPI Defendants commenced.[11]

Plaintiffs' failure to allege any facts that, if proven, would establish FTE as "[t]he owner" of the U.S. STOLICHNAYA Marks, and their failure to allege that the marks became famous prior to June 19, 1991, nullify the federal dilution and contributory dilution claims and require that they be dismissed.

### E. CLAIM 14 SHOULD BE DISMISSED FOR FAILURE TO STATE A CLAIM OF COPYRIGHT INFRINGEMENT.

The copyright claim against SPI based on the bottle labels should be dismissed because it fails to assert facts that would establish either of the two elements of the claim: (i) ownership of a valid copyright and (ii) unauthorized copying of constituent elements of the work that are original. *See Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991). Dismissal is

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*the senior mark has become famous*; and (5) it must cause dilution of the distinctive quality of the senior mark).

[11] Plaintiffs allege that the STOLICHNAYA Marks became famous in the United States "[w]hile the PepsiCo Agreement was in effect" (Sec. Am. Compl. ¶ 71) and refer to "the popularity and public recognition of the [STOLICHNAYA Marks] in the United States by January 1, 2001" (Sec. Am. Compl. ¶ 72), the day after the PepsiCo Agreement expired. Plaintiffs fail to allege, however, *when* during the period the PepsiCo Agreement was in effect the STOLICHNAYA Marks became famous in the United States.

also required under Section 104A of the Copyright Act because Plaintiffs have failed to comply with the requirements that must be met to bring suit against reliance parties with rights in a derivative work based upon a restored foreign copyright. *See* AD Reply at 20–23.

### 1. The Allegations Fail To Establish Copyright Ownership Under Russian or Soviet Law.

Plaintiffs have failed to allege facts to satisfy the first element of an infringement claim, namely, that they own, or possess exclusive rights in, a valid copyright in the 1953 label set forth in Exhibit P (the "Work"), which Plaintiffs claim to be the basis for subsequent versions of the STOLICHNAYA label. Plaintiffs' assertions that copyright in the Work (and all variations of the Work) is owned by the Russian Federation, and that Ost-Alco is the exclusive licensee of the copyright in the United States, *see* Sec. Am. Compl. ¶ 177, are based entirely on an erroneous recitation of Russian copyright law.

Plaintiffs concede that the Russian Federation neither authored nor originally owned the Work, and they allege no valid basis for the claim that the Federation legally acquired rights to the Work. Instead, Plaintiffs assert that "[a]s the STOLICHNAYA label was created by Mr. Yakovlev [the alleged author] in the course of his employment, any of Mr. Yakovlev's artistic contributions belonged to the Moscow Art-Study Workshop of the Trust 'Sojuzprodoformlenie' " and were "subsequently transferred to the government of the Soviet Union . . . ." Sec. Am. Compl. ¶ 177.[12]

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[12] *See also* Pl. Opp'n at 24 (arguing without any supporting citations that because "Mr. Yakovlev was an employee of the Moscow Art-Study Workshop of the Trust 'Sojuzprodoformlenie' when he created the STOLICHNAYA label . . . ownership of the label automatically vested with that enterprise, pursuant to Russian law (based on principles similar to the U.S. 'work-for-hire' doctrine)").

The assertion that copyright ownership automatically vested in the author's employer misstates the applicable copyright law. The contemporary Russian copyright law, which contains a work-for-hire doctrine similar to that under U.S. law, was introduced for the first time in Russia's 1993 copyright law and does not apply retroactively to pre-existing works. *Compare* 1993 Russian Federation Law on Copyright and Neighboring Rights, No. 5351-I, Art. 14(2) (July 9, 1993), http://www.fips.ru/avpen/docs.htm (last visited May 31, 2005) *with* Fundamentals of Copyright Law adopted by the Russian Soviet Federative Socialist Republic (May 16, 1928) (the "1928 Russian Copyright Law") *translated in* 2 Vladimir Gsovski, *Soviet Civil Law* 398–409 (1949) (attached as Ex. A).[13]

Contrary to Plaintiffs' claim, assuming all facts alleged by Plaintiffs, any copyrights in the Work (and subsequent versions of that Work) would have vested and remained in Mr. Yakovlev, the Russian author, absent a separate written agreement assigning rights to his employer, Sojuzprodoformlenie. The Second Amended Complaint, however, fails to allege that Mr. Yakovlev executed such an assignment, without which Mr. Yakovlev's employer would have had no authority to transfer copyrights to the Soviet Union. *See Films by Jove,* 154 F. Supp. 2d at 448 (affirming that "in Russian copyright law, as in its American counterpart, 'only the successor to the primary rights of the author may further transfer the rights' ").

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[13] To determine the legal rules governing initial copyright ownership of the Work (and any subsequent versions), one must look to the Russian copyright law in effect at the time of the Work's creation in 1953. *See Films by Jove, Inc. v. Berov*, 154 F. Supp. 2d 432, 448 (E.D.N.Y. 2001), reconsideration denied *Films by Jove, Inc. v. Berov,* 250 F. Supp. 2d 156 (E.D.N.Y. 2003); *Itar-Tass Russian News Agency v. Russian Kurier, Inc.*, 153 F.3d 82, 90 (2d Cir. 1998). Russian works created in 1953 were governed by the 1928 Russian Copyright Law. *See Films by Jove*, 154 F. Supp. 2d at 449.

### 2. The Facts Alleged Fail To Establish a Valid U.S. Copyright in the Label.

Plaintiffs have failed to allege facts establishing that the alleged copyright is valid and enforceable under U.S. law against the SPI Defendants or any other party. Assuming, as Plaintiffs assert, that the original label or "Work" was created in 1953 and was eligible for copyright protection under the 1928 Russian Copyright Law, the copyright would have immediately fallen into the public domain upon first publication in the United States because at that time Russian works were not eligible for copyright protection under U.S. law. *See* 1 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 5.07[B] (1978). There is no basis for Plaintiffs' argument that U.S. copyrights in the Work were automatically restored under Section 104A of the Copyright Act. *See* Pl. Mem. at 23–24; 17 U.S.C. § 104A *et seq.* And even if copyright in the Work were restored under Section 104A, neither the Russian Federation nor Plaintiffs would be entitled to enforce U.S. rights in the restored Work because such rights, under Section 104A(b), vest in the "author or initial rightholder of the work as determined by the law of the source country of the work." As alleged, that person is Mr. Yakovlev, not the Russian Federation.

### 3. Plaintiffs Fail To Allege Any Domestic Copying by SPI that Would Sustain a Direct Infringement Claim or To Allege Other Grounds for Copyright Liability.

Plaintiffs' copyright claim fails to allege any activity by the SPI Defendants that could give rise to a direct infringement claim. At no point does the Second Amended Complaint specify any domestic actions by any of the SPI Defendants that violate exclusive rights in the Work under U.S. law. To the contrary, Plaintiffs allege that "SPI Spirits . . . manufactures and bottles its vodka in Latvia." Sec. Am. Compl. ¶ 92. Plaintiffs do not allege that the SPI Defendants have any U.S. operations or engage in any U.S. activities that could directly infringe

rights in the Work. Because acts of infringement that occur outside the United States are generally not actionable under the U.S. Copyright Act, *see* 4 Nimmer §17.02, p. 17–19 (*citing, e.g., Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1095 (9th Cir. 1994)), this omission is fatal to Plaintiffs' copyright infringement claim against the SPI Defendants.

**4. The Claim Is Barred by Plaintiffs' Failure To Comply with the Requirements of Section 104A of the Copyright Act.**

Even if Plaintiffs had established ownership of a valid, restored copyright in the Work (which they have not), their infringement claim should be dismissed for the additional reasons that Plaintiffs have failed to comply with the statutory notice and 12-month grace period afforded reliance parties under Section 104A of the Copyright Act and are barred from enjoining such parties from using a derivative work based on a restored copyright. *See* 17 U.S.C. § 104A(d).

*First*, as an assignee of PepsiCo's rights in the STOLICHNAYA label, AD qualifies as a reliance party entitled to the protections of Section 104A of the Copyright Act. *See* 17 U.S.C. § 104A(h); AD's Reply at 21–22. Plaintiffs' assertion that AD is not a reliance party because it did not begin distributing STOLICHNAYA vodka until 2001, *see* Pl. Sur-Reply at 14, glosses over the fact that the SPI Defendants began supplying PepsiCo with vodka displaying the allegedly infringing label as early as 1992. Because the SPI Defendants began supplying vodka to PepsiCo before Russia's eligibility for copyright restoration, and are successors-in-interest to another reliance party, VAO-SPI, they qualify as reliance parties in their own right under Section 104A. *See* 17 U.S.C. §104A(h)(4).

*Second*, the U.S. STOLICHNAYA label unquestionably qualifies as a "derivative work" under Section 104A, assuming, as Plaintiffs allege, that it is based upon and substantially similar to the 1953 label. The term "derivative work" has been broadly interpreted to encompass any work that is based, in whole or in substantial part, upon a pre-existing work, provided that it

meets the low threshold of originality necessary to support a copyright. *See Feist*, 499 U.S. at 345, citing 1 Melvin B. Nimmer & David Nimmer, *Nimmer on Copyright* §§2.01[A], [B] (1990).

A comparison of the 1953 label (Exhibit P to the Second Amended Complaint) and the U.S. STOLICHNAYA label (Exhibit N) reveals the kinds of independently created modifications necessary to satisfy the legal standard of originality. To cite just two examples, the U.S. STOLICHNAYA label contains a simplified and stylized black and white rendering of the depicted Moscow hotel, as compared with the more realistic image found in the Work; in addition, the label incorporates new design elements missing from the Work, including the four overlapping medals. These changes reflect a deliberate aesthetic choice by the author and, as a whole, represent the degree of substantial, non-trivial variations necessary to create a derivative work.

Accordingly, under Section 104A of the Copyright Act, Defendants are entitled to proper notice of a foreign rightholder's intent to enforce a restored copyright and to a 12-month grace period in which to dispose of existing copies before an infringement claim may be brought. *See* 17 U.S.C. § 104A(d)(2).[14] Moreover, beyond Plaintiffs' failure to provide such notice and grace period,[15] Plaintiffs are barred under Section 104A from preventing Defendants' use of a

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[14] If the Second Amended Complaint had alleged (which it did not) that the SPI Defendants were indirectly liable based on PepsiCo's or the AD Defendants' activities, Plaintiffs' failure to provide AD with adequate notice would bar any infringement claim against the SPI Defendants. *See Faulkner v. Mindscape, Inc.*, ___ F.3d ___, 2005 WL 503652, *11 (2d Cir. Mar. 4, 2005) ("there can be no contributory infringement absent actual infringement"). Due to the absence of any domestic infringing activity by the SPI Defendants, Plaintiffs' infringement claim against these parties can, at most, be based upon contributory or vicarious liability.

[15] Nothing in Plaintiffs' filings suggests any effort to provide the SPI Defendants with proper notice of an intent to enforce the restored copyright. Moreover, Plaintiffs' assertion that the AD Defendants were provided such notice in 2002 is based solely upon a letter that is nowhere mentioned in the Second Amended Complaint and that contains no mention of copyrights in the label. See Pl. Sur-Reply at 15 (citing Conciatori Decl. Ex. A). That letter fails to comply with (continued...)

"derivative" version of the restored Work and may, at most, seek reasonable compensation for such use after first attempting negotiation of such amount. *See* 17 U.S.C. §104(d)(3)(A)–(B). These defects provide additional reasons why Plaintiffs' copyright claim should be dismissed.

## II. ALL STATE LAW CLAIMS AGAINST THE SPI DEFENDANTS (CLAIMS 2, 3, 4, AND 5) SHOULD BE DISMISSED.

### A. BECAUSE ALL FEDERAL LAW CLAIMS AGAINST THE SPI DEFENDANTS MUST BE DISMISSED, THIS COURT LACKS JURISDICTION OVER THE STATE LAW CLAIMS.

If the Court dismisses all federal claims against the SPI Defendants, it should also dismiss the state law claims for lack of supplemental jurisdiction under 28 U.S.C. § 1367. *See* Sec. Am. Compl. ¶ 6. Supplemental jurisdiction is subject to a two-part test. *First*, a court must determine if the state claims are "so related to claims in the action within such original jurisdiction that they form part of the same case or controversy under Article III." 28 U.S.C. § 1367(a). *Second*, even if the court has supplemental jurisdiction over such related state claims, it has broad discretion to decline to exercise such jurisdiction based on the factors enumerated in 28 U.S.C. § 1367(c). Courts may decline to exercise supplemental jurisdiction over a state law claim if "the claim substantially predominates over the [federal] claim or claims over which the district court has jurisdiction . . . ." 28 U.S.C. § 1367(c).

Although the AD Defendants have conceded that Plaintiff Ost-Alco has standing to allege a federal claim for false advertising (Claim 14) against them, *see* AD Reply, at 19–20, that claim is not asserted against the SPI Defendants. All other federal claims are subject to pending motions to dismiss. Even assuming that the federal false advertising claim against the AD Defendants remains in the case, however, it does not support supplemental jurisdiction over the

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the notice requirements of Section 104A, which explicitly mandate service of "notices of intent to enforce a restored copyright." *See* 17 U.S.C. §§ 104A(d)(2)(B), 104A(e)(2).

state law claims against the SPI Defendants. The false advertising claims against the AD Defendants and the state law claims against the SPI Defendants do not "derive from a common nucleus of operative fact." *United Mine Workers v. Gibbs*, 383 U.S. 715, 725 (1966). The federal false advertising claim involves only the question whether AD's claim that its vodka is "Russian Vodka" is true. In contrast, the fraud, unjust enrichment, misappropriation, and statutory and common law unfair competition claims alleged against the SPI Defendants are directed exclusively to the question of ownership of the STOLICHNAYA Marks and implicate entirely unrelated elements and a complicated series of events beginning in Russia in the early 1990s and culminating in PepsiCo's assignment of the U.S. rights in the STOLICHNAYA Marks to the AD Defendants in 2001.

Even if the Court could exercise supplemental jurisdiction over Plaintiffs' state law claims against the SPI Defendants, the Court should decline to exercise such jurisdiction, as permitted by 28 U.S.C. § 1367(c)(2). The state law claims against the SPI Defendants are completely unrelated to, and clearly predominate over, the federal false advertising claims against the AD Defendants, *see* 28 U.S.C. § 1367(c)(2), as illustrated by the pages of the Second Amended Complaint dedicated to Plaintiffs' convoluted claims of fraud, unjust enrichment, and misappropriation against the SPI Defendants, as compared with the single federal claim, asserted only against the AD Defendants (Claim 14), that their STOLICHNAYA vodka may not properly be advertised as "Russian Vodka."

### B. ALL THE STATE LAW CLAIMS ARE TIME-BARRED.

Plaintiffs' fraud, unjust enrichment, misappropriation, and state law unfair competition claims are all barred by New York's statute of limitations.

Under New York law, actions for unjust enrichment and fraud must be commenced within six years of the accrual of the cause of action. N.Y. C.P.L.R. §§ 203(a), 213(1)

(McKinney 2005); *see Golden Pac. Bancorp. v. FDIC*, 273 F.3d 509, 518 (2d Cir. 2001). According to the Second Amended Complaint, the alleged fraud (Claim 2) is based on the SPI Defendants' representation to PepsiCo that they were "the lawful successors-in-interest to VVO-SPI," which, as established above, occurred as early as February 6, 1992. *See* Ex. 2 to Skurikhin Decl.; Sec. Am. Compl. ¶ 69. The unjust enrichment claim (Claim 3) is based on the SPI Defendants' actions "including *but not limited to*" causing PepsiCo to assign the marks to AD in January 2001 and profiting from the sale of vodka under the SPI-AD distribution agreement, signed November 2000. Sec. Am. Compl. ¶ 126 (emphasis added).

Even if Plaintiffs' fraud and unjust enrichment claims were sufficiently pled (which, as shown below, they are not), the facts alleged establish that all those causes of action would have accrued by February 6, 1992, when VAO-SPI and PepsiCo signed the Addendum to the VVO-PepsiCo Agreement. *See* Ex. 2 to Skurikhin Decl.; Sec. Am. Compl. at 69. It was then that the SPI Defendants' predecessors in interest began receiving payments for supplying STOLICHNAYA vodka to PepsiCo for sale in the U.S., thus for the first time "exploiting" the U.S. STOLICHNAYA Marks. It was then that VVO-SPI (assuming it continued to exist) and/or the Russian Federation ceased receiving any royalties for PepsiCo's use of the U.S. STOLICHNAYA Marks. And certainly the alleged causes of action accrued no later than "[i]n or about April 1997," when, as alleged in the Second Amended Complaint, "Shefler, Oliynik, and their agents . . . began exploiting the trademarks." Sec. Am. Compl. ¶ 45. This action, filed on October 28, 2004, was commenced more than 12 years after the first date and more than seven years after the second. The fraud and unjust enrichment claims are therefore barred by the

applicable New York statute of limitations. *See* N.Y. C.P.L.R. §§ 203(a), 213(1) (McKinney 2005).[16]

Plaintiffs' misappropriation and unfair competition claims are also barred by the applicable statute of limitations. Under New York law, courts apply different limitation periods to misappropriation and unfair competition claims based on an analysis of the nature of the claim. *See Greenlight Capital, Inc. v. Greenlight (Switzerland) SA*, No. 04 Civ. 3136 (HB), 2005 WL 13682, at *7 (S.D.N.Y. Jan. 3, 2005) (citing cases). In this case, the misappropriation claim (Claim 4) is premised on an alleged theft of property (in the words of Plaintiffs, a "hijacking" of the STOLICHNAYA Marks, *see* Sec. Am. Compl. at pp. 8, 18), and is therefore governed by the three-year statute of limitation of New York's Civil Practice Law and Rules § 214(4). *See Sporn v. MCA Records, Inc.*, 58 N.Y.2d 482, 488, 448 N.E.2d 1324, 1326–27 (1983) (applying three-year statute of limitations in analogous case involving an unfair competition claim premised on alleged misappropriation and unauthorized use of intellectual property). *See also* AD Mot. to Dismiss at 7–9; AD Reply at 15–16.

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[16] Plaintiffs cannot benefit from New York's discovery rule, which grants an additional two years "from the time when facts were discovered or from the time when facts could with reasonable diligence have been discovered" in which to commence suit. N.Y. C.P.L.R. § 203(g); *German v. Pope John Paul II*, 621 N.Y.S.2d 311, 312, 211 A.D.2d 456, 456 (1st Dep't 1995). Even accepting the dubious proposition that the facts surrounding VVO-SPI's transformation into a private company were not immediately known to the Russian Government, the two years afforded by New York's discovery rule cannot save the fraud and unjust-enrichment claims. This suit was commenced on October 28, 2004—over four years after February 2000, the time Plaintiffs allege that the Russian Government received an "Investigation Report from the Ministry of State Property," which led it to commence an investigation into what Plaintiffs allege was "the . . . corporate fraud which lay behind SPI Group's acquisition of the STOLICHNAYA Marks." Sec. Am. Compl. ¶ 95. The Complaint was also filed over two years after the last of the Russian court decisions which purported to declare invalid the assignment of the Russian STOLICHNAYA marks to SPI's predecessors in interest. Sec. Am. Compl. ¶¶ 95, 107–108.

Plaintiffs' New York statutory unfair competition claim (Claim 5), which alleges misleading marketing based on the STOLICHNAYA label's "Russian Vodka" claim, *see* Sec. Am. Compl. ¶ 132, is subject to the three-year statute of limitations of N.Y. C.P.L.R. § 213(2). *Gaidon v. Guardian Life Ins. Co.*, 727 N.Y.S.2d 30, 34–35, 750 N.E.2d 1078, 1082–1083 (N.Y. 2001). Plaintiffs' common law unfair competition claim (Claim 5), which likewise alleges that "Russian Vodka" misrepresents the geographic origin of the STOLICHNAYA vodka, does not state a cause of action at all, because "[m]isrepresentation of the quality of defendants' own product, absent proof of actual damages to plaintiff's business, is not actionable at common law." *Construction Tech., Inc. v. Lockformer Co.*, 704 F. Supp. 1212, 1217 (S.D.N.Y. 1989) *overruled on other grounds by Conopco, Inc. v. Campbell Soup Co.*, 95 F. 3d 187 (2d Cir. 1996). The requisite allegations specifying actual damages to Plaintiffs' business are wholly absent here.[17] There is thus no statute of limitations for this non-existent tort.

### C. CLAIM 2 SHOULD ALSO BE DISMISSED FOR FAILURE TO ALLEGE ESSENTIAL ELEMENTS OF COMMON LAW FRAUD.

Not only is Plaintiffs' fraud claim time-barred, the Second Amended Complaint fails to assert two of the five elements of fraud under New York Law: (i) reasonable reliance on the part of the plaintiff (ii) that causes damage to the plaintiff. *See Schlaifer Nance & Co. v. Estate of Andy Warhol*, 119 F.3d 91, 98 (2d Cir. 1997); *LAMA Holding Co. v. Smith Barney Inc.*, 88 N.Y.2d 413, 416–18, 668 N.E.2d 1370, 1371 (N.Y. 1996). Plaintiffs also have failed to plead fraud with the heightened particularity required by Federal Rule of Civil Procedure 9(b).

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[17] An action for false advertising of a defendant's own product requires that "the complaint . . . refer, with specificity, to the customers who have ceased to do business with the plaintiff because of" such false or misleading claims. *Construction Tech.*, 704 F. Supp. at 1217–18.

Plaintiffs allege that the SPI Defendants misrepresented to PepsiCo that they were the rightful owners of the STOLICHNAYA Marks in the United States and the lawful successors-in-interest to VVO-SPI. Sec. Am. Compl. ¶ 120. Plaintiffs assert that these misrepresentations were made with the intent to defraud the Russian Federation, *id.*, and that, in reliance on these misrepresentations, PepsiCo assigned the Second Generation Marks to AD instead of their "rightful owner," the Russian Federation, *see id.* ¶ 121. These allegations fail to state a valid fraud claim.

*First*, the fraud claim cannot survive because the Second Amended Complaint fails to allege that *Plaintiffs* in any way relied on the allegedly false statements the SPI and AD Defendants allegedly made to *PepsiCo*. The Second Amended Complaint acknowledges that PepsiCo was the recipient of the SPI Defendants' allegedly false representations, not Plaintiffs. *See* Sec. Am. Compl. ¶¶ 120–121. Plaintiffs do not allege that the SPI Defendants made false statements to them; they do not allege that SPI's statements to PepsiCo were indirectly conveyed to them; and they do not allege that they relied on SPI's allegedly false misrepresentations to PepsiCo.

A claim for fraud cannot lie under New York law where, as here, the misrepresentation is made to and relied upon by a third party but not the plaintiff. *See Cement & Concrete Workers v. Lollo*, 148 F.3d 194, 196 (2d Cir. 1998) (internal citation omitted) ("We hold that a plaintiff does not establish the reliance element of fraud for purposes of . . . New York law by showing only that a third party relied on a defendant's false statements."). *See also* N.Y. Jur. 2d Fraud and Deceit § 119 (to maintain an action for fraud under New York law, a plaintiff must allege that false representations to third parties "were made for the purpose of *influencing* the complaining party, and with the intent that they be *acted upon* by him or her" (emphasis added)).

*Second*, Plaintiffs have not pled facts showing they were harmed by the allegedly false statements to PepsiCo. There is no allegation that if VAO-SPI had not represented to PepsiCo in 1992 that it was the successor-in-interest to VVO-SPI and the U.S. rights in the STOLICHNAYA Marks had reverted to VVO-SPI at the conclusion of the 1991 agreement between V/O-SPI and PepsiCo, FTE would have benefited from such reversion. In fact, FTE could not have benefited from that hypothetical course of events because it does not claim to have existed until December 2001—over nine years after VAO-SPI entered into the 1992 Addendum to the 1991 Agreement with PepsiCo, over three years after the SPI Defendants are alleged to have begun exploiting the STOLICHNAYA marks in the U.S. (*see* Sec. Am. Compl. ¶ 45), and nearly a year after the Presidium of the Russian Supreme Court of Arbitration purportedly found that VAO-SPI was not the successor to V/O-SPI. Plaintiffs' theory runs afoul of the principle that "[a] fraud verdict may not rest on allegations of speculative or remote injury to the plaintiff; rather the plaintiff must have suffered losses as a direct, immediate, and proximate result of the defendant's misrepresentation." *See Kaye v. Grossman*, 202 F.3d 611, 614 (2d Cir. 2000) (internal quotations and citation omitted).

*Third*, the fraud claim does not satisfy Rule 9(b), which requires detailed pleading about "the time, place, speaker, and sometimes even the content of the alleged misrepresentations." *Luce v. Edelstein*, 802 F.2d 49, 54 (2d Cir. 1986). "[A] complaint . . . which fails to adduce any specific facts supporting an inference of knowledgeable participation in the alleged fraud . . . will not satisfy *even a relaxed standard*." *Devaney v. Chester*, 813 F.2d 566, 569 (2d Cir. 1987) (emphasis added) (internal citation omitted).

The heart of Plaintiffs' fraud claim is the bare, unsupported assertion that the SPI Defendants knew that their claim to the ownership of reversionary rights to the U.S.

STOLICHNAYA Marks was false and made misstatements with the intent to defraud the Russian Federation (not Plaintiffs). *See* Sec. Am. Compl. ¶ 120. Although the Second Amended Complaint alleges that VAO-SPI was not the legal successor to VVO-SPI and explains the grounds for the Russian courts' holding to that effect, *id.* ¶¶ 101–109, the Russian courts did not find that officers of VAO-SPI or its successors knew about any defects in the transformation of VVO-SPI into a private company. Likewise, although Plaintiffs allege that Evgeniy Sorochkin "conspired to make it appear that VVO-SPI . . . had been lawfully transformed into a private joint stock company," Sec. Am. Compl. ¶ 28, they do not allege that the corporate or individual SPI Defendants had anything to do with this "conspiracy" or had knowledge of any defect in the privatization process. Further, although the Second Amended Complaint alleges that letters purportedly signed by the First Deputy Minister of the Ministry of Agriculture were forgeries, *see* Sec. Am. Compl. ¶¶ 37–38, it does not allege that the SPI Defendants had any role in or knowledge of any purported forgeries. Moreover, Plaintiffs do not allege that after the creation of VAO, the subsequent corporate successions and the transfer of the STOLICHNAYA trademarks allegedly for less than the value of the marks involved any fraud or created a defect in title to the worldwide rights to the marks. *See id.* ¶¶ 51–57. To the extent the marks were improperly transferred from the Soviet and/or Russian Government, the Second Amended Complaint appears to allege that this transfer occurred at the initial "privatization" of VVO-SPI. *See id.* ¶ 58.

Furthermore, with respect to the SPI-AD distribution agreement, Plaintiffs allege "upon information and belief" that the parties knew that the SPI Defendants did not have good U.S. title to the STOLICHNAYA Marks because (i) AD paid SPI royalties instead of a substantial fee for the assignment of the marks, (ii) the contract contemplated that the Russian Federation might

challenge title, and (iii) AD's SEC registrations disclose the dispute between SPI and the Russian Government. These allegations, however, assert merely that Defendants were aware of the Russian Federation's claim that it owns the marks, not that Defendants believed those claims to be true. Indeed, the Second Amended Complaint acknowledges that one Defendant's cease-and-desist letters were sent "to entities in the United States that *it believed were infringing its purported rights*." Sec. Am. Compl. ¶ 14 (emphasis added).

### D. CLAIM 3 SHOULD ALSO BE DISMISSED FOR FAILURE TO ALLEGE ESSENTIAL ELEMENTS OF COMMON LAW UNJUST ENRICHMENT.

The Second Amended Complaint also fails to allege a viable unjust enrichment claim that SPI's profits from its distribution contract with AD (or PepsiCo, for that matter) came at Plaintiffs' expense. The elements of an unjust enrichment claim under New York law are "(1) that the defendant benefitted; (2) at the plaintiffs' expense; and (3) that 'equity and good conscience' require restitution." *Kaye v. Grossman*, 202 F.3d 611, 616 (2d Cir. 2000) (internal citation omitted). The essence of an unjust enrichment claim "is that one party has received money or a benefit at the expense of another." *Id.* (quoting *City of Syracuse v. R.A.C. Holding, Inc.*, 258 A.D.2d 905, 685 N.Y.S.2d 381, 381 (4th Dep't 1999)). "A defendant is enriched at the expense of a plaintiff when the defendant receives a benefit of money or property belonging to the plaintiff." *Granite Partners, L.P. v. Bear, Stearns & Co.*, 17 F. Supp. 2d 275, 313 (S.D.N.Y. 1998).

The Second Amended Complaint simply asserts—with no supporting facts—that the SPI Defendants "have been unjustly enriched by virtue of their actions . . . at Plaintiffs' expense." ¶ 126. The Complaint gives two examples of the SPI Defendants' unjust enrichment: (i) "causing the [U.S. STOLICHNAYA Marks] to purportedly be assigned to [AD] for valuable consideration notwithstanding that the [SPI] Defendants had and have no legal claim to those

marks" and (ii) "enter[ing] into an agreement to provide [AD] with vodka" and earning a profit therefrom. *Id.*

But, according to Plaintiffs, FTE did not exist until December 2001, so FTE cannot conceivably claim any profits earned by the SPI Defendants prior to that date. Sec. Am. Compl. ¶ 111. It was not until July 4, 2002 that the Russian Federation, which allegedly owns the U.S. rights in the STOLICHNAYA marks, *see id.* ¶ 110, purportedly assigned to FTE the right to use the Russian STOLICHNAYA trademarks (though *in Russia* only), *see id.* ¶ 111 and Ex. L thereto. And there is no allegation that the Russian Federation has *ever* purported to assign to FTE the U.S. rights in the STOLICHNAYA trademarks that FTE claims to own. FTE, therefore, has no claim to any profits from STOLICHNAYA vodka sales in the United States, and SPI's profits therefore cannot be said to have come at FTE's expense. *Compare Granite Partners*, 17 F. Supp. 2d at 313 (investment funds could not bring unjust enrichment claim to recover brokers' profits earned from other customers and from short sales of the brokers' own accounts, because the funds "had no right to the [b]rokers' profits").

As for Plaintiff Ost-Alco, the Second Amended Complaint alleges that the distillery is "the licensed manufacturer of STOLICHNAYA vodka." Sec. Am. Compl. ¶ 12. If so, Ost-Alco is licensed to use the marks by FTE, which claims to have been assigned the rights to the STOLICHNAYA trademarks in Russia only. Ost-Alco's rights as a licensee are thus necessarily also limited to use of the marks in Russia.

Because Plaintiffs have not alleged that the Russian Federation (which, according to the Second Amended Complaint, owns the U.S. rights in the STOLICHNAYA trademarks, *see id.* ¶ 110), has assigned to Plaintiffs the right to use the STOLICHNAYA trademarks in the United States, their unjust enrichment claims necessarily fail. *See Reading Int'l, Inc. v. Oaktree Capital*

*Mgmt. LLC*, 317 F. Supp. 2d 301, 334 n.24 (S.D.N.Y. 2003) (movie theater owner's unjust-enrichment claim against allegedly monopolistic theater chains failed because it "had no entitlement to exhibit the films in question").

### E. CLAIM 4 SHOULD ALSO BE DISMISSED BECAUSE PLAINTIFFS HAVE NO OWNERSHIP INTEREST IN THE TRADEMARKS ALLEGED TO HAVE BEEN MISAPPROPRIATED.

Plaintiffs' misappropriation claim is also deficient because the Second Amended Complaint establishes that Plaintiffs have no interest in the STOLICHNAYA Marks in the U.S. and therefore cannot claim that Defendants have "misappropriated" the labor expended in creating the "trademark." 2 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 10.72 (4th ed. 2004); *see Eastern Air Lines, Inc. v. New York Air Lines, Inc.*, 559 F. Supp. 1270 (S.D.N.Y. 1983) (plaintiff who fails to prove trademark rights cannot claim that its purported rights to the trademark have been "misappropriated").

### F. CLAIM 5 SHOULD ALSO BE DISMISSED FOR FAILURE TO STATE A CLAIM OF COMMON LAW UNFAIR COMPETITION OR A VIOLATION OF SECTION 349 OF THE N.Y. GENERAL BUSINESS LAW BY THE SPI DEFENDANTS.

Plaintiffs' common law unfair competition claim "must be grounded in either deception or appropriation of the exclusive property of the plaintiff." *H.L. Hayden Co. v. Siemens Med. Sys., Inc.*, 879 F.2d 1005, 1025 (2d Cir. 1989). Plaintiffs' common law unfair competition claim is premised solely on deceptive marketing. *See* Sec. Am. Compl. ¶ 132 (alleging that "Defendants' acts and practices are consumer-oriented; are misleading in a material way, as Defendants' STOLICHNAYA label provides a false description of the geographic origin of the goods . . ."). For the reasons stated at page 26, *supra*, however, these allegations fail to state a cause of action for common law unfair competition.

Section 349 of the New York General Business Law makes unlawful "deceptive acts or practices in the conduct of any business, trade or commerce or in the furnishing of any service in

[New York]." The sole allegedly deceptive act supporting Claim 5 is that the STOLICHNAYA label "provides a false description of the geographic origin of the goods (*i.e.*, vodka) distributed under that label." Sec. Am. Compl. ¶ 132. Plaintiffs do not allege that the SPI Defendants falsely advertised the vodka or otherwise committed deceptive acts or practices in the conduct of any business or in furnishing any service *in New York*.[18] This omission is fatal to any claim under Section 349 of the New York General Business Law.

## III. ALL FEDERAL AND STATE CLAIMS AGAINST THE SPI DEFENDANTS SHOULD BE DISMISSED FOR FAILURE TO JOIN NECESSARY PARTIES.

If the Court declines to dismiss any of the claims asserted against the SPI Defendants for the reasons stated above, the claims should be dismissed under Federal Rules of Civil Procedure 12(b)(7) and 19 for failure to join the Russian Federation and FGUP as parties. The Russian Federation and FGUP understandably wish to avoid discovery and other undesirable aspects of litigation, but they cannot do so by the expedient of creating proxies to wage their courtroom battles. Under Rule 19, courts apply a three-part test to determine whether a party is indispensable: The first step is to determine whether the absent party is "needed for just adjudication" and thus should be joined; the second step requires the court to assess whether joinder of the absent party is feasible; and if joinder is not feasible, the third step is for the court

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[18] The only prior paragraphs of the Complaint that make allegations concerning a false description of the geographic origin of the STOLICHNAYA vodka are paragraphs 89–94, but nowhere in those paragraphs or in Claim 5 is it claimed that the SPI Defendants have falsely advertised the vodka or otherwise committed any deceptive acts or practices in the conduct of any business or in furnishing any service *in New York*, as is required to allege a claim under Section 349 of the New York General Business Law. Only the AD Defendants are alleged to have advertised the STOLICHNAYA vodka, and only the AD Defendants are alleged to have distributed the vodka in the United States. Plaintiffs' allegations in Claim 5 are thus consistent with their allegations in Claim 13 (which is asserted *only against the AD Defendants*) where the Second Amended Complaint spells out in detail its false advertising claim based on the "Russian Vodka" representation.

to determine, based on four factors enumerated in Rule 19(b), whether "in equity and good conscience" the case can proceed without the absent party.

### A. JOINDER OF FGUP AND THE RUSSIAN FEDERATION IS NEEDED FOR JUST ADJUDICATION OF PLAINTIFFS' CLAIMS.

Courts "have held consistently that the owner of an allegedly infringed intellectual property right is a person needed for just adjudication under Rule 19." *JTG of Nashville, Inc. v. Rhythm Band, Inc.*, 693 F. Supp. 623, 626 (M.D. Tenn. 1988) (applying rule to action for trademark infringement and unfair competition); *Discount Muffler Shop, Inc. v. Meineke Realty Corp.*, 535 F. Supp. 439, 448 (N.D. Ohio 1982) (internal citation omitted) ("The owner of an allegedly infringed right has been treated as an indispensable party and thus an action for . . . trademark infringement must be dismissed in the absence of the . . . trademark owner."). Courts have long applied the same rule in the copyright area. *See First Fin. Mktg. Servs. Group v. Field Promotions, Inc.*, 286 F. Supp. 295, 298 (S.D.N.Y. 1968) ("It is familiar law that the copyright owner is an indispensable party to a suit where the validity of his copyright is in issue."); 7 C. Charles A. Wright et al., *Federal Practice and Procedure* § 1614 (3d ed. Supp. 2005).

Courts have required the presence of an owner of an asserted intellectual property right in infringement suits based on a weighing of the equitable considerations of Rule 19(a). *See Gilliam v. American Broad. Cos.*, 538 F.2d 14, 26 (2d Cir. 1976). In the trademark context, the Fifth Circuit has articulated the equitable considerations as follows:

> "The licensor of a trademark that is the subject of an infringement action by a licensee falls squarely within the language and policy of [Rule 19]. As owner of the mark, the licensor has a legally protected interest in the subject matter of the action. . . . A judgment for the alleged infringer, whether based on a finding that the licensed mark is not a valid trademark or that the defendant's mark does not infringe it, may prejudice the licensor's rights in his own mark. A judgment for the plaintiff-licensee could result in double obligations for the defendant, should the licensor subsequently sue on his own."

*Association of Co-Operative Members, Inc. v. Farmland Indus., Inc.*, 684 F.2d 1134, 1143 (5th Cir. 1982) (internal citations omitted); *see also Lisseveld v. Marcus*, 173 F.R.D. 689, 701 (M.D. Fla. 1997) ("There is no conceivable reason for the Court to proceed with this case when there is a party missing who may, in fact, be the true owner of the trademark rights").

In *JTG of Nashville*, the court conducted a "practical analysis" and concluded that an absent foreign party was needed for a just adjudication in light of three facts: (i) the foreign entities' interest in avoiding "the estoppel effect of a judgment in which it did not participate and which declares the trademarks invalid"; (ii) the alleged infringer's interest "in avoiding multiple suits concerning the same basic facts"; and (iii) "the public interest in efficiently husbanding judicial resources." *Id.* at 627.

The same considerations control here. The absence of FGUP and the Russian Federation would expose Defendants, in the words of Rule 19(a), to "a substantial risk of incurring double, multiple or otherwise inconsistent obligations by reasons of [FGUP's and the Russian Federation's] claimed interest." Fed. R. Civ. P. 19(a). Furthermore, assuming that Plaintiffs FTE and Ost-Alco are truly independent of the Russian Federation's dominance (which they are not), had standing to assert their claims (which they do not), and had stated claims on which relief could be granted (which they have not), the absence of FGUP and the Russian Federation could "impair or impede" the ability of those parties to protect their purported ownership interests.

It is not enough that the Second Amended Complaint asserts that FTE is "the rightful owner of the [U.S. STOLICHNAYA Marks] . . . and the STOLICHNAYA Copyright in the United States and elsewhere in the world, including Russia." *See* Am. Compl. ¶ 11. Other allegations in the Second Amended Complaint contradict these assertions, stating that the

STOLICHNAYA registration has "always been owned by either the Soviet government or the government of the Russian Federation which succeeded the Soviet Union." Sec. Am. Compl. ¶ 110. The Russian Federation is also alleged to be the owner of the copyright rights in the STOLICHNAYA label. Sec. Am. Compl. ¶ 177 ("The Russian Federation inherited the Soviet Union's assets, including the rights to the STOLICHNAYA label . . . .").

According to the Second Amended Complaint, moreover, the only Russian entity that could even theoretically state a claim to ownership of the U.S. registrations of STOLICHNAYA is VVO-SPI, which was allegedly resurrected and transformed into FGUP in July 2001. *See* Sec. Am. Compl. ¶¶ 39, 110. Under the agreements to which PepsiCo was a party, PepsiCo had no obligation to assign the Marks to the Russian Federation in any set of circumstances. *See id.* ¶ 69 (alleging that "paragraph 8 of the [1991] Agreement permitted the Government of the U.S.S.R. and, later, the Government of the Russian Federation, to request the reassignment of the STOLICHNAYA Marks *to V/O-SPI (or its legal successors)* at will" (emphasis added)). Moreover, Plaintiffs fail to plead any facts suggesting that either the Russian Federation or FGUP has granted either Plaintiff any ownership interest in either the U.S. rights in the STOLICHNAYA Marks or the Russian copyright. *Cf.* Sec. Am. Compl. ¶ 112 and Ex. L (alleging that the Russian Federation assigned to FTE rights in certain *Russian* trademarks).

The Second Amended Complaint appears to base its allegation that the Russian Federation is the owner of the U.S. STOLICHNAYA Marks on the decisions of the Russian courts attached to the Complaint and purporting to hold that the Russian Federation is the owner of the STOLICHNAYA Marks in Russia. *See, e.g.*, Sec. Am. Compl. ¶¶ 101–109 and Exs. F–J thereto. Even if valid, the sole relevance of the Russian court decisions to this case, however, is the purported holding by the Russian courts that VAO-SPI is not the legal successor to VVO-

SPI. *See* Sec. Am. Compl. ¶¶ 101–109 and Exs. F–J thereto. But even if this Court were to honor that holding (which it should not), it would not support the Plaintiffs' claim to ownership of the U.S. STOLICHNAYA Marks. Setting aside for the moment (i) the incontestable status of AD's STOLICHNAYA Registrations, (ii) U.S. public policy refusing to extend the effects of expropriations abroad to property situated in the U.S., and (iii) the obvious and fatal flaws in the state tort claims alleged by the Plaintiffs, the Russian court's holding would at best be relevant to a claim by VVO-SPI (now FGUP) that, under the Agreements with PepsiCo, the U.S. STOLICHNAYA Marks should have been reassigned to it rather than to AD. *See First Fin. Mktg. Servs. Group v. Field Promotions*, 286 F. Supp. 295, 296–98 (S.D.N.Y. 1968) (concluding that "plaintiff is the assignee of something less than full ownership" of the trademarks and copyright at issue and that the owner "is an indispensable party").

### B. JOINDER OF FGUP AND THE RUSSIAN FEDERATION APPEARS FEASIBLE AND, IF SO, THE COMPLAINT SHOULD BE DISMISSED WITH LEAVE TO HAVE THEM JOINED AS PLAINTIFFS.

Rule 19(a) requires that a necessary party be joined if joinder is feasible. In this case, joinder of both FGUP and the Russian Federation should be feasible, as either party could appear voluntarily or perhaps could be compelled to appear. *See First Financial*, 286 F. Supp. at 299 (granting motion to dismiss unless plaintiff joined absent party as voluntary or involuntary plaintiff within 60 days); *International Soc. for Krishna Consciousness, Inc. v. New York Port Auth.*, 425 F. Supp. 681, 686–87 (S.D.N.Y. 1977) (dismissing complaint without prejudice and directing plaintiffs to file an amended complaint, within a reasonable time, joining necessary party defendants).

### C. IF JOINDER OF FGUP AND THE RUSSIAN FEDERATION IS NOT FEASIBLE, THE COMPLAINT SHOULD BE DISMISSED FOR FAILURE TO JOIN INDISPENSABLE PARTIES.

If joinder of FGUP or the Russian Federation is deemed to be infeasible, the Complaint should be dismissed pursuant to Rules 12(b)(7) and 19(b) for failure to join indispensable parties. Rule 19(b) sets out four factors to guide the determination whether an action should proceed without necessary parties:

> "first, to what extent a judgment rendered in the person's absence might be prejudicial to the person or those already parties; second, the extent to which, by protective provisions in the judgment, by the shaping of relief, or other measures, the prejudice can be lessened or avoided; third, whether a judgment rendered in the person's absence will be adequate; fourth, whether the plaintiff will have an adequate remedy if the action is dismissed for nonjoinder."

For the reasons set forth above, allowing this suit to proceed without the participation of FGUP and the Russian Federation would be prejudicial to Defendants, and potentially to the absent parties, and there is no way the prejudice could be lessened or avoided. Any judgment rendered in their absence would necessarily be inadequate. As to whether Plaintiffs will have an adequate remedy if the action is dismissed, the fact is that Plaintiffs are not entitled to *any* remedy in any event, for the reasons already stated. Furthermore, if the Russian Federation decides that it and FGUP will not join voluntarily, that decision would itself reflect the Russian Government's judgment that dismissal for non-joinder is an adequate remedy in the circumstances.

## IV. ALL CLAIMS AGAINST S.P.I. GROUP SA SHOULD BE DISMISSED UNDER RULE 12(b)(2) FOR LACK OF PERSONAL JURISDICTION.

To survive a motion to dismiss for lack of personal jurisdiction, a plaintiff is required to allege specific facts that establish a *prima facie* showing of jurisdiction. *See Jazini v. Nissan Motor Co.*, 148 F.3d 181, 184 (2d Cir. 1998). Where there are multiple defendants, "[e]ach

defendant's contacts with the forum state must be assessed individually." *Calder v. Jones*, 465 U.S. 783, 790 (1984).

In this case, Plaintiffs do not—and cannot—plead any basis for the Court to exercise personal jurisdiction over S.P.I. Group SA. A Swiss corporation with its principal place of business in Geneva, S.P.I. Group SA has no office, employees, or other physical presence in New York, and it conducts no regular business activities in the forum. *See* Skurikhin Decl. ¶ 2. Although Plaintiffs claim that the Court may exercise jurisdiction over each Defendant under New York's long-arm statute, *see* Second Am. Compl. ¶¶ 7–8, the Second Amended Complaint does not identify any specific actions by S.P.I. Group SA that could give rise to long-arm jurisdiction.

Nor is there any basis for the Court to exercise jurisdiction by "piercing the corporate veil" that presumptively separates S.P.I. Group SA from its owners and subsidiaries. Plaintiffs' bare assertions that the corporate SPI Defendants "are not separate legal entities" and "should be regarded as the alter egos of Shefler and Oliynik," *see id.* ¶ 21, are unsupported by any specific factual allegations and therefore cannot survive a motion to dismiss. *See, e.g.*, *Appalachian Enters., Inc. v. Epayment Solutions Ltd.*, No. 01 CV 11502 (GBD), 2004 WL 2813121, at *6 (S.D.N.Y. Dec. 8, 2004) (Daniels, J.) (Court would not pierce corporate veil for jurisdictional purposes where plaintiff did not plead "any specific factual allegations to supports its conclusory assertions that [individual defendants] exercised domination and control over the defendant companies").

In a futile effort to establish a predicate for jurisdiction under an agency theory, Plaintiffs assert—again without any support—that all Defendants "were agents of each other" and acted "in concert . . . in committing the wrongful acts" alleged in the Complaint. Sec. Am. Compl.

¶ 22. Such conclusory allegations are likewise insufficient to satisfy Plaintiffs' *prima facie* burden. *Jazini*, 148 F.3d at 184–85 (granting motion to dismiss for lack of jurisdiction where plaintiff merely "restat[ed], with slight changes, . . . the legal standard for determining agency" and stated no facts supporting the conclusory statement). Indeed, the Second Amended Complaint is devoid of any of the specific allegations necessary to establish such an agency relationship, and Mr. Skurikhin's Declaration contradicts Plaintiffs' conclusory assertions, demonstrating that the corporate SPI Defendants scrupulously observe all corporate formalities and are autonomous entities with distinct purposes and activities. *See* Skurikhin Decl. ¶¶ 5–10.

**CONCLUSION**

For the foregoing reasons, all claims against the SPI Defendants should be dismissed.

Respectfully submitted,

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May 31, 2005

# EXHIBIT 11

**UNITED STATES DISTRICT COURT**
**SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCII "OST-ALCO", | |
| Plaintiffs, | 04 Civ. 8510 (GBD) |
| -against- | |
| SPIRITS INTERNATIONAL N.V.; SPI SPIRITS LIMITED; SPI GROUP SA; YURI SHEFLER; ALEXEY OLIYNIK; ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V.; and ALLIED DOMECQ SPIRITS & WINES USA, INC., d/b/a ALLIED DOMECQ SPIRITS, USA, | |
| Defendants. | |

**MEMORANDUM IN OPPOSITION TO MOTION TO DISMISS OF DEFENDANTS SPIRITS INTERNATIONAL N.V., S.P.I. SPIRITS LIMITED, S.P.I. GROUP SA, YURI SHEFLER, AND ALEXEY OLIYNIK**

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Plaintiffs Federal Treasury Enterprise Sojuzplodoimport ("FTE") and Ost-Alco (collectively, "Plaintiffs") respectfully submit this memorandum of law in opposition to the Motion to Dismiss Plaintiffs' Second Amended Complaint ("Complaint" or "Compl."), submitted by Defendants Spirits International, N.V. ("Spirits"), S.P.I. Spirits (Cyprus) Limited, S.P.I. Group SA, Yuri Shefler and Alexey Oliynik (collectively, "SPI Defendants" or "SPI").

## PRELIMINARY STATEMENT

This case concerns a January 1, 2001 fraudulent assignment of STOLICHNAYA and other related trademarks (the "Marks" or the "STOLICHNAYA Marks") from PepsiCo, Inc. to Allied Domecq International Holdings B.V. ("ADIHBV" or "Allied Domecq"). Well aware that the Marks were owned by the Russian Federation, agents of the SPI "Family" of companies instructed PepsiCo, Inc., to assign the marks to ADIHBV – for which ADIHBV paid $50,000,000 to Spirits International, N.V. Despite these facts, the SPI Defendants principally contend that Lanham Act "incontestability" is a license to commit fraud against Plaintiffs, the Russian government, and the Patent and Trademark Office ("PTO"). They argue that: (1) where a party fraudulently obtains the assignment of registered trademarks, (2) even if the original owner (here, the Russian Federation) has a reversionary interest in the marks, (3) that owner (here, FTE by Decree of the Russian Federation) cannot thereafter challenge the fraudulent assignment. That is not supported by the Lanham Act, case law, or common sense.

That Defendants rely heavily upon the purported "incontestability" of the STOLYCHNAYA Marks is no surprise. Defendants not only fraudulently obtained the assignment of the STOLICHNAYA Mark from PepsiCo, defendant Allied Domecq has filed numerous false affidavits with the PTO to ensure that certain disputed STOLYCHNAYA Marks became "incontestable." As recently as November 2004, *after* this lawsuit was commenced, an

Allied Domecq attorney swore that "there is no proceeding involving said rights pending in the Patent and Trademark Office or in a court and not finally disposed of." Unaware that Allied Domecq's statements were false, if not perjurious, the PTO issued an acknowledgement of the filing, allowed the registrations to continue, and, therefore, caused *three* different STOLICHNAYA Marks to become "incontestable."

Similar false affidavits were previously filed in support of Declarations of Incontestability in connection with *six* other Marks at issue in this litigation, notwithstanding that Russian judicial proceedings pending at the time of the filings concerned the chain of title to the STOLYCHNAYA Marks. Indeed, those Russian proceedings determined that *no* SPI predecessors had reversionary rights in the marks. Lacking any valid reversionary right, SPI could not lawfully direct PepsiCo to assign the marks to Allied Domecq. Despite decisions by Russian courts rejecting SPI's chain of title as the successor to the entity that first licensed the STOLICHNAYA Marks to PepsiCo, Allied Domecq failed to disclose these proceedings to the PTO.

Clearly, Defendants' acts of fraud, deceit and wrongdoing are ongoing and well-documented. As alleged in the Complaint, Defendants bottle and distribute Latvian vodka to the United States and advertise it as "Russian" vodka, and Defendants Shefler and Oliynik, with the assistance of the SPI Group and the Allied Domecq Defendants, have engaged in a complex scheme to defraud the Plaintiffs, the Russian government, and the PTO, so that they can retain the rights to the STOLICHNAYA Marks that were pillaged from the Russian government. This case is designed to deter such fraudulent acts and gain the return of a Russian treasure.

For the reasons set forth more fully below, Plaintiffs respectfully request that the SPI Defendants' motion to dismiss be denied in its entirety.

## ARGUMENT

## I.

## THE LANHAM ACT DOES NOT IMMUNIZE FRAUD

Like Allied Domecq, the SPI Defendants advance an interpretation of the Lanham Act that would allow them to have their cake and eat it too: they claim that the PTO's mere recordation of the 2000 "assignment" of rights from PepsiCo to ADIHBV renders ADIHBV's "ownership" of the STOLICHNAYA Marks and goodwill "incontestable," but that they did not commit fraud by recording the assignment because recordation is a purely ministerial act "that does not reflect any determination by the PTO as to the validity of the assignment." Mem. in Supp. of SPI Defs.' Mot. to Dismiss ("SPI Mem.") at 7, 8 & n.4. As discussed below, Defendants overstate the legal consequences of incontestability in determining the ownership of a trademark, and fail to establish any basis for dismissal of Plaintiffs' claims for declaratory relief, trademark infringement, trademark dilution, false designation of origin, or to rectify the trademark register (the First, Sixth, Seventh, Eighth, and Fifteenth Claims).[1]

### A. PepsiCo Was Not, and Allied Domecq Is Not, the "Owner" of the STOLICHNAYA Marks and Goodwill.

It is ironic that Defendants rely principally upon the argument that Plaintiffs cannot challenge the registration of the STOLYCHNAYA Marks due to their "incontestable" status. *See* SPI Mem. at 5 (asserting "AD's incontestable ownership"); AD Defs.' Mem. in Supp. of Mot. to Dismiss (Docket No. 23) at 6 (claiming "Allied Domecq's exclusive

[1] As the Court is aware, the Thirteenth Claim, which the AD Defendants concede is well pled, is the subject of Plaintiffs' pending Motion for Summary Judgment, filed June 16, 2005. The SPI Defendants do not assert any ground to dismiss the false advertising component of Plaintiffs' corresponding Eighth Claim, which alleges contributory false designation of origin under 15 U.S.C. § 1125. Compl. ¶¶ 145-150, 92-94. Thus, at the very least, Plaintiffs' contributory false designation of origin/false advertising claim under § 1125 will survive the SPI Defendants' motion to dismiss.

ownership"). While seven of the Marks at issue in this proceeding are not incontestable at all, *see* Declaration of David W. Quinto, dated June 30, 2005 ("Quinto Decl."), ¶ 13; *see also* Appendix A, hereto ("App. A"), a fact Defendants gloss over, Defendants themselves cannot agree on who currently owns the Marks. Nor can Defendants credibly challenge Plaintiffs' allegations that FTE is the rightful owner of the U.S. rights to the STOLICHNAYA Marks.

**1. Defendants' Conflicting Claims of Ownership.**

Notwithstanding their claim that ADIHBV is the "incontestable" owner of the STOLICHNAYA Marks for the purposes of moving to dismiss Plaintiffs' trademark claims, the SPI Defendants take a different view when it serves their interests to do so. Spirits currently holds itself out as the actual "owner" of the U.S. STOLICHNAYA Marks in cancellation proceeding now pending in the PTO. There, Spirits alleges that it "*owns* numerous U.S. and foreign trademarks for vodka, including the well-known STOLICHNAYA brand." Quinto Decl. ¶ 2, Ex. A, at 1 (emphasis added). Spirits describes Allied Domecq as a mere "*distributor*," *id.* at 10 (emphasis added), tellingly ignoring that Allied Domecq claims to be the purported owner of those marks. SPI's statements to the PTO echo its other public statements. In 2004, SPI Group SA's General Counsel issued a cease and desist letter that referred to Allied Domecq Spirits, USA as an "exclusive importer and distributor" of STOLICHNAYA products, while warning that importing other STOLICHNAYA products would "cause the infringement of the Intellectual Property rights of the companies of S.P.I. Group" and threatening legal action by "the relevant S.P.I. Group's company." Compl. Ex. E. Obviously, SPI does not really believe that ADIHBV is the owner of the STOLICHNAYA Marks.

2. **PepsiCo Was, and ADIHBV Is, a Mere Licensee.**

The 1991 "assignment" of STOLICHNAYA rights to PepsiCo, like the later agreement with Allied Domecq, was a mere license that granted the exclusive right to distribute STOLICHNAYA vodka in the United States for 10 years. Compl. ¶¶ 1, 69, 75 and Exs. B, § 8.2 and Ex. D; *see also* Declaration of Andrey V. Skurikhin in Supp. of SPI Defs.' Mot. to Dismiss, dated May 27, 2005 (Docket No. 53) ("Skurikhin Decl."), Ex. 1 (June 19, 1991 Agreement between PepsiCo and V/O Sojuzplodoimport). The 1991 "assignment" limited PepsiCo's rights with respect to what vodka it could import as STOLICHNAYA; required PepsiCo to maintain the "condition" (*i.e.*, the commercial value) of the Marks; required PepsiCo to return the Marks to the government upon expiration of the agreement; limited PepsiCo's ability to designate sub-licensees; and was immediately terminable upon the request of the government. Skurikhin Decl. Ex. 1, ¶¶ 4, 5, 6, 8, 9.[2] In all relevant respects, PepsiCo was an exclusive licensee of the STOLICHNAYA Marks from 1991 to 2001 and was subject to various controls by VVO-SPI and its successors.

Importantly, under the June 1991 PepsiCo agreement, control of the U.S. STOLICHNAYA distribution rights resided with the licensor – the rightful licensor being the Russian Federation. Thus, in 2000, as PepsiCo's license was drawing to a close and as the Russian government was commencing judicial proceedings to retake its rights in the Marks, Spirits International fraudulently convinced PepsiCo to "assign" its rights to Allied Domecq. Compl. ¶¶ 2, 80, 121, Ex. D ¶ 8 (Spirits/ADIHBV Trademark Supply and Distribution Agreement). Although the SPI Defendants claim that PepsiCo "owned" the Marks and

[2] In 1992, after (as the Complaint alleges) Yevgeny Sorochkin caused the formation of VAO-SPI (VVO-SPI's alleged successor-in-interest), VAO-SPI entered into an addendum agreement with PepsiCo that eliminated the Soviet government's rights to demand the immediate return of the Marks. Compl. ¶ 69; Skurikhin Decl., Ex. 2, ¶ 1 (February 6, 1992 Agreement).

associated goodwill, PepsiCo was paid only $10 for the marks.[3] Confirming that Spirits International was acting as the true "owner" of the Marks and goodwill, Allied Domecq paid Spirits International *$50 million* for the same marks that were purportedly held by PepsiCo. Quinto Decl. ¶ 6. Allied Domecq's agreement with Spirits International expressly states that the $50 million payment was "in consideration for the assignment of the Trademarks to ADIHBV." Compl. Ex. D ¶ 7. Thus, it was Spirits, not PepsiCo, that was the "owner" of the U.S. STOLICHNAYA Marks for the purposes of that transaction.

The November 2000 Spirits/ADIHBV transaction also has the characteristics of a license and not an "assignment."[4] The Spirits/ADIHBV contract, and the admissions and conduct of the parties to it, all indicate a licensing relationship rather than a transfer of "ownership." *See* Compl. ¶ 81. While it is true that "retention of a reversionary interest by the transferor of a trademark does not *preclude* a determination that the ownership of the mark has been assigned," *Osawa & Co. v. B&H Photo*, 589 F. Supp. 1163, 1179 (S.D.N.Y. 1984) (emphasis added), courts "will not be governed by form" in distinguishing between an

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[3] As Plaintiffs have already noted in their opposition to the Allied Domecq Defendants' motion to dismiss, the $10 purchase price does not constitute true and valid consideration for the extraordinarily valuable assets that allegedly were transferred by this "assignment." Pls.' Sur-Reply to AD's Mot. to Dismiss at 4-5, n.6 (Docket No. 41) (citing *Rest. 2d Contracts*, § 71, cmt. b; *In re Greene*, 45 F.2d 428 (S.D.N.Y. 1930); *Robertson v. Garvan*, 270 F. 643 (S.D.N.Y. 1920); *Contractors Constr. Corp. v. Michael Dev. Corp.*, 213 So. 2d 430, 433 (Fla. Dist. Ct. App. 1968)).

[4] Under the Spirits/ADIHBV Agreement, ADIHBV can assign its interests in the STOLICHNAYA Marks and goodwill only to an affiliated company. Compl. Ex. D ¶ 30. Any other assignment requires Spirits' written consent. *Id.* ¶ 10.6. ADIHBV is prohibited from prosecuting any additional trademarks or modifying the Marks without Spirits' written consent. *Id.* ¶¶ 10.10-10.11. Spirits can terminate the "assignment" if ADIHBV engages in various prohibited acts, such as importing another vodka or merging with another company. *Id.* ¶¶ 12.3-12.4. ADIHBV is allowed to obtain vodka to sell under the STOLICHNAYA Mark only from Spirits. *Id.* ADIHBV is prohibited from taking any actions that might impair the value of the Marks or the goodwill. *Id.* ¶ 10.7. ADIHBV is required to obtain Spirits' approval of all marketing plans, and to use a certain minimum level of "skill, knowledge and effort" in promoting and advertising the products. *Id.* ¶ 17. ADIHBV is also obligated to notify Spirits of any infringements. *Id.* ¶ 10.3. And, ADIHBV must seek approval from Spirits before encumbering any of the "assigned" assets. *Id.* ¶ 10.5.

assignment and a license. J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* (4th ed. 2004) § 18:5 [hereinafter *McCarthy*]. The numerous controls and termination rights in the Spirits/ADIHBV agreement are the classic indicia of a trademark licensing agreement. *See, e.g., Visa, U.S.A., Inc. v. Birmingham Trust Nat'l Bank*, 696 F.2d 1371, 1377 (Fed. Cir. 1982) (holding that the crucial element of a license is that "the licensing agreement provides for adequate control by the licensor over the quality of goods or services produced under the mark by a licensee"); *Ludden v. Metro Weekly*, 8 F. Supp. 2d 7, 16 (D.D.C. 1998) (same); *see also Edwin K. Williams & Co. v. Edwin K. Williams & Co.-East*, 542 F.2d 1053, 1059 (9th Cir. 1976) (agreement that purportedly sold exclusive rights but provided for later renewal not an assignment because "[o]ne can renew a license but not a sale"); *cf. Conde Nast Publ'ns, Inc. v. United States*, 575 F.2d 400, 406 (2d Cir. 1978) (finding agreement to be an assignment, but only because the assignor "had no continuing interest in or control over the use of the [mark]" and had "no continuing participation in [the] business").[5]

[5] Spirits' so-called "reversionary interest" is compelling evidence of its intent to retain ownership of the fraudulently obtained marks, and to license instead of assign the Marks to ADIHBV. *See Blue Planet Software, Inc. v. Games Int'l LLC*, 334 F. Supp. 2d 425, 435 (S.D.N.Y. 2004) (Stein, J.) (retention of reversionary rights in trademark applications "pursuant to a contract with defendants would successfully rebut any evidence of ownership demonstrated by the registrations"); *Major-Prodotti Dentari-Societa v. Shimer*, 161 U.S.P.Q. 437, 438 (T.T.A.B. 1968) ("It is well established that the ownership of a mark in the United States as between the foreign manufacturer of a product and the exclusive distributor thereof in this country is a matter of agreement between them. . . . [I]t is clear that when the agreement expired, any rights which [the distributor] may have had in the mark during the life of the agency immediately reverted to [the manufacturer]."). Contrary to SPI's characterization, Plaintiffs do not argue that the mere existence of a reversionary interest in the STOLICHNAYA Marks is determinative of the license/assignment issue. Instead, it is the totality of the circumstances surrounding these transactions, as well as the parties' conduct and representations, that reveal the true nature of the parties' relationship. Thus, *Premier Dental Prods. Co. v. Darby Dental Supply Co.*, 794 F.2d 850 (3d Cir. 1986), cited by the SPI Defendants, which addressed a contract with far fewer indicia of a license, is inapposite.

Because the SPI Defendants, and not Allied Domecq, are the true owners of the STOLICHNAYA Marks, Defendants cannot rely on the purported PepsiCo – Allied Domecq assignment as a basis to cloak themselves with incontestability.

## B. The "Incontestable" Status of the STOLICHNAYA Marks Is Not Determinative of Plaintiffs' Rights.

### 1. If Recordation of the Assignment Were Legally Meaningless, Defendants Would Not Be Able to Assert Incontestability.

The SPI Defendants are correct that the recordation of an assignment by the PTO is a "ministerial" act. Indeed, it "is not a determination by the [PTO] of the validity of the document or the effect that document has on the title to an application, a patent, or a [trademark] registration." 37 C.F.R. § 3.54. Recordation "is a purely ministerial act and does not reflect any determination as to the validity of the document filed or its effect, if any." *Kaempe v. Myers*, 367 F.3d 958, 961 (D.C. Cir. 2004) (discussing recordation of patent assignments under 37 C.F.R. § 3.54); *see also TM Patents, L.P. v. I.B.M. Corp.*, 121 F. Supp. 2d 349, 365 (S.D.N.Y. 2000) ("'[T]he mere fact that an assignment was recorded in the PTO does not, without more, prove that a valid assignment actually took place.'" (quoting *Gaia Techs., Inc. v. Reconversion Techs., Inc.*, 93 F.3d 774, 778 n.3 (Fed. Cir. 1996), *amended on other grounds*, 104 F.3d 1296 (Fed. Cir. 1996))).[6]

Because the PTO rubber-stamps the recording of trademark assignments, it defies logic and common sense to argue that an assignment that happens to deal with an incontestable

[6] Indeed, underscoring that the PTO's recording of assignments has no evidentiary value, even "conditional" assignments (such as assignments that will not go into effect until a condition precedent has been satisfied), "if recorded in the [PTO], are regarded as absolute assignments for Office purposes until cancelled with the written consent of all parties or by the decree of a court of competent jurisdiction." 37 C.F.R. § 3.56. Thus, even if the Spirits International/Allied Domecq transfer had *never* come into effect (because, for example, Allied Domecq failed to make all contractual payments) it would still, under Defendants' argument, be an "incontestable" transfer for all purposes simply because Allied Domecq recorded it with the PTO.

mark is therefore incontestable itself. An incontestable registration is "conclusive" evidence of (1) the validity of the registered mark and the registration thereof; (2) the registrant's ownership of the mark; and (3) the registrant's exclusive right to use the mark in commerce. 15 U.S.C. § 1115(b). The second clause (which was added in a 1988 amendment to the Lanham Act) was not intended to address the circumstances presented here, when a mark that long ago attained incontestability is transferred via an invalid or inoperative assignment. Indeed, § 1115 speaks of a "registrant's" right, not an "assignee's," and PepsiCo continues to be listed as the "registrant" of virtually all the STOLICHNAYA and STOLI marks, while Allied Domecq is described merely as the "last listed owner." Accordingly, SPI's basis for arguing that Allied Domecq's "ownership" is incontestable is not § 1115(b), but is § 1127, which defines the "registrant" of a mark to include the registrant's "legal representatives, predecessors, successors and assigns." 15 U.S.C. § 1127.

Section 1127's definition of "registrant" to encompass successors and assigns was undoubtedly drafted with other, substantive provisions of the Lanham Act in mind, such as §§ 32 and 35, which provide remedies for infringement of a "registrant's" mark. 15 U.S.C. §§ 1114, 1117. As this case illustrates, however, § 1127's definition of "registrant" does not fit within § 1115(b)'s incontestability provisions, which are intended to reward sustained, consistent uses of marks in commerce. Moreover, SPI has cited no authority that § 1127's definition of "registrant" may shield an assignment of an incontestable mark from scrutiny.[7]

SPI's interpretation of the incontestability statute to shield the Allied Domecq assignment also invites mischief. Under SPI's view of the relevant statutes, any number of

[7] On the other hand, Plaintiffs are aware of decisions in which courts *have* examined the validity of an assignment of an incontestable mark. *E.g.*, *Archer Daniels Midland Co. v. Narula*, No. 99 C. 6997, 2001 WL 804025, at *5-8 (N.D. Ill. July 12, 2001) (analyzing the "reality of the transaction" of an assignment of the incontestable NUTRISOY trademark to determine whether it was an assignment in gross).

transfers which should be fully "contestable" could evade scrutiny. For example, if Plaintiffs purchased the STOLICHNAYA Marks from Allied Domecq – for the same $10 ADIHBV paid to PepsiCo – and proceeded to import their own STOLICHNAYA vodka, SPI would have no basis to complain. Plaintiff's ownership would be "incontestable." There is no sound reason, and no policy advanced by the Lanham Act's incontestability provisions, that would immunize all transactions involving marks that, whether by design or by luck, happen to be incontestable.

**2. Even Where "Incontestable," Plaintiffs Have Shown That the Statutory Exceptions Permit Their Challenge to the Ownership of the Marks.**

As Defendants concede, pursuant to Section 15 of the Lanham Act, 15 U.S.C. § 1065, ADIHBV's ownership of the STOLICHNAYA Marks is *not* incontestable if one of four statutory exceptions apply. As Plaintiffs demonstrated in response to the Allied Domecq Defendants' motion to dismiss, each exception applies here.

**(a) Defendants Have Engaged In Numerous Acts of Fraud.**

"Incontestable" registrations may be challenged if obtained fraudulently. A trademark assignee may defraud the PTO by acting to "establish its ownership . . . to the satisfaction of the Director," separate from the mere filing of documents for recording purposes. 37 C.F.R. § 3.73. Under the relevant regulations, "establishing ownership" involves filing documents evidencing the chain of title, along with documentation showing that the person submitting the information has authority to act for the assignee. *Id.* In other words, "establishing ownership" may involve nothing more than re-recording assignment documents.

Once an assignee has established ownership, it is entitled to maintain or prosecute a trademark application or registration. 37 C.F.R. § 3.71(d). Here, in addition to recording the fraudulent 2000 assignment, Compl. ¶ 122, Allied Domecq has taken actions with respect to the various STOLI and STOLICHNAYA Marks at issue that have reached "incontestable" status

(Registration Nos. 1,244,735; 1,852,552; 1,988,911; 2,155,523; 2,192,600; 2,189,745; 2,175,465; 2,192,681; 2,202,991; 2,204,355; and 2,205,863), including filing patently false "declarations of incontestability" under Lanham Act § 15 (15 U.S.C. § 1065) as well as § 8 declarations of continued use in commerce. *See* Quinto Decl. ¶¶ 8-14, Exs. D, G-H. It has also taken actions to maintain those registrations that have issued but have not yet become incontestable, and has prosecuted applications for which no registration has yet issued. *Id.*

In November 2004, *after* this lawsuit was filed, Allied Domecq Spirits & Wines USA filed three affidavits of incontestability in which its representative swore that "there is no proceeding involving [the right to use the mark] . . . pending in the Patent and Trademark Office or in a court and not finally disposed of." Quinto Decl. ¶¶ 8-11, Exs. D, G-H. Based on those misrepresentations, the PTO found that the § 15 filings satisfied the statutory requirements and accepted them. *Id.* This caused three STOLICHNAYA Marks to become incontestable *after* the Complaint was filed in this case.

In addition, similar false affidavits were earlier filed for other trademarks at issue notwithstanding Russian judicial proceedings that concerned title to the marks.[8] Despite these facts, Allied Domecq filed a total of *nine* section 15 Declarations of Incontestability without disclosing the adverse legal decisions in the Russian Federation (including the three filed after the commencement of this action). *Id.* ¶ 12. Allied Domecq should have disclosed these court decisions to the PTO. It is well established that, if a foreign decision is competent evidence of a relevant fact (*e.g.*, fraud or flaw in chain of legal title), it is admissible to prove that fact. *See*

[8] On December 21, 2000, the Moscow Court of Arbitration held that VAO-SPI was not a legal successor to VVO-SPI. Compl. ¶¶ 100-01, Ex. F. On October 16, 2001, that decision was upheld by Russia's high court. *Id.* ¶ 104, Ex. H. Further, on January 30, 2002, the Moscow Court of Arbitration held that the December 26, 1997 assignment of the STOLICHNAYA Marks from VZAO-SPI (the legal successor of VAO-SPI) to ZAO-SPI, which subsequently assigned said mark to Spirits International, as well as the January 12, 1998 amendment thereto, were null and void. *Id.* ¶¶ 106-07, Ex. I.

*Otokoyama Co. v. Wine of Japan Import, Inc.*, 175 F.3d 266, 273 (2d Cir. 1999); *Omega Importing Corp. v. Petri-Kine Camera Co.*, 451 F.2d 1190 (2d Cir. 1971); *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 293 F. Supp. 892, 908 (S.D.N.Y. 1968).[9]

The Trademark Trial and Appeals Board, the Federal Circuit and the Southern District of New York have consistently held that fraudulent misrepresentations in filing such documents falls within the prohibition against fraudulent registrations set forth in 15 U.S.C. § 1064(3). *See, e.g., Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 49 (Fed. Cir. 1986) (registration cancelled for fraud in § 1059 renewal); *Polo Fashions, Inc. v. Extra Special Prods., Inc.*, 208 U.S.P.Q. 421, 427 (S.D.N.Y. 1980) (holding that filing renewal affidavits to maintain registration of a mark not used for many years is fraud in "procuring" the registration); *Le Cordon Bleu, S.A. v. BPC Publ'g, Ltd.*, 451 F. Supp. 63, 72 n.14 (S.D.N.Y. 1978) (fraud in § 1058 affidavit to obtain registration is an "obvious subterfuge" constituting fraud under § 1064(3)); *Coldwater Seafood Corp. v. Magnusson*, 188 U.S.P.Q. 522 (T.T.A.B. 1975) (false statement in § 1059 renewal application results in cancellation due to fraud on the PTO). The recordation of the fraudulent assignment in 2001, and evidence of subsequent fraud on the PTO is more than sufficient to challenge otherwise "incontestable" registrations.

**(b) Plaintiffs Have Stated a Claim Under § 2(a), 15 U.S.C. § 1052(a).**

Pursuant to Sections 1065 and 1064(3), a mark's registration may be contested if "its registration was obtained contrary to the provisions of subsection (a), (b) or (c) of section

[9] Both the SPI and Allied Domecq Defendants contend that Russian determinations of ownership are irrelevant to U.S. trademark rights. But the Complaint alleges the chain of title for the U.S. STOLICHNAYA Marks and goodwill from 1966 to the present, as well as Defendants' wrongful misappropriation of those rights, and the chain of events originates with entities organized and doing business under Soviet law. Compl. ¶¶ 24-61, 65-86. Plaintiffs also allege that *ultimate* ownership of the U.S. STOLICHNAYA depends on the analysis of corporate and contractual transactions taking place *under Russian law*. *Id.* ¶¶ 28-61.

1052 of this title." 15 U.S.C. § 1064(3). As set forth in Plaintiffs' pending motion for summary judgment and incorporated herein by reference, the AD Defendants' use of the STOLICHNAYA Mark is geographically deceptive pursuant to 15 U.S.C. § 1052(a).[10]

Here, Plaintiffs have alleged that the ordinary consumer would think that STOLICHNAYA brand vodka was from Russia. Compl. ¶¶ 172-73. The primary significance of the STOLICHNAYA Mark is that it suggests a well known geographic location – Russia. As the Complaint alleges, STOLICHNAYA is a Russian term, meaning "from the capital." Compl. ¶ 23. Defendants' mere use of the STOLICHNAYA Mark – a Russian word that clearly indicates that the product is Russian in origin – constitutes a violation of Section 2(a) of the Lanham Act. *See, e.g., Scotch Whisky Ass'n v. U.S. Distilled Prods.*, 952 F.2d 1317, 1318-19 (Fed. Cir. 1991) (permitting suit alleging that the McADAMS mark for a Canadian whiskey might indicate Scottish origin in violation of § 2).

SPI erroneously contends that Allied Domecq's first use of the STOLICHNAYA Marks was before January 1, 1996, because Allied Domecq stepped into the shoes of PepsiCo. However, "use" of a mark for the purposes of Section 1052(a) occurs when the mark (i) identifies a place other than the origin of the goods; *and* (ii) is first used on or in connection with spirits on or after one year after January 1, 1995 (the date the WTO Agreement entered into force with respect to the United States). 15 U.S.C. § 1052(e)(3); *FAG Italia S.p.A. v. United States*, 291 F.3d 806, 808 (Fed. Cir. 2002) (stating the WTO date as Jan. 1, 1995).

Defendants' geographically deceptive use of the STOLICHNAYA Marks did not begin until they began distilling and bottling their STOLICHNAYA in Latvia, in 2002. Quinto

[10] The test for whether a mark is geographically deceptive is essentially the same as the test for whether a mark is geographically misdescriptive under 15 U.S.C. § 1052(e)(3). *See In re Cal. Innovations, Inc.*, 329 F.3d 1334, 1341-42 (Fed. Cir. 2003) (holding that there are "similar legal standard[s]" for deception in §§ 1052(a) and 1052(e)(3)); *In re Les Halles De Paris J.V.*, 334 F.3d 1371, 1373 (Fed. Cir. 2003) (same).

Decl., Ex. L. Thus, "first use," for the purposes of Section 1052(a), occurred sometime following April 2002. Compl. ¶¶ 89-92; *see also K-Swiss, Inc. v. Swiss Army Brands, Inc.*, 58 U.S.P.Q.2d 1540, 1542-43 (T.T.A.B. 2001) (holding that a trademark "registration more than five years old may be cancelled on the ground of geographic deceptiveness if, subsequent to the issuance of the registration, the registrant itself causes the mark to become geographically deceptive"). Consequently, the first use of the STOLICHNAYA Marks to identify a place other than the place of origin took place more than a year after the entry into force of the WTO Agreement (*i.e.*, after January 1, 1996).

**(c) Defendants Have Misrepresented the Source of Goods Under the STOLICHNAYA Marks.**

Pursuant to §§ 1065 and 1064(3), a mark may be contested if "it is being used so as to misrepresent the source of the goods or services on or in connection with which the mark is used." 15 U.S.C. § 1064(3). Misrepresentation applies to passing off. *See, e.g., Cuban Cigar Brands N.V. v. Upmann Int'l, Inc.*, 457 F. Supp. 1090, 1101 (S.D.N.Y. 1978) (where an infringer misused its trademarks to (i) "prevent the plaintiff's continued use" of a similar mark, (ii) "blur whatever distinctions existed between the parties' products," and (iii) "trade upon the renown and reputation of plaintiff," the defendant's rights to such marks were *not* incontestable), *aff'd mem.*, 607 F.2d 995 (2d Cir. 1979); *Liquid Glass Enters. v. Liquid Glass Indus. of Canada*, 14 U.S.P.Q.2d 1976, 1980 (E.D. Mich. 1989) (holding that because the defendant's packaging, print style, and label were nearly identical to the plaintiff's, the defendant misrepresented the source of its goods under § 1064(3)). Here, Defendants have deliberately sought to pass off their goods as Plaintiffs', using virtually identical print style and labels on their STOLICHNAYA bottles as were used by VVO-SPI (the legal predecessor to FTE) and as are used by Plaintiffs today. (Plaintiffs' STOLICHNAYA vodka is today sold in approximately 20 countries, including the

Russian Federation). *See* Compl. Exs. M, N. That Plaintiffs are not currently selling their STOLICHNAYA brand in the United States is not controlling. *Cuban Cigar Brands*, relied upon by Defendants, *see* SPI Mem. at 10, recognizes that "a party could bridge the gap in actual sales if [a] sufficient showing were made of good will remaining after the use was halted and that party had the intent to resume use." 457 F. Supp. at 1100 n.43. Here, there is goodwill remaining following January 1, 2001, as well as Plaintiffs intent to resume use, as evidenced by the letter sent to Defendants in July 2002. *See* Quinto Decl. Ex. L.[11]

**(d) ADIHBV's Right to the STOLICHNAYA Mark May Be Contested Because There Was A Final Decision Adverse to Its Claim of Ownership.**

SPI's arguments regarding the final decision exception parallel those made by the Allied Domecq Defendants, *see* AD's Reply in Supp. of Mot. to Dismiss (Docket No. 39) at 11-12, and fail for the same reasons. Pursuant to § 1065(1), the registration of a mark may be contested if there was a "final decision adverse to registrant's claim of ownership of such mark." 15 U.S.C. § 1065(1). As discussed above, there have been a number of such decisions in this case. *See supra* at n.8.

Spirits International directed that the STOLICHNAYA Marks be assigned to ADIHBV notwithstanding that the final Russian judicial decisions were directly adverse to Defendants' legal chain of title to the STOLICHNAYA Marks. The Russian decisions

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[11] In addition, as alleged in the Complaint, FTE – not FGUP ("Federal State Unitary Enterprise Foreign Economic Association Sojuzplodoimport") – is the legal successor to VVO-SPI, *see* Compl. ¶¶ 110-13, and for the purposes of SPI's Motion to Dismiss, the Court must accept FTE's allegations as true. *See, e.g., Rosgoscirc v. Circus Show Corp.*, No. 92 Civ. 8498, 1993 WL 277333, at *7 (S.D.N.Y July 16, 1993) (holding that the court had to accept the Russian plaintiff's allegations regarding its designation as a Soviet entity's successor as true, and had to *deny* the American defendant's motion to dismiss for lack of standing). SPI's argument that FTE has no standing to sue because it was not created until 2001 is nonsensical; it is well-established that the assignee stands in the legal shoes of the assignor, "gaining whatever priority rights the assignor might have had in the mark." *Fourth Toro Family L.P. v. PV Bakery, Inc.*, 88 F. Supp. 2d 188, 194 (S.D.N.Y. 2000).

denigrated by Defendants are relevant to the present litigation even though the rulings did not specifically address trademark rights in the United States. The Russian courts explicitly limited their decisions to (1) issues of corporate legal succession between Russian companies (purely a matter of internal Russian law); and (2) the validity of the December 26, 1997 assignment of the STOLICHNAYA Marks between Russian companies, executed in Russia (also a matter of Russian law). *See* Compl. ¶¶ 100, 104-08.[12]

### 3. If Incontestability Provisions Even Apply, Equitable Principles Compel the Court to Disregard Them.

15 U.S.C. § 1115(b)(9) provides an exception to incontestability where "equitable principles, including laches, estoppel, and acquiescence, are applicable." The listing of equitable bases for disregarding incontestability is not exclusive; in amending § 1115(b) in 1988, Congress broadened the exceptions to incontestability to include all possible equitable grounds, including unclean hands. S. Rep. No. 100-515, at 39 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5601; *see also Blue Planet Software*, 334 F. Supp. 2d at 438-39 (discussing a party's contentions against incontestability under 15 U.S.C. § 1115(b)(9)); *Iowa Health Sys. v. Trinity Health Corp.*, 177 F. Supp. 2d 897, 932 (N.D. Iowa 2001) (considering "unclean hands" asserted as a claim for relief, apparently for cancellation of a trademark registration, and finding allegations sufficient to deny motion to dismiss at the pleading stage).

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[12] It is true that some decisions, such as *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633 (2d Cir. 1956), have held that rights or lack of rights to a trademark in the United States cannot be established by the fact that a party was found by a foreign court to have or lack those rights. Such decisions are inapposite here, however, because the Russian courts did not attempt to determine the trademark rights of the parties. *See* Compl. ¶¶ 100-08. They concerned corporate law and fraud. Such decisions can be granted comity and preclusive effect. *See, e.g., Omega Importing*, 451 F.2d 1190, 1196 (2d Cir. 1971) (acknowledging collateral estoppel effect of West German judgment regarding the legal status of a West German corporation in a dispute over ownership of trademark rights); *see also Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 293 F. Supp. 892, 908 (S.D.N.Y. 1968) (*accord*). Thus, the Russian courts' decisions referenced and incorporated in the Complaint are directly relevant to this litigation.

Here, equitable reasons to ignore the claim of incontestability abound. First, Allied Domecq's claim derives from an invalid chain of title. None of the SPI Defendants ever *legally* held the U.S. STOLICHNAYA Marks or the reversionary interest therein; they illegally misappropriated them. In trademark cases, as in any other contract case, "[an assignee] stands in the shoes of his assignors and . . . can have no greater trademark rights than they had." *Marshak v. Treadwell*, 58 F. Supp. 2d 551, 557 (D.N.J. 1999) (*citing Hyosung Am., Inc. v. Sumagh Textile Co.*, 934 F. Supp. 570, 576-77 (S.D.N.Y. 1996), *aff'd in part, rev'd in part*, 137 F.3d 75 (2d Cir. 1998)). Here, neither of Allied Domecq's putative assignors, SPI and PepsiCo, had anything to assign. Second, Allied Domecq was *aware* of the cloud on SPI's claim of ownership of the U.S. STOLICHNAYA rights, and entered into the "assignment" of that property cognizant that it could be ordered to return it to its rightful owner. Compl. Ex. D, ¶ 26 (anticipating "a suit in the Territory [the United States] against AD and/or Spirits alleging AD's title to the Trademark or SPI NV's reversionary interest in the Trademarks is for any reason invalid"). Third, the ADIHBV/PepsiCo "assignment" of the STOLICHNAYA Marks – for $10 – was a sham transaction, unsupported by valid consideration. Finally, Spirits has misrepresented the nature of its transaction with Allied Domecq even to the PTO, recently claiming that it is the "owner" of U.S. STOLICHNAYA rights.[13]

## II.

## CLAIMS ONE AND FIFTEEN ARE RIPE FOR ADJUDICATION

It is well established that, "[d]eclaratory judgment actions are particularly useful in resolving trademark disputes . . . . Accordingly, in such a case, the finding of an actual

[13] Here, SPI claims to own the reversionary rights in the STOLICHNAYA Marks. A June 10, 2005 letter to counsel for Plaintiffs from Neil K. Roman, counsel for SPI, states that "Spirits International N.V. holds reversionary rights to the STOLICHNAYA trademarks in the United States." *See* Quinto Decl. ¶ 3.

controversy should be determined with some liberality." *Starter Corp. v. Converse, Inc.*, 84 F.3d 592, 596 (2d Cir. 1996); *see also Larami Corp. v. Amron*, No. 92 Civ. 7323, 1994 WL 369251, at *4 (S.D.N.Y. July 13, 1994) (same). FTE is authorized to recover the STOLICHNAYA Marks in the United States. Ost-Alco ("Ost") is prepared to sell STOLICHNAYA brand vodka here. Thus, this case is ripe for adjudication.

The Declaratory Judgment Act enables parties to "adjudicate disputes before either side suffers great damage." *See In re Combustion Equip. Assocs., Inc.*, 838 F.2d 35, 37 (2d Cir. 1988); *Starter Corp.*, 84 F.3d at 596. The "actual case or controversy" test in trademark-related declaratory relief actions has two prongs: (1) did the defendant's conduct create real and reasonable apprehension of liability on the part of the plaintiff; and (2) did the plaintiff engage in a course of conduct which brought it into adversarial conflict with the defendant. *Starter Corp.*, 84 F.3d at 595; *Windsurfing Int'l, Inc. v. AMF Inc.*, 828 F.2d 755, 757 (Fed. Cir. 1987) (applying Second Circuit law); *McCarthy* § 32:51. "The latter prong is usually met by showing that the plaintiff has a 'definite intent and apparent ability to commence use of the mark.'" *GMA Accessories, Inc. v. Idea Nuova, Inc.*, 157 F. Supp. 2d 234, 244 (S.D.N.Y. 2000) (citation omitted).

Plaintiffs have clearly met both prongs. First, "reasonable apprehension of liability on the part of the plaintiff" is present if the plaintiff was threatened with an infringement suit, "either directly or indirectly." *Muller v. Olin Mathieson Chem. Corp.*, 404 F.2d 501, 505 (2d Cir. 1968). *See also Lances v. Letz*, 115 F.2d 916 (2d Cir. 1941) (an alleged infringer need only show that a position of insecurity existed with respect to the threat of future litigation); *Larami Corp.*, 1994 WL 369251, at *5 (*accord*). "A threat of infringement does not have to be

said in so many words. It can be expressed in the attitude of defendant as expressed in circumspect language in a letter." *McCarthy* § 32:51.

In a recent cease-and-desist letter, defendant SPI Group SA held itself and its subsidiary, Spirits International, out as the "sole owners" of the STOLICHNAYA and other trademarks in the United States, stating that their "Intellectual Property rights will be always defended ensuring that any infringements of their trademark rights are prosecuted, the fake products are seized and destroyed and *the infringers are both criminally prosecuted and sued.*" (emphasis added).[14] Compl. ¶ 81, Ex. E. One such alleged infringer is currently in prison for attempting to sell STOLICHNAYA vodka in the United States without Defendants' consent. *See United States v. Sagendorf*, Case No. 02-10145-GAO (D. Mass. 2003); *see also* Quinto Decl. ¶ 6. Further, the SPI Defendants have already sued FTE for attempting to import STOLICHNAYA into other jurisdictions, such as the Netherlands. Quinto Decl. ¶ 6. The parties have also litigated that issue in Australia, Austria, Brazil, Greece, Romania and Uzbekistan. *Id.* Thus, SPI's conduct has created a "real and reasonable apprehension of liability" in Plaintiffs. *See* SPI Mem. at 13.

SPI therefore argues that Plaintiffs have not alleged the second prong – "the intent and ability to commence use of the marks on the product." SPI Mem. at 13. That is false. To demonstrate "actual intent and ability" to commence the use of a mark, it is sufficient that the plaintiff engages in "meaningful preparation, such that it is actively preparing to produce the article in question." *Starter*, 84 F.3d at 596 (citations omitted); *see also Arrowhead Indus.*

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[14] Defendants have also made numerous statements in the press, threatening to sue FTE or any other party which attempts to import STOLICHNAYA into the United States. For example, Andrei Skurikhin, the General Director of ZAO-SPI (a member of the SPI Group), has publicly stated, "They [FTE] may try to export from Russia, but they will never be able to import into another country . . . . we will use every legal means available to block [such] imports." Quinto Decl. ¶ 4, Ex. C.

*Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988) (same). Acts well short of "actual production" constitute "meaningful preparation." *See, e.g., Starter Corp.*, 84 F.3d at 596 (designing the style and preparing a product prototype, attempting to find a manufacturing partner, and investing time and money into a project was sufficient to constitute meaningful preparation); *G. Heileman Brewing Co. v. Anheuser Busch, Inc.*, 873 F.2d 985, 990 (7th Cir. 1989) (holding that the second prong is satisfied if the declaratory judgment plaintiff "alleges that he is actively preparing to produce the article in question" (citation omitted)).

Here, Plaintiffs explicitly allege that Ost is the licensed manufacturer of STOLICHNAYA vodka in the Russian Federation, Compl. ¶ 12, and that Ost "plans to sell vodka under the STOLICHNAYA brand in the United States."[15] *Id.* ¶ 148. Because Ost already produces STOLICHNAYA vodka and plans to sell it here, Ost has both the "ability" and the "intent" to sell vodka here.[16]

## III.

## PLAINTIFFS CAN BRING CLAIMS SIX AND SEVEN BECAUSE FTE IS THE RIGHTFUL OWNER OF THE STOLICHNAYA MARKS IN THE UNITED STATES

In seeking dismissal of Plaintiffs' contributory federal trademark infringement and dilution claims (the Sixth and Seventh Claims the Complaint, respectively), the SPI Defendants merely parrot the arguments of the AD Defendants, *see* SPI Mem. at 14-15; AD

[15] Plaintiffs further allege that "Ost currently causes vodka to be sold under the JEWEL OF RUSSIA mark, among others, in the United States," and that Plaintiffs "have a direct pecuniary interest in the STOLICHNAYA brand and are likely to suffer a commercial or competitive injury if Defendants are permitted to continue their use of the STOLICHNAYA [Mark] in the United States." Compl. ¶ 148.

[16] Ost-Alco, as the licensed manufacturer of STOLICHNAYA vodka in the Russian Federation, Compl. ¶ 12, is already producing STOLICHNAYA vodka, and Plaintiffs are ready to export that vodka to the United States immediately upon the conclusion of this litigation.

Defs.' Mem. in Supp. of Mot. to Dismiss (Docket No. 23) at 12-13. Their arguments fail for the same reasons.[17]

First, it is circular to argue that the owner of a mark whose registrations have been fraudulently assigned to another has no relief under 15 U.S.C. §§ 1114 and 1125. Under Defendants' theory, if one of ADIHBV's employees fraudulently assigned ADIHBV's U.S. STOLICHNAYA registrations to a third party, ADIHBV would have no remedy under the Lanham Act because it would no longer be the official registrant. But that would be both inequitable and nonsensical. Here, Plaintiffs ask the Court to rectify the register, thereby acknowledging FTE as the rightful registrant of the U.S. STOLICHNAYA Marks.[18]

Second, Defendants have ignored the Russian Federation's claim to reversionary rights to STOLICHNAYA Marks. Significantly, the "reversionary right" amounts to a present ownership interest in the Marks and their appurtenant goodwill. *See, e.g., Blue Planet Software*, 334 F. Supp. 2d at 436-39 (the defendant's presumption of ownership from trademark registration, even if the trademark is incontestable, cannot supersede the plaintiff's contractual reversionary rights); *Major-Prodotti Dentari-Societa v. Shimer*, 162 U.S.P.Q. 437, 438 (T.T.A.B. 1968) (the "ownership" of a U.S. mark, as between the plaintiff foreign manufacturer and the defendant U.S. exclusive distributor, was a matter of agreement between the parties and "when

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[17] *See* Pls.'s Opp'n to AD's Mot. to Dismiss at 17-18 (Docket No. 34); Pls.' Sur-Reply at 3-6 (Docket No. 41).

[18] In an analogous case, *Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena*, 293 F. Supp. 892, 908 (S.D.N.Y. 1968), the defendant East German corporation claimed title to certain U.S. trademark registrations, as the purported successor to a prior German foundation which registered them. However, the court held in favor of the West German plaintiff, which claimed to be the true legal successor to the prior German registrant and the rightful owner of said marks. Here, much as in *Carl Zeiss*, two entities (ADIHBV and FTE) claim to be the rightful successors and/or assignees of the original Russian registrant (VVO-SPI). Thus, FTE is entitled to pursue its trademark infringement claim and, if FTE prevails on its First Claim, for Declaratory Relief, and is found to be the true legal successor to VVO-SPI and the rightful owner of the STOLICHNAYA Marks, to collect damages from the SPI Defendants for contributory trademark infringement and dilution.

the agreement expired, any rights which [the distributor] may have had in the mark during the life of the agency immediately reverted to [the manufacturer]").

Third, SPI also ignores the "well known marks" doctrine, "a legal concept under which a trademark or service mark is protected within a nation if it is well known in that nation even though the mark is not actually used or registered in that nation." *McCarthy* § 29:61. Pursuant to that doctrine, a plaintiff need not be the registrant to bring Lanham Act claims. *See, e.g., Empresa Cubana del Tabaco v. Culbro Corp.*, 213 F. Supp. 2d 247, 286 (S.D.N.Y. 2002) (rejecting the defendant's argument that the plaintiff was not the owner of the COHIBA mark in the U.S. because it was not the registrant and did not engage in commerce here, but holding that the plaintiff nevertheless had standing to bring federal trademark infringement and dilution claims); *Empresa Cubana*, 2004 WL 602295, at *30, 52 (*accord*), *rev'd in part on other grounds*, 399 F.3d 462 (2d Cir. 2005); *see also Grupo Gigante SA de CV v. Dallo & Co.*, 391 F.3d 1088, 1094 (9th Cir. 2004) (exception to "territoriality principle" allows an earlier foreign user of trademark to gain priority over a later U.S. user of the mark when the foreign use of mark has achieved a certain level of fame within the United States, prior to the defendant's first U.S. use). Much as in *Empresa Cubana*, FTE's STOLICHNAYA Mark was already well known in the United States prior to ADIHBV's first use of it. Compl. ¶¶ 71-72. Therefore, as in *Empresa Cubana*, FTE has standing to bring Lanham Act claims against Defendants, even though FTE is not the current registrant of the STOLICHNAYA Marks.[19]

[19] SPI's assertion that Plaintiffs have failed to allege that the STOLICHNAYA Marks became famous prior the SPI Defendants use, and thus that Plaintiffs dilution claim (Count Seven) fails, is also without merit. PepsiCo rightfully used the STOLICHNAYA marks until January 1, 2001, pursuant to its 1991 agreement with VVO-SPI. The trademark dilution began only when PepsiCo failed to return the marks to the legal successor of VVO-SPI. Thus, SPI's contributory trademark dilution (predicated upon its act of supplying the infringing goods to the ADIHBV Defendants) also began after January 1, 2001.

Fourth, pursuant to 15 U.S.C. § 1127, "[t]he terms "applicant" and "registrant" embrace the legal representatives, predecessors, successors and assigns of such applicant or registrant." VVO-SPI, the legal successor to the initial registrant of the STOLICHNAYA Mark (V/O-SPI) and the predecessor to the current registrant, *see* Compl. ¶¶ 74-75, held the U.S. registrations to the STOLICHNAYA Marks, and has now assigned them to FTE. Thus, FTE also has standing to assert its Lanham Act claims under § 1127.

Finally, SPI's claim that "Plaintiffs make no allegation that FTE or Ost-Alco" is "the legal representative, predecessor, successor, or assign of the registrant of the Marks," SPI Mem. at 15, is simply incorrect. Plaintiffs explicitly allege that, "[o]n January 6, 2005, the Government of the Russian Federation issued Decree No. 6, 'On Recovery and Protection of the Rights of the Russian Federation to the Trademarks Abroad,' expressly confirming FTE's right to represent the interests of the Russian Federation in foreign courts on matters of recovery and protection of Russia's rights to trademarks for alcoholic products abroad." Compl. ¶ 113, Ex. O. Therefore, for the purposes of § 1127, FTE is clearly the "legal representative" of the Russian Federation in connection with the recovery of the rights to the STOLICHNAYA Marks in the United States in the present litigation.

## IV.

## THE SPI DEFENDANTS FAIL TO ESTABLISH ANY BASIS TO DISMISS PLAINTIFFS' STATE CLAIMS

### A. This Court Has Jurisdiction Over Plaintiffs' State Law Claims.

The SPI Defendants argue that *if* the Court dismisses all federal claims except Claim Thirteen – for false advertising (asserted against Allied Domecq) – *then* the Court should decline to exercise its supplemental jurisdiction. However, under 28 U.S.C. § 1367(a), "the district courts shall have supplemental jurisdiction over all other claims that are so related to

claims in the action within such original jurisdiction that they form the same case or controversy." To be part of the same case or controversy, courts consider whether the state and federal claims "'derive from a common nucleus of operative fact.'" *Briarpatch Ltd. v. Phoenix Pictures, Inc.*, 373 F.3d 296, 308 (2d Cir. 2004) (*quoting Cicio v. Does*, 321 F.3d 83, 97 (2d Cir. 2003) (*quoting City of Chicago v. Int'l Coll. of Surgeons*, 522 U.S. 156, 165 (1997))).

The assertion that *none* of the state claims includes the same nucleus of operative facts as Plaintiffs' false advertising claims (Claims Eight and Thirteen), SPI Mem. at 23, is specious. Plaintiffs' federal false advertising claim is admittedly centered on "whether AD's claim that its vodka is 'Russian vodka' is true." *Id.* The SPI Defendants concede that "Plaintiffs' New York statutory unfair competition claim (Claim 5) . . . alleges misleading marketing based on the STOLICHNAYA label's 'Russian Vodka' claim." *Id.* at 26. Obviously, Plaintiffs' federal false advertising claims and state unfair competition claims include the same nucleus of operative facts – whether STOLICHNAYA is "Russian Vodka" – making supplemental jurisdiction appropriate.[20]

Moreover, the SPI Defendants also ignore the vast overlap among Plaintiffs' various state claims with respect to facts, witnesses, and discovery. Although the dispositive issue in Plaintiffs' false advertising claim is whether Defendants' STOLICHNAYA vodka is, in fact, "Russian Vodka," the key witnesses and facts in that inquiry are essential to Plaintiffs' fraud, misappropriation and unjust enrichment claims. Plaintiffs' allegations that Defendants engaged in those torts by persuading PepsiCo to assign the STOLICHNAYA Marks to ADIHBV cannot be divorced from Defendants' transfer of vodka production to Latvia in 2002. The two

[20] Additionally, 28 U.S.C. § 1338(b) states that "district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws."

events are not just related: *the latter directly caused the former* because the SPI Defendants were forced to move production to Latvia following successful legal proceedings by the Russian government. In short, SPI's inability to provide any legal authority for its assertion that state law issues substantially predominate comes as no surprise – Plaintiffs' fraud, misappropriation and unjust enrichment claims and federal false advertising claims arise from the same nucleus of operative facts, all of which are closely interrelated.[21]

## B. None of Plaintiffs' State Claims Is Time-Barred.

### 1. Plaintiffs' Fraud and Unjust Enrichment Claims Are Within the Six-Year Statute of Limitations.

As even the SPI Defendants acknowledge, the statute of limitations for both fraud and unjust enrichment is six years.[22] SPI Mem. at 23. The conduct in 1992 cited by the SPI Defendants was fraudulent,[23] but the conduct for which plaintiff FTE seeks to recover in this action took place in 2000 and 2001, when Defendants fraudulently persuaded PepsiCo to transfer

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[21] In fact, even when *all* federal claims are dismissed, courts routinely retain jurisdiction over pendant claims. *See, e.g., Patt v. Ehrich*, No. 95-1079, 1996 WL 278795, at *2 (N.D.N.Y. May 20, 1996) ("I may exercise discretion to retain supplemental jurisdiction over Patt's state law claims even though the federal claims are dismissed."). The justification for doing so "lies in considerations of judicial economy, convenience and fairness to litigants." *United Mine Workers of America v. Gibbs*, 383 U.S. 715, 726 (1966). Given the common nucleus of operative facts between the federal false advertising claims and the state claims for fraud, misappropriation, and unjust enrichment, the Court's retention of jurisdiction of Plaintiffs' state claims will substantially advance the principals underlying supplemental jurisdiction.

[22] Specifically, C.P.L.R. § 213(8) provides that a fraud action must be commenced within "the greater of six years from the date the cause of action accrued or two years from the time the plaintiff . . . could with reasonable diligence have discovered it." Similarly, C.P.L.R. § 213(1) and § 203(a) provide a six-year statute of limitations for claims of unjust enrichment.

[23] The SPI Defendants theorize that the Russian government should have been aware of the fraud in 1992 because "[i]t was then that the SPI Defendants' predecessors in interest first began receiving payments for the supplying of STOLICHNAYA vodka to PepsiCo." SPI Mem. at 24. The SPI Defendants also cite paragraph 45 of the Complaint for the proposition that Shefler and Oliynik first began exploiting trademarks held by a shell corporation of their own creation in 1997, and thus the Russian government should have been aware of fraud at that time. SPI Mem. at 4. Of course, the actual allegations in the Complaint do not support the SPI Defendants' arguments, as the conduct that took place in 1992 and 1997 could not have put the Russian government on notice of the loss of its reversionary interest in the STOLICHNAYA Marks in the United States, as that loss did not take place until 2001.

the U.S. rights to the STOLICHNAYA Marks to ADIHBV. Compl. ¶¶ 79-80, 83-86, 120-22. These separate and distinct acts of fraud in 2000 and 2001 are plainly within the six-year statute of limitations. *See Stockacre Ltd. v. Pepsi-Cola Int'l, Ltd*, No. 99 Civ. 5996, 2001 WL 604002, at *2 (S.D.N.Y. June 1, 2001) (examining discrete misrepresentations and determining that some were time barred, while latter misrepresentations were within statute of limitations for fraud).

**2. Plaintiffs' Misappropriation and Unfair Competition Claims Are Within the Applicable Six-year Statute of Limitations.**

As the SPI Defendants concede, the applicable statute of limitations depends on the nature of the claim. *See* SPI Mem. at 25. When misappropriation or unfair competition claims sound in *fraud*, as here, the three-year statute of limitations found in § 214(4) does not apply. *See, e.g., Mario Valente Collezioni, Ltd. v. AAK Ltd.*, 280 F. Supp. 2d 244, 258 (S.D.N.Y. 2003) (holding that § 214(4)'s three-year statute of limitations for "injury to property" is not appropriate when applied to trademark claims, where the crux of the claim is fraud). The SPI Defendants' argument that Plaintiffs' misappropriation and unfair competition claims are analogous to a claim for "theft of property" ignores that the allegations of the Second Amended Complaint must govern. Having alleged that Defendants improperly obtained the rights to the STOLICHNAYA Marks through false statements, *see* Compl. ¶¶ 79-88, 128, the most analogous cause of action for Plaintiffs' misappropriation claim is fraud. Thus, the Court should apply the six-year statute of limitations.[24]

[24] Moreover, even if the six-year statute of limitations for fraud did not apply, courts routinely apply New York's six-year catch-all statute of limitations under Section 213(1) to misappropriation claims, and this Court should do so here. *See, e.g., Rosner v. Codata Corp.*, 917 F. Supp. 1009 (S.D.N.Y. 1996) (holding that New York's six-year catch-all statute of limitations [*i.e.*, Section 213(1)] applied to unspecified allegation of misappropriation of technology).

C. **Plaintiffs' State Claims Are Well Pled.**

1. **Plaintiffs Have Pled the Requisite Elements of Fraud.**

(a) **New York Permits Third-Party Reliance and Plaintiffs Allege Harm.**

Like the AD Defendants, the SPI Defendants contend that Plaintiffs' common law cause of action for fraud (the Second Claim) fails for lack of reliance by Plaintiffs. *See* SPI Mem. at 27-28; AD Opp'n to Mot. for Leave to Amend (Docket No. 36) at 4 (*citing Cement & Concrete Workers Dist. Council Welfare Fund v. Lollo*, 148 F.3d 194, 196 (2d Cir. 1998)). Like the AD Defendants, the SPI Defendants also ignore that both New York courts and courts in the Southern District have recognized that fraud "may also exist where a false representation is made to a third party, resulting in injury to the plaintiff." *Buxton Mfg. Co. v. Valiant Moving & Storage, Inc.*, 239 A.D.2d 452, 454, 657 N.Y.S.2d 450, 451 (2d Dep't 1997); *see also Desser v. Schatz*, 182 A.D.2d 478, 480, 581 N.Y.S.2d 796, 797 (1st Dep't 1992) (holding that when reliance by third party to the clear detriment of plaintiff is manifest, "it is of no moment, in this context, that the false representation was not made directly to plaintiff"); *Cooper v. Weissblatt*, 277 N.Y.S. 709, 714 (2d Dep't 1935) (holding that to state a claim for fraud, it is not necessary that deceit have been practiced directly on the plaintiff, but is sufficient if the fraud was intended to injure the plaintiff and caused him damage through intermediate agencies).

Indeed, the *Cement* decision relied upon by *both* the AD and SPI Defendants was explicitly distinguished by Judge Scheindlin in *Hyosung America, Inc. v. Sumagh Textile Co.*, 25 F. Supp. 2d 376 (S.D.N.Y. 1998). *Hyosung* held that a plaintiff should also be able to state a claim for fraud "where a defendant's misrepresentation caused a third party to extinguish its financial obligation to the plaintiff." *Id.* at 383. Here, as in *Hyosung*, Defendants' misrepresentations are alleged to have caused a third party, PepsiCo, to extinguish its obligation to Plaintiffs, which included a contractual duty to return the STOLICHNAYA Marks to the

Russian Federation. Compl. ¶¶ 120-22. New York recognizes fraud claims where there was reliance by a third party that resulted in an injury to the plaintiff, and this Court should do so here.

Finally, the Second Amended Complaint clearly alleges that the fraud at issue here took place in late 2000 and 2001. *Id.* ¶¶ 79-80, 83-84. Moreover, it plainly alleges that the Russian government was deprived of its reversionary interest in the marks by Defendants' fraudulent conduct. *Id.* ¶¶ 110-13, 148, 171, 177, Exs. L1, O1. These allegations more than suffice to state cognizable damages.[25]

**(b) Plaintiffs' Allegations Satisfy Rule 9(b).**

Although Federal Rule of Civil Procedure 9(b) generally requires that complaints set forth precisely how, when, where and to whom fraudulent statements were made, "there is a recognized exception to this rule where the facts supporting a fraud claim are particularly within defendant's knowledge. In such cases, [the] plaintiff need only plead facts upon which his belief is based." *Volmar Distribs., Inc. v. New York Post Co.*, 825 F. Supp. 1153, 1162 (S.D.N.Y. 1993) (citation omitted); *see also DiVittorio v. Equidyne Extractive Indus., Inc.*, 822 F. 2d 1242, 1247 (2d Cir. 1987) (same); *Farberware, Inc. v. Groben*, 764 F. Supp. 296, 301 (S.D.N.Y. 1991) (holding that the requirements of Rule 9(b) may be relaxed as to matters peculiarly within the opposing party's knowledge). Here, the specific details of the fraud are within Defendants' peculiar possession, and FTE cannot be expected to have personal knowledge of all such facts prior to discovery.

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[25] The only authority cited by the SPI Defendants, *Kaye v. Grossman*, 202 F. 3d 611, 614 (2d Cir. 2000), states that a "fraud *verdict* may not rest on allegations of speculative or remote injury" (emphasis added). *Kaye*, which decided motions challenging a verdict *after* trial, is utterly inapposite. Plaintiffs are not required to prove their damages at this stage of the proceeding, and their allegations with respect to harm (loss of the right to sell STOLICHNAYA) are sufficient to make out a *prima facie* case of fraud.

Nevertheless, Plaintiffs have specifically alleged numerous facts supporting their allegations that Defendants knowingly committed fraud. Plaintiffs have alleged that Defendants knew of the defects in their purported title to the STOLICHNAYA Marks, including as a result of the Russian court judgment in 2000; that Defendants specifically structured the financial terms of the relationship between ADIHBV and Spirits International to minimize ADIHBV's exposure in the event that the defects in the SPI Defendants' title to the STOLICHNAYA Marks were detected; and Defendants included language in the their agreement anticipating legal challenges to their claimed ownership of the marks. Compl. ¶¶ 83, 85-86, Ex. D, ¶ 26. Coupled with the detailed allegations contained in the Complaint regarding the defects in the SPI Defendants' chain of title to the marks, Compl. ¶¶ 27-61, Plaintiffs satisfy Rule 9(b).[26]

**2. Plaintiffs Have Adequately Pled Unjust Enrichment and Misappropriation.**

FTE is authorized to represent the Russian government's foreign interest in the STOLICHNAYA Marks, which necessarily includes the recovery of lost profits. Compl. ¶¶ 110-13, Exs. L1, O1; Declaration of Vladimir Loginov, dated June 17, 2005 ("Loginov Decl."), ¶ 2.[27] Nor are the rights and authority granted to FTE limited to Russia, as the SPI Defendants speciously suggest. *See* Compl. Ex. O (authorizing FTE to "represent the interests of the Russian Federation in the courts on matters of recovery and protection of [its rights] to the trademarks for alcoholic products abroad"). These facts clearly establish a basis to bring Plaintiffs' unjust enrichment claim.[28]

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[26] In addition, Plaintiffs have also specifically described Defendants' acts of fraud on the PTO throughout this Opposition. *See, e.g., supra*, Section I.B.2(a); *see also* Quinto Decl. ¶¶ 7-12.

[27] The Loginov Declaration of May 18, 2005 was filed on June 17, 2005 in support of Plaintiffs' pending Motion for Summary Judgment. It appears as Docket No. 56.

[28] None of the authority cited by the SPI Defendants supports the proposition that plaintiff FTE, as the legal representative of the Russian government with respect to the STOLICHNAYA Marks, cannot assert *(footnote continued)*

In addition, the SPI Defendants' similar assertion that FTE does not allege any cognizable interest in the STOLICHNAYA Marks, and thus has no basis to bring a misappropriation claim, is without merit. Plaintiffs allege that the Russian government held a reversionary interest in the marks; as the legal representative of the Russian government with respect to that interest, FTE has sufficiently pled a basis to bring a misappropriation claim.[29] Compl. ¶¶ 75, 110-13.

### 3. Plaintiffs Have Adequately Pled Unfair Competition.

The SPI Defendants assert that Plaintiffs are precluded from bringing an unfair competition claim because Plaintiffs cannot, under any circumstance, demonstrate "'proof of actual damages.'"[30] SPI Mem. at 26 (*quoting Construction Tech., Inc. v. Lockformer Co.*, 704 F. Supp. 1212, 1217 (S.D.N.Y. 1989)). Section 349 of New York's General Business Law is directly to the contrary. Further, the Second Circuit recently held that "section 349 . . . allows recovery not only by consumers, but also by competitors if there is 'some harm to the public at large.'" *Boule v. Hutton*, 328 F.3d 84, 94 (2d Cir. 2003) (citation omitted). "Although the statute is, at its core, a consumer protection device, 'corporate competitors now have standing to bring a claim under this [statute] . . . so long as some harm to the public at large is at issue . . . .'"

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a claim for damages under an unjust enrichment theory. *See, e.g., Granite Partners, L.P. v. Bear, Stearns & Co.*, 17 F. Supp. 2d 275 (S.D.N.Y. 1998) (holding that no cause of action arose from transactions pursuant to specific agreement); *Reading Int'l, Inc. v. Oaktree Capital Mgmt. LLC*, 317 F. Supp. 2d 301 (S.D.N.Y. 2003) (holding that plaintiff had no legal right to film exhibition rights which could give rise to unjust enrichment claim).

[29] *Eastern Air Lines, Inc. v. New York Air Lines, Inc.*, 559 F. Supp. 1270 (S.D.N.Y. 1983), the sole authority relied upon by the SPI Defendants to challenge Plaintiffs' misappropriation claim, is inapposite. There, the court dismissed the state misappropriation claim upon a finding that the defendant had not attempted to trade on the commercial goodwill of the plaintiff, and not upon the absence of a protectible trademark interest, as the SPI Defendants attempt to suggest.

[30] Although the SPI Defendants argue that the statue of limitations on all of Defendants' state claims have run, they make no such argument with respect to the unfair competition claim relating to the misleading marketing of their purportedly "Russian" vodka. *See* SPI Mem. at 23, 26.

Thus, even if it were true that Plaintiffs cannot prove actual damages, Plaintiffs nonetheless have sufficiently stated a claim for, and have standing to pursue, injunctive relief pursuant to § 349. *See e.g., Securitron Magnalock Corp. v. Schnabolk*, 65 F.3d 256, 264 (2d Cir. 1995); *see also* Compl. ¶¶ 9, 123, 132, 146, 158, 161, 172, 173.

In any event, allegations such as Plaintiffs' are sufficient to satisfy the damages element of an unfair competition claim.[31] *See, e.g., Vitabiotics, Ltd. v. Krupka*, 606 F. Supp. 779, 785 (S.D.N.Y. 1984) (defendant's admission of sale of deceptive product was sufficient to establish injury under § 349 on motion for summary judgment).

Finally, the SPI Defendants' argument that the unfair competition claim fails because it is "premised solely on deceptive marketing," and that FTE failed to allege that SPI falsely advertised the vodka *in New York* is easily disposed of. The Court of Appeals has held that § 349 of the New York General Business Law requires only that the deception of consumers take place in New York. *See Goshen v. Mutual Life. Ins. Co.*, 98 N.Y.2d 314, 324 (N.Y. 2002) ("We conclude that the transaction in which the consumer is deceived must occur in New York."); *see also Leider v. Rafle*, No. 01 Civ. 3137, 2005 WL 152025, at *7 (S.D.N.Y. Jan. 25, 2005) (holding that "the deception of a consumer must occur in New York" (*citing Goshen*)). The Complaint plainly sets forth that New York consumers have been deceived *in New York*. *See* Compl. ¶¶ 7, 8, 9, 10, 88. In fact, paragraph 88 specifically states, in part, that "the ABIHBV Defendants, with the assistance and cooperation of the Shefler Defendants, have sold, distributed, and/or advertised within New York substantial quantities of products." When read in

[31] For example, Plaintiffs have alleged damages as a result of Defendants' unfair competition including the sale of tens of millions of dollars of their falsely and deceptively labeled "Russian vodka." Compl. ¶¶ 9, 72, 132, 171. The SPI Defendants' reliance solely on *Construction Technology* is misplaced, as that decision assessed a party's ability to assert damages for a competitor's misleading advertisements in the context of the common law claim for unfair competition, *not* under § 349.

conjunction with the allegation that STOLICHNAYA vodka is advertised "in the United States" as "Russian Vodka," a "Genuine Russian Vodka," a "Product of Russia," "Imported Russian Vodka," and "Distilled in Russia," *id.* ¶ 89, there can be no question that the SPI Defendants are sufficiently implicated in the misleading of New York consumers. Lest there be any doubt, the Court need only look at the STOLICHNAYA label, which specifically implicates the SPI Defendants by displaying "SPI" and "S.P.I. Group" prominently among the statements proclaiming that the product is "Russian vodka." Compl. Ex. N.

## VI.

## FGUP AND THE RUSSIAN FEDERATION ARE NOT NECESSARY PARTIES FOR THE PURPOSES OF FEDERAL RULE OF CIVIL PROCEDURE 19

Under Rule 19(a), the factors considered in determining whether a person's joinder is necessary are: (1) whether complete relief can be accorded among those already parties in the person's absence; (2) the defendant's interest in avoiding multiple litigation; and (3) the absentee's interest in protecting its rights which may be affected by the judgment.[32] *Id.*; *see also Arkwright-Boston Mfrs. Mut. Ins. Co. v. City of New York*, 762 F.2d 205, 209 (2d Cir. 1985).

The argument that FGUP and the Russian Federation are necessary and indispensable parties, SPI Mem. at 14-15; 35-37, confuses the issues. The Complaint explicitly alleges that, "FTE is the rightful owner of the STOLICHNAYA [Marks] in the United States." Compl. ¶ 11. The subsequent statement that, "[t]he Marks have always been owned by either the Soviet government or the government of the Russian Federation[,]" *id.* ¶ 110, does not conflict

[32] There is no "rigid or mechanical formula" for deciding when joinder of an absent party is necessary. *See JTG of Nashville, Inc. v. Rhythm Band, Inc.*, 693 F. Supp. 623, 625 (M.D. Tenn. 1988); *see also Provident Tradesmens*, 390 U.S. 102, 116 n.12 (holding same). Rule 19 is designed to encourage the courts to consider the "practical considerations" of each individual case in light of the policies underlying the rule. *See Provident Tradesmens*, 390 U.S. at 116 n.12.

with FTE's ownership, because the Soviet/Russian government has always owned FTE and its legal predecessors, much as they owned all other state enterprises. FTE is a state-owned economic entity within the Ministry of Agriculture of the Russian Federation. *Id.* Exs. A, ¶ 1.4, K, L.

In any case, the Russian Federation has clearly assigned the exclusive rights to the STOLICHNAYA Marks to FTE. *Id.* ¶¶ 112-13, Exs. L, O. Pursuant to Russian Federation Decrees No. 494 and No. 6 (dated July 4, 2002, and January 6, 2005, respectively), FTE was assigned all rights to "use and dispose" of the STOLICHNAYA and related marks in the Russian Federation and all powers to recapture said marks abroad, including in the United States. *See id.; see also* Loginov Decl. ¶ 3. It is hornbook law that an assignor of the rights to a trademark is not a necessary party to an infringement action. "'This is necessarily the case inasmuch as the assignee of a copyright, patent, or trademark is the owner of the subject matter of the litigation.'" *De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate, Inc.*, No. 04 Civ. 4099, 2005 WL 1164073, at *11 (S.D.N.Y. May 18, 2005) (citation omitted); *see also Am. Optical Co. v. Curtiss*, 59 F.R.D. 644, 648 (S.D.N.Y. 1973) (holding that assignee alone can sue and be sued regarding validity of patent or its infringement and original owner or assignor is not an indispensable party).

In *Rosgoscirc v. Circus Show Corp.*, No. 92 Civ. 8498, 1993 WL 277333, at *7 (S.D.N.Y July 16, 1993), a Russian plaintiff ("Rosgoscirc") claimed to be the assignee of a trademark previously owned by a Soviet entity, and the American defendant claimed that the Russian decree assigning the disputed trademark to Rosgoscirc was invalid. The court held that it was obliged to "accept Rosgoscirc's allegations in the Complaint regarding its designation as [the Soviet entity's] successor as true, and deny the motion to dismiss for lack of standing." *Id.*

(emphasis added). Here, because FTE alleges that it was assigned all rights to the trademarks by a Russian decree, the Court should deny SPI's Motion to Dismiss.

Third, pursuant to 15 U.S.C. § 1127, "[t]he terms "applicant" and "registrant" embrace the *legal representatives*, predecessors, successors and assigns of such applicant or registrant." *Id.* (emphasis added). Here, FTE is clearly the "legal representative" of the Russian Federation and FGUP. As alleged in the Complaint, Decree No. 6 expressly charges FTE "to represent the interests of the Russian Federation in the courts on matters of recovery and protection of the rights of the Russian Federation to the trademarks for alcoholic products abroad." Compl. ¶ 113, Ex. O. Likewise, FGUP has also given FTE a power of attorney. Quinto Decl. ¶ 17, Ex. K.

In a closely analogous case, *Idaho Potato Commission v. Washington Potato Commission*, 410 F. Supp. 171 (D. Idaho 1975), the State of Idaho held title to a disputed trademark but delegated the use and protection of the mark to the plaintiff. The court held that plaintiff "stands in the place of and represents the interests of the State of Idaho in guarding against infringement of the trademark," and thus Idaho did not need not to be joined as a party. *Id.* at 174.

Because FTE is the owner/assignee of the U.S. registrations to the STOLICHNAYA marks, as well as the legal representative of FGUP and the Russian Federation, all three Rule 19(a) factors favor FTE. First, there is no danger of multiple litigation. The actions of a legal representative bind his client or principal. "Inherent in the very concept of legal representation is the notion that a party is present in federal court through his chosen representative." *Kimble v. D.J. McDuffy, Inc.*, 648 F.2d 340, 353-54 (5th Cir. 1981); *Sure-Snap Corp. v. State Street Bank and Trust Co.*, 948 F.2d 869 (2d Cir. 1991) (holding that principal was

bound by the *res judicata* effect of a prior judgment, where principal's legal representative was a party to that prior judgment). Second, the absentees' interests are protected, because they have each designated FTE as their official legal representative. Third, complete relief can be accorded among those already parties to the present litigation because FTE represents the interests of the absent parties, which will be bound by the results.[33]

## VII.

## PLAINTIFFS HAVE PROPERLY PLED OWNERSHIP OF THE STOLICHNAYA COPYRIGHT

In Claim Fourteen, Plaintiffs have properly pled their ownership of the STOLICHNAYA Copyright (the "Copyright"). The STOLICHNAYA label was created by Valentin Aleksandrovich Yakovlev ("Yakovlev") in the course of his job duties for the Moscow Art-Study Workshop of the Trust "Sojuzprodoformlenie" in 1953, which automatically acquired these rights under the Soviet Union's version of the "work-for-hire" doctrine.[34] Compl. ¶ 177. The Russian Federation subsequently inherited Soviet Union's intellectual property rights, and

[33] Even assuming the Court does find the presence of either FGUP or the Russian Federation necessary, they are most certainly not indispensable. The Supreme Court has identified four factors in assessing whether a party is indispensable: (1) the plaintiff's "interest in having a forum" and whether an adequate alternate forum exists; (2) the interest of the party seeking joinder in avoiding "multiple litigation, or inconsistent relief, or sole responsibility for a liability he shares with another;" (3) "the interest of the outsider whom it would have been desirable to join;" and (4) "the interest of the courts and the public in complete, consistent, and efficient settlement of controversies." *Provident Tradesmens Bank & Trust Co. v. Patterson*, 390 U.S. 102, 109-10 (1968); *see also Holland v. Fahnestock & Co.*, 210 F.R.D. 487, 494 (S.D.N.Y. 2002) (same). Here, all four factors militate against finding either the Russian Federation or FGUP indispensable. First, FTE clearly has a strong interest in having a forum (*i.e.*, FTE will have no adequate remedy if this case is dismissed). Second, there is no danger of Defendants facing multiple litigation for the same reasons as above. Third, both the Russian Federation and FGUP's interests are more than adequately represented, as FTE is their designated legal representative. Fourth, due to FTE's status as the absent parties' legal representative, both the Russian Federation and FGUP will be bound by the results of this case, and the public interest in complete and efficient settlement of controversies will be served.

[34] The excerpt from the translation of *Fundamentals of Copyright Law*, adopted by the Russian Soviet Federated Socialist Republic on May 16, 1928, relied upon by Defendants, *see* SPI Mem. at 18, merely discusses general copyright principles, and at no point addresses works of authorship created in the course of employment. *See id.*

exclusively licensed Ost to exploit the STOLICHNAYA label and copyright in the United States. *Id.* Even assuming, as SPI contends, that the copyright was held by Mr. Yakovlev (as the author) and not by the Russian Federation, under Russian inheritance laws, the copyright would have passed to Mr. Yakovlev's son and sole heir. On April 8, 2005, he assigned the copyright to FTE. Quinto Decl. ¶ 16, Ex. J. Thus, Plaintiffs' STOLICHNAYA label is protected by U.S. copyright law, under Article 18 of the Berne Convention and 17 U.S.C. § 104A. *See* Pls.' Opp'n to AD's Mot. to Dismiss at 22-24. SPI fails to cite any legal authority to the contrary. SPI Mem. at 19.

Further, SPI's argument that it is not liable for copyright infringement because it "manufactures and bottles its vodka in Latvia" is nonsensical. SPI engages in copyright infringement on U.S. soil by supplying and distributing products with STOLICHNAYA labels that are strikingly similar to Plaintiffs' copyright-protected labels.[35] Compl. Exs. M, N.

By supplying the AD Defendants with the infringing STOLICHNAYA products, SPI is also liable as a contributory infringer. *See, e.g., Gershwin Publ'g Corp. v. Columbia Artists Mgmt.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (holding that "one who, with knowledge of the infringing activity, induces, causes or materially contributes" to acts of copyright infringement by another "may be held liable as a 'contributory' infringer"); *Screen Gems-*

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[35] By citing the *Nimmer* treatise for the proposition that "acts of infringement that occur outside the United States are generally not actionable under the U.S. Copyright Act," (SPI Mem. at 20), Defendants attempt to mislead the Court. Directly refuting the SPI Defendants, *Nimmer* explicitly states that "to the extent the activity is commenced outside the United States and results in infringement in this country," such acts of copyright infringement are actionable. Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 17.02, n.3 (1978). *See also, GB Mktg. USA Inc. v. Gerolsteiner Brunnen GmbH & Co.*, 782 F. Supp. 763, 773 (W.D.N.Y. 1991) ("[W]hen a foreign corporation is alleged to have purposefully injected itself into the American market by shipping infringing goods here – regardless of whether it does so directly or through an importer – [the corporation] should not be allowed to use principle of non-extraterritoriality to shield itself from reach of American courts and American copyright law."). *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088 (9th Cir. 1994), cited by Defendants (*see* SPI Mem. at 20), is inapposite. In *Subafilms* the defendant authorized an act of copyright infringement outside of the United States. 24 F.3d at 1099. Here, SPI authorized acts of copyright infringement *inside* the United States.

*Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399, 403 (S.D.N.Y. 1966) (holding that a packaging agent which shipped infringing records could be held liable for contributory copyright infringement, if it were shown to have had knowledge, or reason to know, of the infringing nature of the records).[36]

## VIII.

## THE SPI GROUP SA IS SUBJECT TO THE COURT'S JURISDICTION

### A. SPI Group SA Is Subject to this Court's Jurisdiction Because It Transacts Business Within the State and Has Contracted to Supply Goods in the State.

Under New York's long arm statute, C.P.L.R. § 302, the Court has personal jurisdiction over out-of-state parties, such as SPI Group, if they transact business or have agreed to supply goods to the state. Personal jurisdiction extends to parties who agree to supply goods or services to the State, regardless of where the operative implied or express agreements were entered into. *GB Marketing*, 782 F. Supp. at 768. Here, personal jurisdiction exists over SPI Group because it has clearly agreed to supply goods to this state. C.P.L.R. § 302(1). The STOLICHNAYA bottles being distributed in New York (and throughout the United States) prominently display the SPI Group logo in the upper right corner of the label and the label itself proclaims that the vodka is a "PRODUCT OF THE SPI GROUP." Compl. Ex. N. This is prima facie evidence that SPI Group SA has agreed to supply goods to New York, which is all that is required for jurisdiction to exist under C.P.L.R. § 302(1).[37]

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[36] Finally, as to the copyright claim, SPI also repeats many of the same flawed arguments raised by Allied Domecq in its Motion to Dismiss. As such, Plaintiffs incorporate their response thereto by reference. *See* Pls.'s Opp'n to AD's Mot. to Dismiss at 22-24 (Docket No. 34).

[37] New York courts have consistently found personal jurisdiction pursuant to § 302(a)(1) over non-domiciliary defendants who license goods or services, including trademarks and copyrights, to intermediaries or importers who then sell their goods or services in New York. Such contracts include the licensing of trademarks. *Citigroup, Inc. v. City Holding Co.*, 97 F. Supp. 2d 549, 566 (S.D.N.Y. 2000) ("A licensor/owner of intellectual property rights which are exploited by licensees within this state may *(footnote continued)*

Further, the SPI Group has consistently held itself out as the owner of the STOLICHNAYA Marks. For example, in a letter to a U.S. company dated August 6, 2004, Andrey V. Skurikhin, General Counsel for SPI Group SA, stated that the *SPI Group and its subsidiaries* "are the sole owners of the trademarks Stolichnaya, Moskovskaya" used in the United States and other countries. Compl. ¶¶ 5, 81, Ex. E, ¶ 1. Skurikhin threatened that SPI Group SA would take "all necessary legal measures" to protect its vodka trademarks. *Id.* Ex. E, ¶ 2. He also proclaimed that SPI Group SA would take any steps necessary to protect "its" trademarks currently being used in the United States. *Id.* Ex. E, ¶ 3. This gives the Court jurisdiction over SPI Group SA under C.P.L.R. § 302(1).[38]

## B. SPI Group Also Exercises Control Over Subsidiaries that Are Admittedly Subject to this Court's Jurisdiction.

This Court also has jurisdiction over SPI Group SA based on its control and direction of its subsidiaries, Spirits International N.V. and S.P.I. Spirits.[39] "[T]o assert jurisdiction over a parent corporation based on the activities of its subsidiary, a plaintiff must show that the subsidiary is operating as either a 'mere department' or an agent of the parent

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be subject to personal jurisdiction under this provision in a trademark infringement suit involving the licensed property.").

[38] Furthermore, because the Complaint sufficiently alleges facts regarding SPI Group's involvement in the fraudulent registration and misappropriation of Plaintiffs' marks, personal jurisdiction also exists under sections 302(a)(2)-(3). Under C.P.L.R. § 302(a)(2), "[c]opyright infringement [and] violation[s] of § 43(a) of the Lanham Act . . . are all commercial torts that are deemed to take place at the point of consumer purchase. An actual sale is not necessary to establish personal jurisdiction, and the tortious acts may be performed . . . through an agent . . . ." *Bus. Trends Analysts v. Freedonia Group, Inc.*, 650 F. Supp. 1452, 1455-56 (S.D.N.Y. 1987) (footnotes omitted). Under C.P.L.R. § 302(a)(3)(ii), personal jurisdiction is also appropriate because the SPI Defendants have committed or assisted in the commission of tortious acts outside the state (including copyright and trademark infringements) that have caused injury within the state and from which they have derived substantial revenue. *LaMarca v. Pak-Mor Mfg.*, 95 N.Y.2d 210, 214 (2000). *See, e.g.*, Compl. ¶ 9. This also establishes jurisdiction under section 302(a)(3)(ii).

[39] Defendants have not challenged the Court's jurisdiction over these SPI subsidiaries. Given that the Court has jurisdiction over the SPI subsidiaries named herein, it certainly has jurisdiction over SPI Group SA, which controls them.

corporation." *Derthick v. Bassett-Walker Inc.*, No. 90 Civ. 5427, 1992 WL 249951, at *2 (S.D.N.Y. Sept. 23, 1992) (citations omitted). Courts have recognized a subsidiary as a mere department of its parent "when the activities of the parent show a disregard for the separate corporate existence of the subsidiary." *Volkswagenwerk A.G. v. Beech Aircraft Corp.*, 751 F.2d 117, 120 (2d Cir. 1984). The courts look at four factors: (1) common ownership; (2) the parent's involvement in selecting the subsidiary's executives (3) the subsidiary's dependence on the parent; and (4) the parent's control over the subsidiary's daily operations. *Id.* at 120-22. In this case, all of these factors weigh in favor of finding jurisdiction over SPI Group.

Plaintiffs allege that the corporate SPI Defendants "are not separate legal entities" but should be regarded as the alter egos of one another. Compl. ¶¶ 2, 9, 14, 20-22. The Skurikhin Declaration reflects that the SPI Group of companies are owned and controlled by the same individuals.[40] Plaintiffs have also pled that the SPI Group companies were founded by, and are directed, dominated and controlled by, Defendants Yuri Shefler and Alexey Oliynik. Compl. ¶¶ 2, 20-22. These facts alone clearly satisfy the first and second factors of the parent-subsidiary jurisdiction test.

Moreover, SPI Group companies are centrally involved in the sale and export of vodka products. *Id.* ¶¶ 2, 9, 14. The common ownership of the SPI Group "family" of companies is also obvious from their product. The STOLICHNAYA labels currently include

[40] When considering a Rule 12(b)(2) motion, the court is to consider the pleadings and any supporting affidavits filed in connection with the motion. Thus, Skurikhin declares that defendant Alexey Oliynik, the New Projects Manager, is a minority shareholder and member of the Board of Directors for SPI Group SA, a member of the Board of Directors of SPI Spirits, and employed as a Director of SPI Spirits.[40] *See* Skurikhin Decl. ¶¶ 4, 6. Juris Gulbis is a member of the Boards of Directors of both SPI Group SA and S.P.I. Spirits and is a Director of S.P.I. Spirits. *Id.* ¶ 6. Oleg Gusev is a member of the Board of Directors of SPI Group SA and is a Sales Manager for S.P.I. Spirits. *Id.* Finally, Mr. Skurikhin, the General Counsel and Deputy Chairman of the Board of Directors of SPI Group SA, is also the Director of Corporate Development for S.P.I. Spirits. *Id.* ¶¶ 6, 11.

SPI Group SA's signature "globe" emblem on the upper right hand portion of the bottle. Further the bottle states that the vodka is a "product of the SPI Group."

Finally, SPI Group SA's control over its subsidiaries and its involvement in the daily operations of its subsidiaries, the third and fourth factors of the test, are reflected in the August 6, 2004 cease-and-desist letter sent on behalf of SPI Group SA, asserting common ownership of the STOLICHNAYA marks amongst SPI Group SA and its subsidiaries. *Id.* ¶¶ 5, 81, Ex. E ¶ 1. The SPI Group companies plainly act in concert to protect their members' interests. For these reasons, this Court also has jurisdiction over SPI Group SA.

## CONCLUSION

For the foregoing reasons, Plaintiffs respectfully request that SPI Defendants' Motion to Dismiss be denied.

Dated: New York, New York
June 30, 2005

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**APPENDIX A**

| Mark | Registration No. |
|---|---|
| STOLICHNAYA | 865,462 |
| STOLICHNAYA | 1,291,454 |
| STOLICHNAYA (***not*** incontestable) (§ 15 never filed) | 2,317,475 |
| STOLI | 1,244,735 |
| STOLICHNAYA RUSSIAN VODKA | 1,852,552 |
| STOLICHNAYA KAFYA (false § 15 filed May 5, 2004) | 2,155,523 |
| STOLICHNAYA LIMONNAYA VODKA (***not*** incontestable) (§ 15 never filed) | 2,334,080 |
| STOLICHNAYA LIMONNAYA (***not*** incontestable) (§ 15 never filed) | 2,339,463 |
| STOLICHNAYA LIMONNAYA VODKA (***not*** incontestable) (§ 15 never filed) | 2,334,079 |
| STOLICHNAYA OHRANJ (***not*** incontestable) (§ 15 never filed) | 2,291,831 |
| STOLICHNAYA OHRANJ | 2,233,190 |
| STOLICHNAYA OHRANJ (false § 15 filed July 22, 2002) | 1,988,911 |
| STOLI PERSIK (false § 15 filed August 24, 2004) | 2,189,745 |
| STOLICHNAYA STOLI PERSIK (***not*** incontestable) (§ 15 never filed) | 2,339,689 |
| STOLICHNAYA STOLI RAZBERI (***not*** incontestable) (false § 15 filed Nov. 10, 2004, *after* Complaint filed) | 2,204,355 |
| STOLI RAZBERI (false § 15 filed July 12, 2004) | 2,175,465 |
| STOLICHNAYA STRASBERI (***not*** incontestable) (false § 15 filed Nov. 8, 2004, *after* Complaint filed) | 2,202,991 |
| STOLI STRASBERI (***not*** incontestable) (false § 15 filed Nov. 10, 2004, *after* Complaint filed) | 2,205,863 |
| STOLI VANIL (false § 15 filed August 24, 2004) | 2,192,600 |
| STOLI ZINAMON (false § 15 filed August 24, 2004) | 2,192,681 |
| STOLICHNAYA GOLD (***not*** incontestable) (§ 15 never filed) | 2,455,605 |

*See* Quinto Decl., ¶¶ 8-14, Ex. D, G-I.

# EXHIBIT 12

**IN THE UNITED STATES DISTRICT COURT**
**OF THE SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT AND OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ALKOGOL'NOI PRODUKCII "OST ALCO,"<br><br>*Plaintiffs,*<br><br>*v.*<br><br>SPIRITS INTERNATIONAL N.V., SPI SPIRITS LIMITED, SPI GROUP SA, YURI SHEFLER, ALEXEY OLIYNIK, ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V., ALLIED DOMECQ SPIRITS & WINE USA, INC. D/B/A ALLIED DOMECQ SPIRITS, USA,<br><br>*Defendants.* | Civil Action No. 1:04–CV–08510 (GBD) (THK) |

**REPLY MEMORANDUM IN SUPPORT OF MOTION TO DISMISS OF DEFENDANTS SPIRITS INTERNATIONAL N.V., S.P.I. SPIRITS (CYPRUS) LIMITED, S.P.I. GROUP SA, YURI SHEFLER, AND ALEXEY OLIYNIK**

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## PRELIMINARY STATEMENT

Having expropriated the STOLICHNAYA marks in Russia, the Russian Federation now seeks to claw back rights to the STOLICHNAYA marks in the United States, enlisting FTE to fight its battle with only a "power of attorney," rather than an assignment of its alleged trademark rights.

Plaintiffs' principal argument is that dismissal would "immunize fraud." (Pls.' Opp. at 3.) This rhetoric should be seen for what it is: an attempt to paper over Plaintiffs' real problem, namely, that they have asserted the wrong causes of action. The Complaint's failure to state actionable trademark claims against the SPI Defendants does not mean that a party cannot challenge an assignment of an incontestable mark. Instead of filing defective *trademark* challenges to the incontestable marks, Plaintiffs should have asserted *contract* claims to enforce alleged contractual reversionary rights to the marks (or, more accurately, the alleged rights of the Federal State Unitary Enterprise Foreign Economic Association Sojuzplodoimport ("FGUP")). Obviously recognizing that any such contract claims would fail due to laches and the Russian Federation's long-standing acquiescence in PepsiCo's contractual relationship with the SPI Defendants and their predecessors, Plaintiffs strain to reframe the claims as trademark claims, but to no avail.

## ARGUMENT

### I. PLAINTIFFS' FEDERAL LAW CLAIMS AGAINST THE SPI DEFENDANTS (CLAIMS 1, 6, 7, 8, 14, AND 15) SHOULD BE DISMISSED.

Plaintiffs' trademark claims should all be dismissed because, as shown below, Plaintiffs cannot surmount AD's incontestable rights and have failed to allege facts showing that Claims 1 and 15 are ripe for adjudication, that Plaintiffs have standing as to Claims 6 and 7, or that Claim 7 states a cause of action for trademark dilution.

#### A. PLAINTIFFS CANNOT CHALLENGE AD'S INCONTESTABLE TRADEMARK RIGHTS.

##### 1. The 1991 Agreement Between VVO-SPI and AD Was an Assignment.

Plaintiffs' theory that the 1991 agreement between V/O-SPI and AD was a license, not an assignment, fails for multiple reasons. (*See* Pls.' Mem. at 5–8.)

*First*, the 1991 agreement on its face is an assignment. It provides that V/O-SPI "hereby assigns all right, title and interest in and to" the STOLICHNAYA and other marks "and the goodwill associated therewith" to PepsiCo. (*See* Ex. 1 to Decl. of Andrey V. Skurikhin ("Skurikhin Decl.") (attached to Notice of Motion).)[1] The Agreement included a "deed of assignment," which was recorded with the PTO. (*See* Ex. G to AD's Mot. to Dismiss.)

*Second*, another judge of this Court previously rejected an attack on PepsiCo's ownership of the U.S. STOLICHNAYA Marks by importers claiming rights flowing through North Ossetia, an autonomous Republic of the Russian Federation. *See Financial Matters, Inc. v. PepsiCo, Inc.*, No. 92 Civ. 7497, 1993 WL 378844, at *2–3 (S.D.N.Y. Sept. 24, 1993) (Owen, J.) (attached as Ex. A to AD's Mot. to Dismiss). Like Plaintiffs here, the plaintiffs in *Financial Matters* claimed to have inherited the contract rights of VVO-SPI following dissolution of the Soviet Union. *Id.* at *2. The Court concluded that "PepsiCo's ownership of the incontestable U.S. registrations for the marks [wa]s conclusive evidence of both the validity and the ownership" of the marks, holding, "[i]n sum, the facts are indisputable that PepsiCo owns the marks." *Id.* at *7–8.

*Third*, restrictions on an assignment do not convert it into a license. *See Premier Dental Prods. Co. v. Darby Dental Supply Co.*, 794 F.2d 850, 855–56 (3d Cir. 1986) ("It is a well-established principle both of contract law and of trademark law that limitations in an otherwise valid assignment do not invalidate it." (citations omitted)); *see also* 4 McCarthy §§ 29:8–29:9. Many cases confirm the legitimacy of such assignments by foreign manufacturers to domestic distributors,[2] and a comparison of the 1991 agreement and

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[1] *See also* 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 29:9 (4th ed. 2005) (hereinafter "McCarthy") (sample trademark assignment between a foreign manufacturer and an exclusive United States distributor).

[2] *See, e.g., Vittoria North Am., L.L.C. v. Euro-Asia Imports, Inc.*, 278 F.3d 1076, 1082 & n.3 (10th Cir. 2001) (rejecting argument that an assignment agreement between a foreign manufacturer and a domestic distributor was supported by inadequate consideration or was a "sham" because it contained a clause entitling the assignor to retake possession of the U.S. rights to the trademark with thirty days written notice); *J. Atkins Holdings Ltd. v. English Discounts, Inc.*, 729 F. Supp. 945, 952 (S.D.N.Y. 1990) (rejecting argument that assignment was invalid because the agreement contained a reversionary interest); (continued...)

the agreement in *Premiere Dental* shows striking similarities.[3] Plaintiffs offer no authority supporting their assertion that an assignment that conveys "all right and title" as well as "goodwill" is invalid if it bears "indicia" of a license. (Pls.' Opp. at 6–7 & n.5.) They rely instead on cases involving assignments in gross, which violate trademark law for the different reason that rights to a trademark cannot be assigned without their accompanying goodwill. Plaintiffs ignore *Premiere Dental*'s instruction that an assignment is "not invalidated by virtue of the limitations it imposes on the [Assignee's] rights over the trademark." 794 F.2d at 855–56 (citations omitted). So it is with the 1991 agreement between VVO and PepsiCo.[4]

*Fourth*, the rule Plaintiffs espouse—that a foreign manufacturer may not assign U.S. trademark rights to an exclusive distributor if it retains reversionary rights and maintains quality control over the goods sold under that mark—defies common sense. An assignor with reversionary rights in a trademark, such as Spirits International N.V., has every incentive to ensure that the assignee protects the goodwill associated with the mark, and the assignor's quality control protects consumers, ensuring that they continue to receive goods of the quality they associate with the mark.

*Finally*, acceptance of Plaintiffs' theory would fatally undermine their own case. If the 1991 agreement between V/O and PepsiCo were a license, V/O-SPI, VVO-SPI, FGUP, and the Russian Federation would have long since abandoned any rights in the U.S. STOLICHNAYA Marks. The 1991 agreement required PepsiCo to use the marks only on "vodka produced in the USSR under the authority of [V/O-SPI]." (Ex. 1 to Skurikhin Decl.) But for over a decade, the Russian Federation stood by, without objection, while

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*In re Geo J. Ball, Inc.*, 153 U.S.P.Q. 426, 428 (TTAB 1967) (" '[a]n assignment is not ineffective because it is conditional, revocable or voidable by the assignor for lack of consideration or for other reason, or because it is within the provisions of the Statute of Frauds.' " (quoting section 150 of the Restatement of Contract)).

[3] The two agreements contain nearly identical assignment language, and the agreement in *Premiere Dental*, like the 1991 agreement between V/O and PepsiCo, imposed a number of limitations to protect the mark's goodwill. *Compare Premier Dental*, 794 F.2d at 851–52 *with* Ex. 1 to Skurikhin Decl.

[4] For similar reasons, the agreement between AD and SPI is an assignment. The language is clear, the conditions and limitations are in character with a foreign manufacturer's license to an exclusive U.S. distributor, and it is not surprising that the AD Defendants would have paid more consideration to the SPI Defendants, who held the reversionary rights under the 1991 agreement, than to PepsiCo, which did not.

PepsiCo distributed STOLICHNAYA vodka manufactured by the SPI Defendants and their predecessors. If Plaintiffs were licensors, they would have failed to exercise their "affirmative duty of policing in a reasonable manner the activities of [its] licensees," in order to assure quality control. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959). Without such quality control over the use of the marks, VVO-SPI—if it were indeed a licensor—would have engaged in a naked license of its trademark rights, which is "inherently deceptive and constitutes abandonment" of all rights in the mark. *Barcamerica Int'l USA Trust v. Tyfield Importers, Inc.*, 289 F.3d 589, 598 (9th Cir. 2002); *see also* 2 McCarthy § 18:48.

**2. Plaintiffs' Alleged Reversionary Rights in the Marks are Contract Rights, Not Trademark Rights.**

As demonstrated above, VVO-SPI assigned all "rights and interest" in the trademarks to PepsiCo, reserving reversionary rights via contract. The Russian Federation and FGUP, which Plaintiffs allege to be the successors to VVO-SPI, failed to enforce their supposed contractual rights starting in 1992 when VAO-SPI, a predecessor of the SPI Defendants, entered into the Addendum agreement with PepsiCo, and PepsiCo began purchasing and distributing allegedly "infringing" goods from the SPI Defendants and their predecessors. Following years of acquiescence in PepsiCo's dealings with SPI, the Russian Federation and FGUP have failed to seek enforcement of the contract that they claim required PepsiCo to assign the rights back to them in 2001. Now, they have engaged Plaintiffs, as their purported proxies (but not their assignees), to bring trademark claims against Defendants.

Plaintiffs overlook that "[t]he 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." *TAP Publ'ns, Inc. v. Chinese Yellow Pages Inc.*, 925 F. Supp. 212, 217 (S.D.N.Y. 1996) (citation omitted). Instead, "[t]he '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.' " *Id.* (quoting *Silverstar Enters., Inc. v. Aday*, 537 F. Supp. 236, 241–42 (S.D.N.Y. 1982); *see also Stancato v. Versace*, No. 94 Civ. 4192, 1995 WL 437532, at *2–3 (S.D.N.Y. July 25, 1995); *In re Houbigant, Inc.*, 914 F. Supp. 964, 990 (S.D.N.Y. 1995); *USAR Sys., Inc. v. Brain Works, Inc.*, 887 F. Supp. 84, 85 (S.D.N.Y. 1995).

Having refrained from enforcing their purported contract rights, the Russian Federation and FGUP cannot now challenge PepsiCo's assignment to AD as "invalid" under trademark law. *Blue Planet Software, Inc. v. Games Int'l, LLC*, 334 F. Supp. 2d 425 (S.D.N.Y. 2004), is therefore of no help to Plaintiffs, as it simply recognizes the unremarkable proposition that incontestability will not "supersede a contractual arrangement between the parties." *Id.* at 437. There is no such relationship between Plaintiffs and Defendants. Plaintiffs cannot bring *trademark* claims against Defendants that rest solely on the Russian Federation and/or FGUP's alleged *contractual* reversionary rights vis-à-vis PepsiCo. *See TAP Publ'ns*, 925 F. Supp. at 217 (rejecting plaintiff's trademark claim because its claim "that it has exclusive rights to use the mark . . . rests solely on its claim" that a contract gave such rights to its predecessor).

**3. AD's Rights Are Incontestable.**

Plaintiffs concede that the primary STOLICHNAYA mark is incontestable (*see* Attach. A to Pls.' Opp.), which renders irrelevant their other lines of attack. Plaintiffs point to the fact that three subsidiary STOLICHNAYA marks have yet to achieve incontestable status (*see* Pls.' Opp. at 4), which makes no difference because AD could still prevent Plaintiffs and any other party from using the subsidiary marks because they are virtually identical and confusingly similar to the incontestable primary STOLICHNAYA mark. *See* 15 U.S.C. § 1125(a). Plaintiffs then (at 4) conjure up a nonexistent dispute between the SPI Defendants and the AD Defendants surrounding ownership of the U.S. STOLICHNAYA Marks. AD holds incontestable rights in the marks, and SPI holds contractual reversionary rights, which would be enforceable, if there were such a dispute, by means of a claim for breach of contract. (*See* Ex. D to Sec. Amend. Compl.)

Plaintiffs next (at 4) falsely assert that the SPI Defendants have held themselves out to the PTO as the current owner of the U.S. STOLICHNAYA Marks. Spirits International N.V.'s representation to the PTO that it owns "numerous U.S. and foreign trademarks for vodka, including the well-known STOLICHNAYA brand" is true: SPI holds title to several U.S. trademarks for vodka, to numerous foreign STOLICHNAYA marks, and to the contractual reversionary rights to the U.S. STOLICHNAYA Marks.

Finally, Plaintiffs assert (at 8–10) an opaque argument that is contrary to the well-established principle that an assignee of an incontestable mark steps into the shoes of the assignor. Plaintiffs later recognize, when it is in their interest to do so, that "it is well-established that the assignee stands in the legal shoes of the assignor, gaining whatever priority rights the assignor might have had in the mark." (Pls.' Opp. at 15 n.11 (internal quotation omitted).)

### B. PLAINTIFFS' ALLEGATIONS DO NOT ESTABLISH ANY OF THE STATUTORY EXCEPTIONS TO INCONTESTABILITY.

#### 1. Plaintiffs' New Allegations of Fraud Do Not Defeat AD's Incontestable Rights.

Plaintiffs have abandoned their argument that the mere recordation of the assignment from PepsiCo to AD constituted fraud on the PTO. Now (at 10–12) they try, for the first time, to salvage their discredited fraud claim based on AD's filing of affidavits related to subsidiary marks that did not disclose the existence of this 13-day-old suit before it had been served on any Defendant. These allegations are irrelevant to the issues before the Court, however, because the challenged statements concern subsidiary marks. Even in the highly unlikely event the statements were proven to be fraudulent and the subsidiary registrations cancelled, AD could prevent Plaintiffs and any other party from using the marks, again because they are virtually identical and confusingly similar to the primary STOLICHNAYA mark.[5]

#### 2. AD's Registration Was Not Obtained Contrary to Section 2(a) of the Lanham Act.

Again, the Court need not consider the merits of Plaintiffs' argument (at 12–14) under Section 2(a) of the Lanham Act because Section 2(a) applies only if the mark is "first used . . . by the applicant" on or after January 1, 1996. 15 U.S.C. § 1052(a); *see also* 2 McCarthy § 14:40 (Section 2(a) requires proof that "the designation was first used on or in connection with wines or spirits after January 1, 1996"). Plaintiffs have no answer to the legislative history of the amendment to Section 2(a), which confirms the grandfather provision's

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[5] Plaintiffs also recycle the argument that Section 15(1) of the Lanham Act obligated AD to tell the PTO about Russian decisions dealing with VVO-SPI's privatization. As elaborated *infra* at 8, this argument has no merit.

clear terms: "*Any mark* containing a geographical indication that is currently [*i.e.*, in 1994] registered or in use, or that is registered or in use during the period before the [WTO Agreement] becomes effective" is not subject to the new provision. S. Rep. No. 103–412 at 226–27 (1994) (emphasis added).[6]

### 3. The Complaint Does Not Allege Facts Supporting Deliberate Passing Off.

Plaintiffs cannot point to any allegation in the Complaint that Defendants deliberately used the STOLICHNAYA Marks in a way designed to pass off their vodka as FTE's or Ost-Alco's. The Second Amended Complaint therefore does not support Plaintiffs' claim that AD's rights to the STOLICHNAYA Mark may be contested under Section 14(3) of the Lanham Act, 15 U.S.C. § 1064(3). Plaintiffs' argumentative assertions are no substitute for factual allegations in a complaint, and in any event, they are groundless for the reasons set forth in SPI's Mem. at 11, none of which Plaintiffs have refuted.[7]

### 4. There Has Been No Decision Adverse to AD's Ownership of the U.S. STOLICHNAYA Marks.

Plaintiffs have unearthed no support for their contention that foreign judicial decisions may constitute "final decision[s] adverse to registrant's claim of ownership of such mark . . . ." 15 U.S.C. § 1065(1). In fact, Plaintiffs acknowledge that the Russian decisions could at most be admissible as "competent evidence of a

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[6] Even if the Court reaches the merits of Plaintiffs' Section 2(a) arguments, and even if, as Plaintiffs allege, the vodka were not made in Russia, it would not follow that STOLICHNAYA is geographically deceptive. There is no allegation that STOLICHNAYA "consists of or comprises" a geographical indication to the American public, 15 U.S.C. § 1052(a), nor that it is "strongly associated with a place" in the minds of American consumers, *see* 2 McCarthy § 14:39. Even accepting Plaintiffs' farfetched assumption that Americans can be charged with the knowledge that "Stolichnaya" is the Russian feminine adjectival form of the word "capital," such description does not point to Russia. Moreover, Russian is the official language in countries other than Russia, so, to follow Plaintiffs' logic, STOLICHNAYA could suggest a connection to Belarus, Kazakhstan, or Kyrgyzstan (or, perhaps only the capitals thereof).

[7] Plaintiffs find no support in citing *Cigar Brands N.V. v. Upmann International, Inc.*, 457 F. Supp. 1090, 1101 n.43 (S.D.N.Y. 1978). The passage cited by Plaintiffs discusses standards for demonstrating continued use to establish common law rights in a mark, not deliberate passing off. The break in sales in *Cigar Brands* was caused by the Cuban government's expropriation of the plaintiff's Cuban business, after which the plaintiff vigorously pursued its rights for over 10 years in litigation with the Cuban government and other entities. Here, the Russian Federation sat by for over a decade while SPI and its predecessors sold allegedly infringing goods under the STOLICHNAYA mark. Far from a temporary gap in sales accompanied by an intent to resume use, the facts as alleged in the Complaint demonstrate longstanding acquiescence on the part of the Russian Federation and its proxies.

relevant fact," namely, to argue that VAO-SPI was not a successor to VVO-SPI under Russian law. (*See* Pls.' Opp. at 11.) Admissible evidence of a relevant fact is a far cry from a "final decision" adjudicating rights in U.S. trademarks. Even if Section 15(1) of the Lanham Act were a basis to challenge an incontestable registration, which it is not (*see* SPI's Mem. at 11–12), Plaintiffs thus have effectively conceded that the decisions are not "final decision[s] adverse to [AD's] claim of ownership" in the U.S. STOLICHNAYA Marks. 15 U.S.C. § 1065(1).

**5. "Unclean Hands" Does Not Provide a Basis To Challenge AD's Incontestable Rights.**

Plaintiffs assert another new argument: that AD's incontestable rights may be challenged under 15 U.S.C. § 1115(b)(9) due to Defendants' allegedly "unclean hands." This argument fails, for three reasons.

*First*, unclean hands "is purely an affirmative defense and does not form the basis for an affirmative claim for recovery." 5 McCarthy § 31:44; *see also Pyrodyne Corp. v. Pyrotronics Corp.*, 847 F.2d 1398, 1402 (9th Cir. 1988) ("Equitable defenses are personal defenses which do not attack the validity of a mark's registration."); *Dunn Computer Corp. v. Loudcloud, Inc.*, 133 F. Supp. 2d 823, 830 (E.D. Va. 2001) (unclean hands, or "trademark misuse," "is not an independent cause of action, but is, instead, only an affirmative defense to a trademark infringement claim"). Unsurprisingly, the unclean hands claims in all the cases relied upon by Plaintiffs were defenses in response to offensive claims of infringement based on incontestable trademark rights. *See Blue Planet Software, Inc. v. Games Int'l, LLC*, 334 F. Supp. 2d 425, 427, 438–39) (S.D.N.Y. 2004) (unclean hands defense invoked to trump incontestable rights of defendants seeking preliminary injunction enjoining plaintiffs' interference with the rights); *Iowa Health Sys. v. Trinity Health Corp.*, 177 F. Supp. 2d 897, 924–28 (N.D. Iowa 2001) (unclean hands claim invoked in response to defendants' counterclaim asserting infringement of registered mark). Here, by contrast, Plaintiffs are asserting unclean hands affirmatively to support their claim of infringement—a clearly impermissible affirmative invocation of the defense.

*Second*, Plaintiffs' examples fail as a matter of law to show "inequitable conduct." Rather than demonstrating inequitable conduct or bad faith, Plaintiffs (at 17) merely restate their arguments—relating to

events dating back over a decade—regarding the chain of title to the marks. *See Dial-a-Mattress Operating Corp., v. Mattress Madness, Inc.*, 841 F. Supp. 1339 (E.D.N.Y. 1994) (reliance on unclean hands doctrine "misplaced" where "defendants merely restate[d] their claims of senior use and unfair competition").

*Finally*, the basis for an unclean hands defense must directly relate to the *trademark rights* at issue. *See* 5 McCarthy § 31:48. Here, Plaintiffs seek to overcome the incontestability of AD's rights but the allegedly inequitable conduct they cite is related to their *contractual* reversionary rights.

### C. CLAIMS 1 AND 15 ARE NOT RIPE.

Plaintiffs acknowledge that the Second Circuit requires declaratory judgment claimants in trademark cases to allege "more than a vague or general desire to use" the marks; Plaintiffs must show that they are engaged in "meaningful preparation . . . such that [they are] actively preparing to produce the article in question." *Starter Corp. v. Converse, Inc.*, 84 F.3d 592, 595 (2d Cir. 1996) (quotations and citations omitted). Plaintiffs must have come to "the last point before the point of no return" before entering the relevant market, which in *Starter Corp.* was demonstrated through allegations that the shoe manufacturer had, among other things, "invested a significant amount of time and money in th[e] project; designed styles and prepared prototype[s] . . . ; [and] conducted a consumer survey." *Id.* at 596. In contrast, Plaintiffs can point only to their vague allegation that Ost-Also "plans to sell vodka under the STOLICHNAYA brand in the United States." (Sec. Am. Compl. ¶ 148.) The Complaint is devoid of any allegations that Plaintiffs have obtained the necessary permits, located a distributor, sought label approval, or taken any other preliminary steps, much less that they have come to "the last point before the point of no return" before entering the U.S. market. *Starter Corp.*, 84 F.3d at 595.

### D. PLAINTIFFS LACK STANDING TO ASSERT CLAIMS 6 AND 7.

Even if Plaintiffs could challenge AD's incontestable rights in the U.S. STOLICHNAYA Marks (which they cannot), their contributory trademark infringement and dilution claims would fail because they lack standing to assert them. "[O]nly the owner of a trademark registration has standing to sue for infringement," 5 McCarthy § 32:18, and "similarly, standing to sue for a claim of federal dilution . . . is

limited to 'the *owner* of a famous mark,' " *id.* § 32:3 (emphasis added) (quoting Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c)).[8] Plaintiffs' assertion (at 23) that VVO-SPI has assigned the U.S. marks to FTE, is belied by the Complaint and its exhibits, which demonstrate that the Russian Federation has assigned to FTE rights only to the *Russian* STOLICHNAYA marks, not the United States marks (*see* Exhibit L to Sec. Amend. Compl.), and has given FTE only a limited power of attorney to represent the Russian Federation's interests in foreign courts (*see* Ex. O to Sec. Amend. Compl.).

Plaintiffs also argue that the definition of "registrant,"—which includes "the legal representative, predecessor, successor, or assign of the registrant"—means that a power of attorney confers standing to sue. To the contrary, under Section 1 of the Lanham Act only "the owner of a trademark may request registration" and become the registrant of the mark, and Section 43(c) of the Lanham Act confers standing only on "[t]he owner of a famous mark." 15 U.S.C. §§ 1125(c)(1), 1501. Plaintiffs' argument fails, not only because it flies in the face of these Lanham Act provisions but for two other reasons as well. *First*, the definition encompasses only "legal representatives" of "registrants," not "legal representatives" of "predecessors" of registrants. It thus does not cover FTE, which holds a power of attorney from the Russian Federation, not from V/O-SPI, the original "registrant" of the mark. *Second*, an "assignee of the chose in action for mark infringement cannot bring suit for . . . infringement." *Int'l Soc. for Krishna Consciousness v. Stadium Auth. of Pittsburgh*, 479 F. Supp. 792, 797 (W.D. Pa. 1979); *see also DEP Corp. v. Interstate Cigar Co., Inc.*, 622 F.2d 621, 622–23 (2d Cir. 1980) (party with an agreement with a trademark owner to take "such steps as [the owner] may reasonably require for their protection" held "not an assignee expressly or impliedly of the trademark" and had no standing to sue for its infringement).[9]

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[8] Contrary to Plaintiffs' assertion, it is not "circular" to argue that a foreign manufacturer who assigns its mark to a domestic distributor has no remedy *under trademark law* if the distributor assigns the mark to another party in violation of the distributor's agreement with the manufacturer. Nor is it "inequitable" or "nonsensical" to require parties to enforce the contracts that give rise to their alleged rights rather than assert claims of trademark infringement and dilution as to which they clearly have no standing.

[9] Plaintiffs' invocation of the "well known marks" doctrine is similarly off-base, as the STOLICHNAYA Marks are used *and* registered in the United States. This is not a situation in which Plaintiffs seek (continued...)

### E. CLAIM 7 FAILS TO STATE A CLAIM OF TRADEMARK DILUTION.

Plaintiffs' claim for trademark dilution also founders because the Second Amended Complaint fails to allege that the STOLICHNAYA Marks became famous before the SPI Defendants and their predecessors began to use them—a necessary element of a federal trademark dilution claim. The alleged contributory trademark dilution, "predicated upon [SPI's] act of supplying the infringing goods" (Pls.' Opp. at 22 n.19), began February 6, 1992, when VAO-SPI became the supplier of STOLICHNAYA vodka to PepsiCo. (*See* Ex. 2 to Skurikhin Decl.) The Complaint contains no allegation that the STOLICHNAYA Marks became famous in the United States before this alleged "junior use" by the SPI Defendants commenced.

### F. CLAIM 14 FAILS TO STATE A CLAIM OF COPYRIGHT INFRINGEMENT.

Plaintiffs do not refute our opening memorandum (at 16–22), which showed that the Complaint fails to assert facts that would establish either of the two elements of a copyright claim: (i) ownership of a valid copyright[10] and (ii) unauthorized copying of constituent elements of the work that are original. *See Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991). There is no basis for Plaintiffs' argument that U.S. copyrights in the Work were automatically restored under Section 104A of the Copyright Act, 17 U.S.C. § 104A *et seq.* And even if the U.S. copyrights in the Work were automatically restored, dismissal would nevertheless be required under Section 104A because Plaintiffs (a) have failed to comply with the protections afforded reliance parties under that Section and (b) are barred from enjoining such parties from using a derivative work based on a restored copyright. *See* 17 U.S.C. § 104A(d).

Plaintiffs cannot claim that the SPI Defendants engage in copyright infringement on U.S. soil, because, as Plaintiffs allege, the SPI Defendants label and sell the bottles in Latvia. (Sec. Am. Compl. ¶ 92.) Whether Plaintiffs might be able to state a claim against the SPI Defendants for contributory infringement

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protection for a mark within the United States despite the fact that it is "not actually used or registered in that nation." *Compare* 4 McCarthy § 29:61.

[10] Plaintiffs cannot rely on facts outside the complaint to correct obvious deficiencies in the Complaint. Thus the recent purported assignment by Mr. Yakovlev's heir should not be considered for purposes of this motion. (*See* Pls.' Opp. at 36 (citing Quinto Decl. ¶ 16, Ex. J).)

based on their conduct abroad is irrelevant, as the Second Amended Complaint does not assert a contributory copyright infringement claim. *Cf. GB Mktg. USA Inc. v. Gerolsteiner Brunnen GmbH & Co.*, 782 F. Supp. 763, 773 (W.D.N.Y. 1991) (allegations stated a claim for contributory, not direct, infringement where the defendant labeled and sold bottles in Germany).

## II. PLAINTIFFS' STATE LAW CLAIMS AGAINST THE SPI DEFENDANTS (CLAIMS 2–5) SHOULD BE DISMISSED.

### A. BECAUSE ALL FEDERAL LAW CLAIMS AGAINST THE SPI DEFENDANTS MUST BE DISMISSED, THIS COURT LACKS JURISDICTION OVER THE STATE LAW CLAIMS.

The sole unchallenged federal false advertising claim (Claim 13), asserted only against the AD Defendants, does not support supplemental jurisdiction over the state law claims against the SPI Defendants, because they do not "derive from a common nucleus of operative fact." *United Mine Workers v. Gibbs*, 383 U.S. 715, 725 (1966). Plaintiffs argue (at 24–25) that the claims are related because, they allege, the Russian government re-nationalized the Russian marks and then forced the SPI Defendants to cease production in Russia. Plaintiffs' attempt to relate the claims fails because the federal false advertising claim involves only the simple question whether AD's promotion of its vodka as "Russian Vodka" is true. If, as Plaintiffs allege, the vodka is not Russian, the reasons why are irrelevant.[11]

### B. THE STATE LAW CLAIMS ARE TIME-BARRED.

According to the Second Amended Complaint, the alleged fraud (Claim 2) is based on the SPI Defendants' representation to PepsiCo that they were "the lawful successors-in-interest to VVO-SPI." (Sec. Am. Compl. ¶ 120.) It cannot be disputed that this occurred as early as February 6, 1992, when VAO-SPI and PepsiCo signed an Addendum to the 1991 agreement between VVO-SPI and PepsiCo stating that VAO-SPI "is the successor-in-interest to V/O-SPI." The claim is therefore time-barred. (*See* Ex. 2 to Skurikhin Decl.; Sec. Am. Compl. at 69.)

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[11] The only state law claim that is even remotely similar to Claim 13 is Plaintiffs' unfair competition claim (Claim 5), which is premised solely on deceptive marketing (Sec. Am. Compl. ¶ 132) and fails for the reasons *infra* at pages 14–15 and 17.

Plaintiffs assert (at 24–25) that they seek to recover for "separate and distinct acts of fraud in 2000 and 2001," citing *Stockacre Ltd. v. Pepsi-Cola Int'l, Ltd.*, No. 99 Civ. 5996, 2001 WL 604002 (S.D.N.Y. June 1, 2001), in which Pepsi was alleged to have made two distinct misrepresentations about separate sales of soda. Here, however, Plaintiffs' allegations of fraud are all based upon a single, allegedly fraudulent misrepresentation (one that has been continuous, open, and notorious for over 13 years): that the SPI Defendants and their predecessors are the successors-in-interest to VVO-SPI. There were no "separate and distinct acts of fraud in 2000 and 2001." To the contrary, the allegedly fraudulent representations Plaintiffs claim the SPI Defendants made to PepsiCo in 2000 and 2001 are exactly the same as those allegedly made in February 1992.

Plaintiffs' misappropriation and unfair competition claims are also time-barred. The misappropriation claim (Claim 4) is premised on an alleged theft of property (in the words of Plaintiffs, a "hijacking" of the STOLICHNAYA Marks (*see* Sec. Am. Compl. at pp. 8, 18)), and is therefore governed by the three-year statute of limitation of N.Y. C.P.L.R. § 214(4). *See Sporn v. MCA Records, Inc.*, 58 N.Y.2d 482, 488, 448 N.E.2d 1324, 1326–27 (1983) (applying three-year statute of limitations in analogous case involving an unfair competition claim premised on alleged misappropriation and unauthorized use of intellectual property). Plaintiffs' argument that the misappropriation claim sounds in fraud does not help them because, as detailed above, the SPI Defendants and their predecessors have held themselves out as the lawful successors-in-interest to V/O-SPI continuously since 1992.

Plaintiffs' New York statutory unfair competition claim (Claim 5), which alleges misleading marketing based on the STOLICHNAYA label's "Russian Vodka" claim (*see* Sec. Am. Compl. ¶ 132), is subject to the three-year statute of limitations of N.Y. C.P.L.R. § 213(2). *Gaidon v. Guardian Life Ins. Co.*, 727 N.Y.S.2d 30, 34–35, 750 N.E.2d 1078, 1082–83 (N.Y. 2001). Plaintiffs argue that a six-year limitations period is appropriate for "trademark claims, where the crux of the claim is fraud," *Mario Valente Collezioni, Ltd. v. AAK Ltd.*, 280 F. Supp. 2d 244, 258 (S.D.N.Y. 2003), but Claim 5, to quote directly from the

Complaint, is based on the alleged "false description of the geographic origin of the goods," not fraud. (*See* Sec. Amend. Compl. ¶ 132.) *Gaidon* is controlling, and Claim 5 is time barred.

Plaintiffs' *common law* unfair competition claim (also Claim 5), which likewise alleges that "Russian Vodka" misrepresents the geographic origin of the STOLICHNAYA vodka, does not state a cause of action at all because "[m]isrepresentation of the quality of defendants' own product, absent proof of actual damages to plaintiff's business, is not actionable at common law." *Construction Tech., Inc. v. Lockformer Co.*, 704 F. Supp. 1212, 1217 (S.D.N.Y. 1989) *overruled on other grounds by Conopco, Inc. v. Campbell Soup Co.*, 95 F. 3d 187 (2d Cir. 1996). Plaintiffs attempt to salvage this claim by citing paragraphs of the Complaint that allege that Defendants profit from the sale of STOLICHNAYA. (*See* Pls.' Opp. at 31 n.31.) These paragraphs do not allege "actual damages to [Plaintiffs'] business" resulting from Defendants' alleged misrepresentation of the origin of STOLICHNAYA vodka,[12] and Plaintiffs' false advertising claim is thus not actionable at common law.

### C. CLAIM 2 ALSO FAILS TO ALLEGE ESSENTIAL ELEMENTS OF COMMON LAW FRAUD.

A claim for fraud cannot lie under New York law where, as here, the misrepresentation is made to and relied upon by a third party, but not the plaintiff. *See Cement & Concrete Workers v. Lollo*, 148 F.3d 194, 196 (2d Cir. 1998) (internal citation omitted) ("We hold that a plaintiff does not establish the reliance element of fraud for purposes of . . . New York law by showing only that a third party relied on a defendant's false statements.").[13] In the face of this binding authority, Plaintiffs cite lower federal court and intermediate state court decisions which, they claim, are in conflict with *Lollo*. The decision in *Hyosung America, Inc. v. Sumagh Textile Co.*, 25 F. Supp. 2d 376, 382–84 (S.D.N.Y. 1998), on which Plaintiffs rely, is of no help to Plaintiffs. The court in *Hyosung* recognized a claim for fraud "where a defendant's misrepresentation caused

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[12] Damages based on a theory of lost sales of Ost-Alco's Jewel of Russia vodka are nowhere alleged in the Complaint.

[13] *See also* N.Y. Jur. 2d Fraud and Deceit § 119 (to maintain an action for fraud under New York law, a plaintiff must allege that false representations to third parties "were made for the purpose of *influencing* the complaining party, and with the intent that they be *acted upon* by him or her" (emphasis added)).

a third party to extinguish its financial obligation to the plaintiff." *Id.* at 383. Here, of course, any contractual obligation PepsiCo had to Plaintiffs, the Russian Federation, or any other Russian entity, was not extinguished by Defendants' actions; Plaintiffs have simply failed to seek enforcement of the contract rights they claim to possess. *Lollo* squarely controls here, where Plaintiffs acknowledge that PepsiCo was the recipient of the SPI Defendants' allegedly false representations (*see* Sec. Am. Compl. ¶¶ 120–121), and the Complaint fails to allege that Plaintiffs in any way relied on the allegedly false statements the SPI and AD Defendants allegedly made to *PepsiCo*.[14]

Plaintiffs have also failed to plead facts showing they were harmed by the allegedly false statements to PepsiCo. Plaintiffs (at 28) point to paragraphs of the Complaint alleging that the *Russian government* was deprived of its reversionary interest in the marks (which contradicts their argument that the Russian government always retained ownership of the marks and that V/O-SPI merely licensed them to PepsiCo under the 1991 agreement). However, they make no attempt to demonstrate how this alleged deprivation damaged *Plaintiffs*. Injury to the plaintiff is an essential element of common law fraud. *See Schlaifer Nance & Co. v. Estate of Andy Warhol*, 119 F.3d 91, 98 (2d Cir. 1997); *LAMA Holding Co. v. Smith Barney Inc.*, 88 N.Y.2d 413, 416–18, 668 N.E.2d 1370, 1371 (N.Y. 1996).

### D. Claim 3 Also Fails To Allege Essential Elements of Common Law Unjust Enrichment.

The Complaint fails to allege that SPI's profits from its distribution contract with AD (or PepsiCo, for that matter) came at Plaintiffs' expense. Plaintiffs assert that it is enough that the profits came at the expense

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[14] Moreover, the trilogy of cases from the New York Court of Appeals on which the court relies in *N.B. Garments (PVT.) Ltd. v. Kids Int'l Corp.*, No. 03 Civ. 8041 (HB), 2004 WL 444555 (S.D.N.Y. Mar. 10, 2004), do not support the proposition that New York recognizes fraud premised solely on misrepresentations to third parties. *Id.* at *3 (citing *Eaton, Cole & Burnham Co. v. Avery*, 83 N.Y. 31, 33–34 (1880); *Rice v. Manley*, 66 N.Y. 82, 87 (1876); *Bruff v. Mali*, 36 N.Y. 200, 205–06 (1867)). In both *Eaton* and *Bruff*, the defendants made false statements to third parties with the intent that they be communicated to the plaintiffs, and the statements were, in fact, communicated to the plaintiffs, who relied on the statements to their detriment. *See Eaton*, 83 N.Y. at 33–34; *Bruff*, 36 N.Y. at 205–06. And although the Court of Appeals in *Rice* reversed the dismissal of a fraud claim premised on a misrepresentation to a third party, the fraud claim had not been challenged on this ground: the court was thus not confronted with the issue. *See Rice*, 66 N.Y. 82.

of the Russian Federation, which granted them a power of attorney. (*See* Exhibit O to the Sec. Am. Compl.) Plaintiffs are mistaken. Rule 17 provides that "[e]very action shall be prosecuted in the name of the real party in interest." Whereas an assignee of a right may be a real party in interest, "the mere transfer of a general power of attorney . . . or a transfer without consideration for the convenience of the parties . . . does not create a sufficient interest or right in the chose and the grantor of the power remains the only real party in interest." 6A Charles A. Wright & Arthur R. Miller, *Federal Practice & Procedure* § 1545 (2d ed. Supp. 2005). Plaintiffs also cite Exhibit L, which grants FTE rights to use listed *Russian* trademarks, but is silent with respect to any rights to the U.S. STOLICHNAYA Marks.

### E. CLAIM 4 ALSO FAILS TO ALLEGE ESSENTIAL ELEMENTS OF COMMON LAW MISAPPROPRIATION.

For similar reasons, Plaintiffs cannot maintain their misappropriation claim because they have demonstrated no interest in the STOLICHNAYA Marks in the U.S. and therefore cannot claim that Defendants have "misappropriated" the labor expended in creating the "trademark." 2 McCarthy § 10.72. Again, Plaintiffs' limited power of attorney and rights to the *Russian* trademarks are insufficient under Rule 17 to permit them to sue.

### F. CLAIM 5 ALSO FAILS TO ALLEGE ESSENTIAL ELEMENTS OF COMMON LAW AND STATUTORY UNFAIR COMPETITION.

For the reasons stated *supra* at page 14–15, Plaintiffs' common law unfair competition claim, premised solely on deceptive marketing (*see* Sec. Am. Compl. ¶ 132), fails to state a cause of action. Nor does Claim 5 state a claim under Section 349 of the New York General Business Law. While the Complaint alleges that consumers in New York were deceived, it does not allege that the SPI Defendants falsely advertised the vodka or otherwise committed deceptive acts in New York. The fact that SPI's logo is on the STOLICHNAYA bottles cannot overcome Plaintiffs' failure to plead either that the SPI Defendants themselves have falsely advertised vodka in New York or have aided and abetted the AD Defendants in doing so.

## III. ALL FEDERAL AND STATE CLAIMS AGAINST THE SPI DEFENDANTS SHOULD BE DISMISSED FOR FAILURE TO JOIN NECESSARY PARTIES.

Plaintiffs are incorrect that the Russian government's ownership of FTE means that the government is not a necessary party. The determining factor is who purports to own the U.S. STOLICHNAYA Marks. The Complaint is contradictory on that score, stating that "FTE is the rightful owner of the STOLICHNAYA [Marks] in the United States" and at the same time that "[t]he Marks have always been owned by either the Soviet government or the government of the Russian Federation." (Sec. Am. Compl. ¶¶ 11, 110.) Plaintiffs repeat the false assertion that "the Russian Federation has clearly assigned the exclusive rights to the STOLICHNAYA Marks to FTE." (Pls.' Opp. at 33 (citing Sec. Am. Compl. ¶¶ 112–13 and Exs. L & O).) But the Complaint and exhibits themselves demonstrate there has been no such assignment.[15]

Perhaps in acknowledgment of this problem, Plaintiffs fall back on their argument that it is enough that FTE is the "legal representative" of the Russian government and of FGUP, by virtue of the powers of attorney. But courts "have held consistently that the owner of an allegedly infringed intellectual property right is a person needed for just adjudication under Rule 19." *JTG of Nashville, Inc. v. Rhythm Band, Inc.*, 693 F. Supp. 623, 626 (M.D. Tenn. 1988); *see generally* SPI's Mem. at 34–35. Further, the law is clear that a mere "assignee of the chose in action for mark infringement cannot bring suit for . . . infringement." *Int'l Soc. for Krishna Consciousness v. Stadium Auth. of Pittsburgh*, 479 F. Supp. 792, 797 (W.D. Pa. 1979); *see also DEP Corp. v. Interstate Cigar Co., Inc.*, 622 F.2d 621, 622–23 (2d Cir. 1980) (party that had an agreement with a trademark owner to take "such steps as [the owner] may reasonably require for their protection" held "not an assignee expressly or impliedly of the trademark" and therefore had no standing to sue for its infringement); *see also* 4 James W. Moore et al., *Moore's Federal Practice & Procedure* § 17:10[4] (1997) ("An attorney-in-fact is not a real party in interest. The attorney is merely an agent of the real party in interest and does not

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[15] Of course, if the Russian Federation *had* assigned its purported rights to the U.S. STOLICHNAYA Marks to FTE, there would be no need for it to grant FTE power of attorney to represent its interests.

possess interests sufficient to qualify for real party in interest status. Thus, the attorney-in-fact cannot bring suit in its own name.").

*Idaho Potato Commission v. Washington Potato Commission*, 410 F. Supp. 171 (D. Idaho 1975), which Plaintiffs deem to be a "closely analogous" case, actually supports the SPI Defendants' position. In that case, the state, which owned the trademark, was a party to the litigation, and the court confirmed that the state's presence in the case "provide[d] defendants with protection from a subsequent suit arising from the same set of facts." *Id.* at 174. That important protection is, of course, missing here,[16] rendering the Russian Federation and FGUP necessary parties under Rule 19. (*See* SPI's Mem. at 33–38.)

## IV. ALL CLAIMS AGAINST S.P.I. GROUP SA SHOULD BE DISMISSED FOR LACK OF PERSONAL JURISDICTION.

Plaintiffs assert that the Court can exercise long-arm jurisdiction over S.P.I. Group SA because it has "agreed to supply goods in the state." N.Y. C.P.L.R § 302(a)(1). Plaintiffs concede, however, that S.P.I Group SA is not a party to any *actual* agreement to distribute Stolichnaya vodka. Instead, Plaintiffs suggest that the Court may infer the existence of an "implied" agreement because the Stolichnaya label displays the SPI Group logo and states that the vodka is a "PRODUCT OF THE SPI GROUP." Plaintiffs offer no support for the dubious proposition that the wording of a product label could somehow render a company an "implied" party to an agreement it never signed. Moreover, the references to the "SPI Group" are irrelevant in any event because they do not connote the Swiss corporation, S.P.I. Group SA. Rather, as Plaintiffs acknowledge in their Complaint, "the SPI Group" is a descriptive term that collectively refers to the separate Defendant companies and their affiliates.[17]

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[16] Collateral estoppel or *res judicata*, even if applicable, would spare the SPI and Allied Domecq defendants and the U.S. STOLICHNAYA Marks neither the adverse publicity of the type generated by Plaintiffs in this suit nor the substantial inconvenience and expense of defending against subsequent suits by the Russian Federation or another Russian entity such as FGUP.

[17] *Compare* Sec. Amend. Compl. ¶ 14 ("SPI Group SA is a corporation organized and existing under the laws of Switzerland . . ."); *with id.* ("The SPI Group is a wholesale and retail alcohol distribution network that owns alcohol distilleries and has business interests in agriculture, finance, and real estate.").

Nor did S.P.I. Group SA "hold itself out as the owner of the STOLICHNAYA Marks" when it sent a cease-and-desist letter to a U.S. company on behalf of its subsidiaries.[18] On the contrary, the letter notes that AD is the exclusive distributor of "one of the S.P.I. Group companies," and that in the event of infringement "the relevant S.P.I. Group's company" would take legal action.[19]

Plaintiffs' conclusory allegations that the SPI Defendants should be regarded as alter egos of one another for jurisdictional purposes are insufficient to survive a motion to dismiss. (*See* SPI's Mem. at 39.) The fact that S.P.I. Group SA and its subsidiaries have common owners and some overlapping officers does not justify piercing the corporate veil,[20] especially because the record establishes that the companies scrupulously observe corporate formalities and are autonomous enterprises with distinct purposes and activities. (Skurikhin Decl. ¶¶ 7-10.) That S.P.I. Group SA sent a single cease-and-desist letter on behalf of its subsidiaries does not show that it exercises control over their daily operations—let alone control that is "pervasive enough that the corporate separation is more formal than real." *In re Ski Train*, 230 F. Supp. 2d at 410 (citations omitted). Accordingly, all claims asserted against S.P.I. Group, SA should be dismissed for lack of personal jurisdiction.

## CONCLUSION

For the foregoing reasons, all claims against the SPI Defendants should be dismissed.

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[18] It is well-established that the mere act of sending a cease-and-desist letter is not by itself sufficient to establish jurisdiction under § 302(a)(1). *See Beacon Enterprises, Inc. v. Menzies*, 715 F.2d 757, 766 (2d Cir. 1983).

[19] Contrary to Plaintiffs' conclusory assertion (at 38 n.38), the Complaint alleges no facts demonstrating S.P.I. Group SA's involvement in alleged tortious acts of "misappropriation" and "fraudulent registration." Nor could it: SPI Group SA was founded on November 8, 2001, ten months after the transfer of the STOLICHNAYA Marks from PepsiCo to AD. Therefore, there is no basis for the Court to exercise jurisdiction under N.Y. C.P.L.R. §§ 302(a)(2)–(3).

[20] *See, e.g., In re Ski Train Fire in Kaprum, Austria on Nov. 11, 2000*, 230 F. Supp. 2d 403, (S.D.N.Y. 2002) (it is not uncommon "for a parent company and its subsidiaries to have common directors and/or owners"); *J.L.B. Equities v. Ocwen Fin. Corp.*, 131 F. Supp. 2d 544, 550 (S.D.N.Y. 2001) ("overlapping officers and directors are intrinsic to the parent-subsidiary relationship and, by themselves, not determinative").

Respectfully submitted,

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July 15, 2005

**CERTIFICATE OF SERVICE**

The undersigned member of the bar of this court hereby certifies that true and correct copies of the foregoing Reply Memorandum in Support of Motion To Dismiss of Defendants Spirits International N.V., S.P.I. Spirits (Cyprus) Limited, S.P.I. Group SA, Yuri Shefler and Alexey Oliynik was served upon:

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# EXHIBIT 13

**IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCHII "OST-ALCO".<br><br>*Plaintiffs*,<br><br>v.<br><br>SPIRITS INTERNATIONAL N.V., SPI SPIRITS LIMITED, SPI GROUP SA, ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V., ALLIED DOMECQ SPIRITS & WINE USA, INC., and YURI SHEFLER and ALEXEY OLIYNIK (both individuals),<br><br>*Defendants.* | Case No.: 1:04-cv-08510 (GBD) |

**ALLIED DOMECQ'S CONSOLIDATED SUBMISSION**

***Addressing:***

**New Issues Raised by Plaintiffs as to the Rule 12(b)(6) Motion Filed by Allied Domecq**

**The Rule 12(b)(6) Motion Filed by the SPI Defendants**

**The Rule 19 Motion Filed by the SPI Defendants**

**The Motion for Summary Judgment Filed by the Plaintiffs**

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Defendants, Allied Domecq Spirits & Wine USA, Inc. and Allied Domecq International Holdings B.V. (collectively, "Allied Domecq"), respectfully submit this consolidated pleading in response to the three new motions that Plaintiffs and the SPI Defendants have filed since briefing on Allied Domecq's original motion to dismiss was completed back in April. In doing so, Allied Domecq focuses on the new issues and arguments raised by Plaintiffs, and as to which Allied Domecq has not yet had an opportunity to respond. As a part of its response, Allied Domecq also herewith provides this Court with a structured overview of the present litigation and the various motions, as requested during the most recent conference.

## I. OVERVIEW OF PROCEEDINGS

Plaintiffs, Federal Treasury Enterprise Sojuzplodoimport ("FTE") and "Ost-Alco," brought this action against Allied Domecq and the SPI Defendants on October 28th of last year, and then filed an *Amended Complaint* very shortly thereafter. *See* D.I. 1, 3. By agreement of the parties, the deadline for Allied Domecq to answer or otherwise respond to the *Amended Complaint* was set for February 4, 2005. *See* D.I. 10.

In compliance with that obligation, Allied Domecq promptly moved in early-February to dismiss all but a few of the counts asserted against it by Plaintiffs. *See generally* D.I. 23. In mid-March, Plaintiffs responded to Allied Domecq's motion, but simultaneously moved for leave to file a *Second Amended Complaint*, which motion sought both to add three new counts and to change the grounds upon which certain of the original counts had been based. *See* D.I. 31-33. Allied Domecq opposed Plaintiffs' motion in part (on the grounds that the amendment would be futile as the new counts

would still be subject to summary dismissal), and Plaintiffs and Allied Domecq completed all briefing on the two pending motion by late-April. *See* D.I. 36-37, 40-41.

On April 28th, this Court heard argument on the two motions, and then simplified the issues that were then before it by granting Plaintiff's *Motion to Amend*, while at the same time converting Allied Domecq's opposition thereto, and its original *Motion to Dismiss*, into a motion to dismiss Counts I, II, IV-V, IX, and XI-XV of the *Second Amended Complaint*. *See* D.I. 46. This is the sole Allied Domecq motion that is before this Court, and the counts Allied Domecq seeks to dismiss can be thought of as falling into four groups, each of which Allied Domecq has challenged on separate grounds:

- **The "Ownership" Claims** (Counts I , XV)

  Plaintiff Federal Treasury Enterprise ("FTE") contests Allied Domecq's ownership of the STOLICHNAYA mark in the United States, claiming that FTE is the "true owner" of the mark. *See, e.g,.* D.I. 46, ¶¶116-18, 181-82. Allied Domecq's incontestable federal registration, however, constitutes "conclusive evidence" that Allied Domecq is the owner of the STOLICHNAYA mark. *See* D.I. 23, pp. 6-7; 15 U.S.C. §1115(b). As such, because FTE has not stated a proper statutory claim upon which a court could find that the STOLICHNAYA registration is not incontestable, Count I and XV fail and must be dismissed.[1] *See, e.g.*, D.I. 37, pp. 5-14; *Park 'N Fly, Inc. v. Dollar Park and Fly*, 469 U.S. 189, 198, 203, 105 S. Ct. 658, 663, 666 (1985).

- **The "Trademark" Claims** (Counts V, XI-XIII)[2]

  Plaintiffs assert that Allied Domecq's use of the STOLICHNAYA mark in the United States infringes rights that FTE claims to own in the mark. *See, e.g.*, D.I.

[1] Of course, even if Plaintiffs could raise and sustain a proper challenge to incontestability, that would only affect the evidentiary presumptions that flow from ownership of the STOLICHNAYA registration. At the end of the day, Allied Domecq would *still* be considered the "owner" of the mark as the company acquired title to the mark directly from PepsiCo, who in turn acquired it directly from the Soviet Union. In fact, under no set of circumstances could Plaintiffs be deemed to be the lawful "owner" of the mark as they have never held title to the registration. Rather, what Plaintiffs are really seeking is a *transfer* of ownership of the registration, although they have failed to set forth any legal basis for sustaining such a claim.

[2] New Count X is not at issue in Allied Domecq's motion to dismiss because the basis of that Count was changed after briefing was complete. However, if this Court dismisses Count I, Count X should also be dismissed as it (like the other "Trademark" claims) is predicated on Plaintiffs' assertion that FTE "owns" Allied Domecq's STOLICHNAYA mark and registration in the United States. *See, e.g.*, D.I. 46, ¶158.

46, ¶¶132, 161, 166, 170, 172. However, because Plaintiffs have failed to set forth a proper claim challenging the incontestable status of the STOLICHNAYA registration (as discussed above), they cannot, as a matter of law, sustain any trademark causes of action. *See Calzaturificio Rangoni S.P.A. v. United States Shoe Corp.*, 868 F. Supp. 1414, 1420-21 (S.D.N.Y. 1994); *Oreck Corp. v. Thomson Consumer Elec., Inc.*, 796 F. Supp. 1152, 1161 (S.D. Ind. 1992).

- **The Copyright Claim** (Count XIV)

Plaintiffs also claim that Allied Domecq's use of a particular label design violates certain restored copyright rights that supposedly have been licensed to Plaintiff Ost-Alco. *See* D.I. 46, ¶¶177-78. Plaintiffs, however, have never provided formal notice that they intend to seek to enforce those rights against Allied Domecq. *See* D.I. 37, pp. 19-23; 17 U.S.C. §104A(d)(2). Thus, their copyright claim is premature. *Hoepker v. Kruger*, 200 F. Supp.2d 340, 346 (S.D.N.Y. 2002)

- **The "Fraud" Claims** (Counts II, IV, IX)

Finally, Plaintiffs allege that Allied Domecq has committed "fraud" (or aided and abetted in the commission of a fraud) against the Russian Federation by making certain unspecified representations either to third-party PepsiCo or to the U.S. Trademark Office. *See* D.I. 46, ¶¶122, 128-29, 153. Plaintiffs' claims, however, are subject to dismissal on a number of grounds, including that they fail to set forth the fraudulent acts with specificity (as required by Fed. R. Civ. P. 9(b)), and that they are time barred (pursuant to N.Y. C.P.L.R. §214(4)). *See* D.I. 36, nn. 2, 4; D.I. 37, pp. 14-16. Moreover, because Plaintiffs do not claim that they actually *relied on* the supposedly fraudulent statements (and instead only claim that PepsiCo and the U.S. Trademark Office relied on such statements), Plaintiffs also lack standing even to bring these claims. *See Cement and Concrete Workers Dist. Council Welfare Fund v. Lollo*, 148 F.3d 194, 196 (2d Cir. 1998).

For practical purposes then, Allied Domecq's fully-submitted *Motion to Dismiss* is positioned to be dispositive of Plaintiffs' substantive claims against Allied Domecq. Indeed, the only claims against it that Allied Domecq has not moved to dismiss are those portions of Counts V and XIII that concern "false advertising" (as those allegations, which are unrelated to the STOLICHNAYA mark itself, can be brought by any competitor). *See* D.I. 23, 36, 37, 46. The remaining counts—namely, Counts III and VI-VIII—have only been asserted against the SPI Defendants.

Since Allied Domecq submitted its motion for decision, the procedural posture of the case has become slightly more complex. This mostly stems from the fact that the SPI Defendants, with Plaintiffs' consent, were not obligated to respond to the claims against them until after Allied Domecq fully briefed its *Motion to Dismiss*. *See* D.I. 12, 32, 47. As such, the SPI Defendants did not file their own motion to dismiss until May 31st. *See* D.I. 49. And, further complicating matters, Plaintiffs, in an attempt to gain leverage and force a settlement (*see* D.I. 74 (Tr. – 7/13/05), p. 3), filed an "urgent" motion for summary judgment in mid-June on their "false advertising" claim (Count XIII), arguing that because it is conceded that Count XIII was sufficiently pled to survive a Rule 12(b)(6) motion to dismiss, it is thus "ripe" for decision.[3] *See* D.I. 55.

Despite the recent flurry of papers, however, this remains a simple case. As will be discussed, if this Court agrees with Allied Domecq that FTE has failed to set forth a proper claim upon which a court could find that the STOLICHNAYA registration is not "incontestable," then all of the "Ownership" and "Trademark" claims fall, including those asserted only against the SPI Defendants. Likewise, a finding in Allied Domecq's favor on the "Copyright" and "Fraud" claims (for the reasons set forth above) disposes of those claims as against SPI as well, thereby narrowing the scope of SPI's motion.

Similarly, the "urgent" motion for summary judgment that Plaintiffs filed can easily be disposed of as it based on the erroneous assumption that there is no "dispute" as to whether the vodka Allied Domecq sells under the STOLICHNAYA brand is from

[3] Plaintiffs take the position that because Allied Domecq, during briefing on its *Motion to Dismiss*, did not dispute Plaintiffs' allegation that SPI produces its vodka outside of Russia (*see* D.I. 46, ¶92), it has somehow conceded the point. *See* D.I. 41, p. 8 (arguing that Allied Domecq "do[es] not deny that their STOLICHNAYA brand vodka is Latvian, not Russian, vodka"). However, while it is true that a party filing a motion to dismiss *must accept all of the factual allegations in the complaint as true*, that does not mean that those allegations are therefore "undisputed" for purposes of a motion for summary judgment.

Russia. To be clear, Allied Domecq absolutely contests Plaintiffs' alleged "facts" as to this issue, and has offered declaratory evidence attesting to Russian origin of the vodka Allied Domecq sells. *See infra.* As such, Plaintiffs' motion may be summarily denied.

Thus, to sum up, the motions pending in this case are lined up like dominos. If Allied Domecq's *Motion to Dismiss* is granted, this Court will not only have disposed of most of the case against Allied Domecq, it will have effectively resolved almost all of the issues pending in SPI's motion as well, including SPI's attempt to join certain parties to the ownership, trademark, fraud, and copyrights claims (all of which claims would now be dismissed). Likewise, granting Allied Domecq's motion would moot any comments Allied Domecq may make later in this brief on the Rule 19 issues raised by SPI (as Allied Domecq would have no remaining interest in the claims to which the question of joinder relates). And, finally, Plaintiffs' settlement-driven motion for summary judgment on "false advertising" easily falls due to there being a genuine issue of material fact, thereby resolving the last pleading before this Court. Each motion is discussed in detail below.

## II. COMMENTS REGARDING THE PENDING MOTIONS

### A. New Issues Raised by Plaintiffs as to the Rule 12(b)(6) Motion Filed by Allied Domecq

The bases for Allied Domecq's motion to dismiss have already been briefed to this Court. *See generally* D.I. 23, 37. To recap, Allied Domecq maintains that because the U.S. Trademark Office officially recognizes Allied Domecq to be the owner of the incontestable federal trademark registration for STOLICHNAYA (U.S. Trademark No. 865,462), FTE cannot divest Allied Domecq of its ownership interests by claiming that Allied Domecq does not really "own" the mark, or by asserting that FTE or the Russian

Federation has (or should have) superior rights in either the mark or in the reversionary contractual rights relating thereto. Rather, to the extent Plaintiffs seek to supplant Allied Domecq as the present owner of the STOLICHNAYA trademark, they must either (1) set forth a proper statutory challenge to the registration's incontestable status (*see* 15 U.S.C. §1064) and then prove up a superior claim of ownership (*but see* n.1, *supra*), or (2) seek the transfer of the mark as a form of relief based on *some other legal theory* (such as a claim for breach of contract). Plaintiffs have done neither. *See* D.I. 23, 37. As such, Plaintiffs' "Ownership" and "Trademark" claims should all be dismissed.[4]

In their response to the SPI Defendants' *Motion to Dismiss*, however, Plaintiffs have raised several new arguments on the "Ownership" issue, and imply that those arguments are equally applicable to Allied Domecq's pending motion.[5] Some of the arguments are affirmative; some are rhetorical; and some are merely accusatory. All of them, though, are either irrelevant or wrong, and will be briefly addressed here.

### 1. Plaintiffs' Claims That the SPI Defendants (and not PepsiCo) Owned the Mark are Irrelevant to the Incontestability Analysis

Plaintiffs' first argument is that PepsiCo never owned the STOLICHNAYA trademark and, thus, did not actually transfer title in the mark to Allied Domecq in January 2001. As a consequence, Plaintiffs suggest, Allied Domecq cannot claim to be the owner of the incontestable STOLICHNAYA trademark registration, nor should it be entitled to the statutory benefits that flow therefrom. *See* D.I. 66, pp. 3-8 ("[b]ecause the

[4] As explained earlier, Plaintiffs "Copyright" and "Fraud" claims also fail, albeit for different reasons. The purpose of this limited responsive pleading, however, is to address those new arguments that Plaintiffs have raised since Allied Domecq filed its earlier reply brief (D.I. 37), which arguments primarily relate to Plaintiffs' "Ownership" (and by extension, "Trademark") causes of action.

[5] Plaintiffs touched on some of these arguments in the sur-reply brief that they filed in opposition to Allied Domecq's *Motion to Dismiss* (D.I. 41), but they only recently fully articulated the legal basis behind them.

SPI Defendants ... are the true owners of the STOLICHNAYA Marks, [Allied Domecq] cannot rely on the purported PepsiCo – Allied Domecq assignment"). Albeit creative, this argument is irrelevant (not to mention factually erroneous).[6]

Once again: because the U.S. Trademark Office officially recognizes Allied Domecq to be the registrant of the incontestable federal trademark registration for STOLICHNAYA (*see* D.I. 23, Exs. B, C), Plaintiffs cannot attack Allied Domecq's ownership of the mark by claiming that Allied Domecq does not "own" it. Importantly, this holds true no matter *how* Plaintiffs choose to phrase their argument. They can claim that SPI "stole" the mark; that PepsiCo "never owned" the mark; that VVO-SPI "only licensed" the mark; that FTE "should own" the mark; or that Allied Domecq "did not pay enough for" the mark. It simply does not matter: those are all just variations on the same prohibited theme that the party identified by the Trademark Office as the "registrant" (namely, Allied Domecq) supposedly is not the true "owner" of the mark. The Supreme Court, the Lanham Act, and the U.S. Trademark Office have all made it crystal clear that this line of attack cannot be used to challenge the registrant's ownership status:

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[6] The argument Plaintiffs make for *why* Pepsi supposedly never owned the mark is that the June 1991 "Deed of Assignment," whereby VVO-SPI "assign[ed] and transfer[red]" to Pepsi and its assigns "the entire right, title and interest in and to" the STOLICHNAYA mark and registration, was allegedly not *really* an "assignment," but, rather, just a license. Thus, Plaintiffs argue, Pepsi is a "licensee" and not the trademark owner. *See* D.I. 66, pp. 3-8. Although it is not necessary to delve deeply into this issue as Plaintiffs' argument would be irrelevant even if factually accurate (as explained *infra*), the fact remains that the June 1991 Assignment *was* an "assignment." *See* D.I. 23, Ex. G. Under New York law, a court's "primary goal is to effectuate the intent of the parties as manifested by the language used in the contract," and the term "assignment" has been found by the Second Circuit to be an unambiguous legal term "indicating a transfer of property or rights therein," thereby removing any doubt that VVO-SPI and PepsiCo both intended that PepsiCo would acquire title to the mark. *See Aetna Casualty and Surety Co. v. Aniero Concrete Co.*, 404 F.3d 566, 598 (2d Cir. 2005) (per curium). Further, during the April 28th hearing, counsel for Plaintiffs acknowledged that *there was a good reason why* VVO-SPI wanted Pepsi to acquire title in the mark—the Soviet Union, which had owned the mark through VVO-SPI, "learned that it could not bring suit in U.S. court" to enforce the rights in the mark and, thus, voluntarily assigned the marks to Pepsi, and "Pepsi became the registered owner of the mark, and Pepsi had standing to bring suit to enforce the marks." *See* D.I. 48, p. 49:1-11.

> The incontestability provisions [of the Lanham Act] ... provide a means for the registrant to quiet title in the ownership of his mark.

*Park 'N Fly*, 469 U.S. at 203, 105 S. Ct. at 666 (emphasis added); *see also* 469 U.S. at 198, 105 S. Ct. at 663 ("the power of the courts to cancel registrations and 'to otherwise rectify the register,' must be subject to the specific provisions concerning incontestability").

> [An incontestable] registration shall be conclusive evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce.

15 U.S.C. §1115(b) (emphasis added) [Lanham Act, Section 33(b)].

> While the parties have briefed the ownership issue..., it would be a fruitless exercise to detail the respective arguments and supporting evidence. ... Under Section 14(c) of the Trademark Act[7], a registration existing for over five years may be cancelled only on the specific grounds enumerated therein, none of which involves ownership of the registered mark.

*Treadwell's Drifters Inc. v. Marshak*, 18 U.S.P.Q.2d 1318, 1320 (T.T.A.B. 1991) (emphasis added); *accord Kemin Indus., Inc. v. Watkins Prod., Inc.*, 192 U.S.P.Q. 327, 328 (T.T.A.B. 1976) (refusing to consider challengers' claim of ownership).

This Court's previous decision in *Calzaturificio* is highly instructive as to this fundamental issue, and the facts are somewhat similar. There (as here), a foreign entity and a U.S. company entered into a contract wherein they agreed that the U.S. company would own the U.S. trademark rights, but that the U.S. company would only use the mark on products made by the foreign entity. *See* 868 F. Supp. at 1415. Eventually, after the trademark rights became incontestable, the parties had a falling out, and the foreign entity brought an action in this Court (as Plaintiffs have done here) seeking a declaration that it "owned" the mark (because of, among other things, the decision of a foreign court, just as

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[7] In 1988, Section 14(c) of the Lanham Act was amended slightly and renumbered as current Section 14(3). *See* Pub. L. 100-667, §115(4). Those amendments, however, are not material to the present issue.

Plaintiffs allege here), and that, as a consequence, the U.S. company could no longer use the mark in this country. *See id.* at 1416-17. This Court, however, *summarily denied* the foreign entity's "ownership" and "trademark" claims, and held, after citing 15 U.S.C. §1115(b) and *Park 'N Fly*, that unless the foreign entity could state a proper statutory challenge to incontestability, it could not claim to be the "owner" of the U.S. trademark:

> Once a mark has become incontestable, it is "conclusive evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce." 15 U.S.C. § 1115(b). The incontestability provisions of section 1115(b) "provide a means for the registrant to quiet title in the ownership of his mark ... thus encourag[ing] producers to cultivate the goodwill associated with a particular mark." *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 198, 105 S. Ct. 658, 663, 83 L.Ed.2d 582 (1985).
>
> Despite a mark's "incontestability," there are still certain limited grounds available to challenge the mark. *See* 15 U.S.C. § 1115(b). The only exception to section 1115(b)'s incontestability alleged in this action is fraudulent registration. If Count Three is dismissed for statute of limitations purposes, there is no basis alleged by [the foreign entity] that can overcome the incontestability of the mark.

*Calzaturificio*, 868 F. Supp. at 1420; *see also id.* at 1421 ("because the fraud cause of action is time-barred, the mark is incontestable. The other Lanham Act causes of action are likewise barred because the mark is incontestable.").

Thus, as it is undisputed that Allied Domecq is recognized as the "registrant" of the incontestable STOLICHNAYA registration, the sole task for this Court is to assess whether Plaintiffs have stated a proper statutory claim against incontestability as set forth in Section 14 of the Lanham Act [15 U.S.C. §1064]. *See Calzaturificio*, 868 F. Supp. at 1420-21; *see also Oreck*, 796 F. Supp. at 1161 (where plaintiff could not state a claim challenging the incontestable status of the defendant's mark, "the remaining ... claims are without merit by nature of the 'incontestable' status of the [trademark]" and subject to

dismissal). Through their latest twists on their previously-articulated stock argument concerning "ownership," Plaintiffs merely seek to distract this Court from that task.

### 2. The Assignee of an Incontestable Registration May Rely on the Registration as "Conclusive Proof" of its Ownership

Plaintiffs' next new argument is that the assignee of a mark that was previously declared incontestable may not invoke the statutory benefits of incontestability absent evidence of the assignee's subsequent "sustained, consistent use[]" of the mark (evidently for at least another five years). *See* D.I. 66, pp. 8-10. In fact, Plaintiffs even go so far as to suggest that there is "no authority" that holds otherwise. *See id.*[8] This is not true.

As used throughout the Lanham Act, the term "Registrant" encompasses subsequent assignees. *See* 15 U.S.C. §1127 (definition of "Registrant"). Thus, for purposes of the incontestability provisions of Section 33(b) [15 U.S.C. §1115(b)], Allied Domecq *is* the "registrant," and the STOLICHNAYA registration therefore constitutes "conclusive evidence ... of [Allied Domecq's] ownership of the mark." *See* 15 U.S.C. §1115(b). Indeed, were this not the case, and "registrant" for purposes of Section 33(b) only meant the "original registrant" (as Plaintiffs suggest), the results would be absurd.[9]

As part of this argument, Plaintiffs also appear to draw a distinction between the supposed incontestability of an "assignment," and the incontestability of the registration

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[8] Plaintiffs claim in a footnote that they "are aware of decisions" wherein courts have "examined the validity of an assignment of an incontestable mark," cite *Archer Daniels Midland Co. v. Narula*, 2001 WL 804025 (N.D. Ill. 2001) (*BeharDecl.*, Ex. A), and even throw in an "*e.g.*" signal. Notably, however, the assignment at issue in *Archer Daniels* was not of a *federal registration* (as is the case here), but, rather, was merely an assignment from a third party (who was not the registrant) of certain common law rights, and, what is more, the goods at issue in that assignment (*i.e.*, soy protein products) were *not even covered* by a federal registration. *See id.* at *1, *2, *12 (explaining that "the fact that NUTRISOY is an incontestable mark with respect to [goods other than those at issue in the litigation] is of little consequence").

[9] For example, assume that Company A registers a mark and later sells it and all associated goodwill to Company B after the registration becomes incontestable. According to Plaintiffs, however, Company A (continued)

itself. *See* D.I. 66, pp. 8-9 (arguing that "it defies logic and common sense to argue that an assignment that happens to deal with an incontestable mark is therefore incontestable"). Specifically, Plaintiffs seem to be suggesting that because the assignor (here, PepsiCo) supposedly lacked the authority to transfer the mark, the *assignment* should be deemed "invalid or inoperative." *See id.*, p. 9. However, once again, Plaintiffs are just thinking up new ways to claim that Allied Domecq is not the current "owner." An assignment is not "incontestable," the right to use the mark is. *See* 15 U.S.C. §§1065, 1115(b). Thus, because Pepsi was the "registrant" of the STOLICHNAYA registration when it executed the assignment, it had the full legal power to use or transfer the mark.[10] *See id.* And, as it is undisputed that Pepsi executed a written document that the U.S. Trademark Office accepted for the purpose of transferring the incontestable registration to Allied Domecq (and even Plaintiffs do not contend that Allied Domecq submitted a forged document),[11] Allied Domecq is now unquestionably the mark's owner.

### 3. The Fact That a Company's Ownership of an Incontestable Registration May Not be Challenged Directly Does Not Divest an Allegedly Aggrieved Party of All Claims it Might Have

As a way of supposedly illustrating the logic of their interpretation of the law as relates to incontestability, Plaintiffs postulate the following hypothetical:

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would still retain the exclusive right to use the mark in commerce because the registration is "conclusive evidence ... of the registrant's right to use" the mark. *See* 15 U.S.C. §1115(b) (emphasis added).

[10] Whether Pepsi breached any obligation to a third party when it assigned the mark (and, as Pepsi even warranted, they did not) is another matter, as discussed in Section II.A.3., *infra*.

[11] If Allied Domecq *had* submitted a forged document to the Trademark Office, or otherwise led the Office to believe that PepsiCo (the "registrant") had assigned Allied Domecq the mark when, in fact, it never did, such actions *would* constitute "fraud" and, consequently, could be relied on by Pepsi to seek a declaration of "ownership" even though the mark is "incontestable." *See* 15 U.S.C. §1115(b)(1) (one of the challenges to incontestability is that "the registration ... was obtained fraudulently"). This reality explains why Plaintiffs' dire predictions of possible "mischief" (*see* D.I. 66, pp. 9-10) could never come to pass.

> Under [Allied Domecq's and SPI's] view of the relevant statutes, any number of transfers which should be fully "contestable" could evade scrutiny. For example, if Plaintiffs purchased the STOLICHNAYA Marks from Allied Domecq ... and proceeded to import their own STOLICHNAYA vodka, SPI would have no basis to complain.

D.I. 66, pp. 9-10. As will be discussed, however, Plaintiffs implication that this is an absurd result not only misses the point, but is simply wrong.

Plaintiffs are correct that if Allied Domecq (the current "registrant") were to assign the mark and registration to FTE (whether in exchange for millions of dollars in consideration or a peppercorn), FTE's ownership of the mark would be "incontestable" and, thus, statutorily immune from direct challenge. *Accord* 15 U.S.C. §1115(b). Consequently, SPI (like Plaintiffs in this case) could not bring an action seeking a declaration that SPI was the "true owner" of the mark, nor could it block the sale of STOLICHNAYA branded vodka product by filing a trademark infringement action.

*However*, Plaintiffs go awry when they argue that "SPI would have no basis to complain." *See* D.I. 66, p. 10. If the events Plaintiffs describe were to come to pass (and assuming no other precipitating factors), SPI would still retain any claim it might have against Allied Domecq for breach of contract because Allied Domecq *contractually agreed* with SPI that it would not transfer the mark without SPI's consent. *See* D.I. 46, Ex. D, ¶10.6. Moreover, SPI, in addition to seeking damages from Allied Domecq, could also ask a court to set aside the transfer of the mark to Plaintiffs *as a form of relief* for its breach of contract claim (although Plaintiffs would then have to be joined as a party).[12]

[12] Of course, such a claim would be subject to a *bona fide* purchaser for value defense, as discussed *infra*. *Accord, e.g., Restatement(First) Restitution*, §13 ("The principle that a person who innocently has acquired the title to something for which he has paid value is under no duty to restore it to one who would [otherwise] be entitled to reclaim it ... [is] a limitation upon the principle that a person who has been wrongly deprived of his things is entitled to restitution.") (comment "a").

Indeed, Plaintiff's hypothetical illustrates what Allied Domecq has always maintained—namely, that Plaintiffs are pursuing *the wrong claims*, and are doing so against *the wrong party*. *See* D.I. 37, pp. 3-5, 23. If, as Plaintiffs contend, VAO-SPI was not the successor to VVO-SPI, then Plaintiffs could perhaps claim that Pepsi was in breach of the June 1991 Agreement beginning in at least February 1992 (when Pepsi stopped doing business with or buying vodka from VVO-SPI) and continuing through late-2000 (when Pepsi contracted to assign the mark to Allied Domecq without the consent of VVO-SPI). *See id.* (citing facts alleged by Plaintiffs).[13] As part of such a case, Plaintiffs could also assert any legal claim for relief that they may still have, including a request to "recover" whatever rights in the mark that Pepsi possessed.

The problem, however, is that Plaintiffs no longer have a valid breach of contract claim to assert against Pepsi—assuming they ever did. The alleged breach occurred some thirteen years ago (the New York statute of limitations is a mere six years); the February 1992 Amendment acknowledging VAO-SPI to be the successor of VVO-SPI was signed by a person who had the actual (or at least the apparent) authority to bind the state entity; and no one (including the Russian Federation) ever took any action against Pepsi during the eight years of the contract when Pepsi supposedly was in "breach" (or the five years after contract expiration), thus ratifying the changes made in the underlying agreement in February 1992. *See generally* D.I. 46, ¶¶24, 26, 28, 31-32, 36, 69, 75-80.

[13] Other potential claims could include, for example, a claim by the Russian Federation against VVO-SPI for eliminating (by way of the February 1992 Amendment) the right of the Soviet Union to request that Pepsi reassign the mark to VVO-SPI (which demand, regardless, was never made of Pepsi); a claim by the Russian Federation and/or VVO-SPI against Mr. Sorochkin (the General Director of VVO-SPI) for binding VVO-SPI to the February 1992 Amendment (assuming he lacked the actual authority to do so); and claims by creditors or those with an interest in VVO-SPI (which might include Russia) against Mr. Sorochkin for supposedly engaging in "self-dealing." Apparently, though, none of these claims has been pursued.

Moreover, *even if* Plaintiffs could state a proper breach of contract claim against Pepsi and seek to set aside the Pepsi/Allied Domecq January 2001 Assignment, Plaintiffs would still have to overcome the fact that Allied Domecq was a *bona fide* purchaser of the mark in January 2001. *Cf. Restatement(First) Restitution*, §13 (quoted in n.12, *supra*). That equitable status is attested to by, among other things, (1) the above facts; (2) the warranty Allied Domecq received *from Pepsi* that Pepsi had the right to assign the mark (D.I. 23, Ex. H); and (3) the previous findings *of this Court* that "PepsiCo clearly has the exclusive ownership and right to use the marks as a matter of U.S. trademark law," and that "[s]tatements submitted [in court] by various Russian government officials and trade representatives of the Russian Federation ... note that the private company VAO SPI succeeded to the same rights as [VVO-SPI]." *See Financial Matters, Inc. v. PepsiCo, Inc.*, 1993 WL 378844, *2, *4, n.4 (S.D.N.Y. 1993) (D.I. 23, Ex. A).

Faced with these insurmountable obstacles, Plaintiffs hope to find a shortcut by simply asking for a "declaration" that they own the mark, and that Allied Domecq does not. *See* D.I. 46, ¶¶116-18, 181-82. There are, however, no such shortcuts in life or the law. Plaintiffs have neither set forth a proper statutory challenge to the registration's incontestable status, nor sought to transfer the mark as a form of relief based on some other legal theory, such as a claim for breach of contract. *See* Section II.A.1., *supra*; *see also* n.1. As such, even if one were to assume that all of the facts alleged by Plaintiffs are true, the Complaint still fails to state any proper claims for relief.

#### 4. Plaintiffs' New Allegations of "Fraud" Are Irrelevant and Do Not Change the Legal Analysis Concerning Incontestability

Unable to articulate a claim of fraud with respect to the incontestable STOLICHNAYA registration that is the focus of this case (U.S. Trademark Reg. No.

865,462) (D.I. 23, Ex. B), Plaintiffs have now raised claims of fraud as to other trademark registrations. These new claims are misplaced as well.

As a matter of law, the owner of U.S. Trademark Reg. No. 865,462 (Allied Domecq) has the exclusive right to use "STOLICHNAYA" in commerce in connection with the sale of "vodka," which constitutes the "goods" specified on the registration certificate. *See id.*; *accord* 15 U.S.C. §1115(b). Later registrations for "formatives" of the primary STOLICHNAYA mark (such as U.S. Trademark Reg. No. 2,202,991 for "STOLICHNAYA STRASBERI"; *see, e.g.*, D.I. 46, ¶80) are all *subject to* Allied Domecq's claim of ownership to the primary mark. *See, e.g., Trademark Manual of Examining Procedure*, §§812, 1207 *et seq.* (4th ed., April 2005) (an existing registration will block later attempts to register the same or a confusingly similar mark for related goods absent a claim that the same party owns both marks) (*Behar Decl.*, Ex. B).

To challenge Allied Domecq's ownership of that primary STOLICHNAYA registration on the basis of "fraud," Plaintiffs thus had to allege that Allied Domecq engaged in some deceptive conduct to secure that registration, such as by "tricking" Pepsi into assigning U.S. Trademark Reg. No. 865,462 to it, or by submitting a forged assignment document for that registration to the Trademark Office. *Cf.* 15 U.S.C. §1064(3). However, as noted in Allied Domecq's earlier filing, and as discussed during oral argument on the pending motion, Plaintiffs have *never explained* exactly what Allied Domecq supposedly did that was "fraudulent" in connection with obtaining and recording the assignment from Pepsi. *See* D.I. 37, pp. 7-8; *cf.* Fed. R. Civ. P. 9(b). Moreover, Plaintiffs continue to maintain their silence on this issue in their most recent pleading (*see* D.I. 10-12), thus confirming that Plaintiffs have not raised a proper claim.

Instead, Plaintiffs, who seem to be still searching for a claim of "fraud" to use as a basis for supposedly challenging the incontestability of U.S. Trademark Reg. No. 865,462, now argue that Allied Domecq supposedly has engaged in acts of "fraud" with regard to *other* trademark registrations, namely nine later-filed STOLICHNAYA "formative" marks. *See* D.I. 66, pp. 10-12. This latest chorus of "fraud" from Plaintiffs, however, is irrelevant (in addition to being baseless).[14] To be relevant, the allegations of fraud must relate *to the registration at issue* (here, U.S. Trademark Reg. No. 865,462). *Cf.* 15 U.S.C. §1064(3) (an incontestable registration may be canceled if the mark is generic, etc., or "*its registration* was obtained fraudulently") (emphasis added).

To put even a finer point on it, Allied Domecq could voluntarily abandon all of its STOLICHNAYA registrations except for U.S. Trademark Reg. No. 865,462, and Plaintiffs' claims would *still* have to be dismissed. Simply put, Allied Domecq's ownership of that one registration alone constitutes "conclusive evidence" that Allied Domecq owns, and has the exclusive right to use, the STOLICHNAYA mark in the United States in connection with vodka. *See* 15 U.S.C. §1115(b). Plaintiffs' new claims of "fraud" concerning subsequent, formative registrations are merely red herrings.

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[14] For example, Plaintiffs suggest that the filing under Section 15 of the Lanham Act of three declarations in November 2004 by "an Allied Domecq attorney" supposedly evidences a deliberate scheme of "fraud." *See* D.I. 66, 1-2, 11. Not only is this irrelevant (as discussed above), but it is also not true. The attorney in question was based in England at the headquarters of Allied Domecq PLC (the ultimate parent company of Defendant Allied Domecq Spirits & Wine USA, Inc.), and had no involvement in, or knowledge of, the lawsuit filed just two weeks earlier against the company's U.S. subsidiary, which is based in Connecticut. Moreover, with regard to the timing of the filings in question, what the Allied Domecq attorney actually filed is what is known as a "combined Section 8 / Section 15 declaration," which is a common consolidated administrative filing. By law, Section 8 declarations (attesting to use) must be filed with the Trademark Office before the sixth anniversary of a registration, so as to avoid abandonment. *See* 15 U.S.C. §1058(b). Because each of the three subject registrations issued in November 1998, the filings in question were therefore due no later than November 2004, and they were made in the normal course of business.

### 5. Plaintiffs Continue to Misstate and Misapply Section 2(a)

Plaintiffs replow old ground with new arguments on the issue of "geographic deceptiveness" (D.I. 66, pp. 12-14), and in the process continue to sow confusion as to the proper interpretation of Section 2(a) of the Lanham Act. This arises from the fact that Plaintiffs continue to be vague when quoting from and applying the statue, including blurring together the separate concepts of "geographic deceptiveness" and "geographical indication." *See, e.g.*, D.I. 34, p. 10 ("quoting" two separate provisions of Section 2(a) as one); D.I. 66, pp. 13-14 (simultaneously arguing elements of separate provisions). Allied Domecq will dispel that confusion below, and show why Section 2(a) is inapplicable.

#### a. An Overview of the Statutory Provisions

An appropriate summary of how marks with possible geographic significance are examined under the Lanham Act is set forth in Sections 1210 *et seq.* of the *Trademark Manual of Examining Procedure* ("*TMEP*"), which is the "Bible" for the Examining Attorneys who work in the Trademark Office. *Accord, e.g., In re International Flavors & Fragrances Inc.*, 183 F.3d 1361, 1366 (Fed. Cir. 1999) ("Although the [*TMEP*] does not have the force of law, it sets forth the guidelines and procedures followed by the examining attorneys at the PTO.") (quote omitted). As described in the *TMEP*, there are three separate "geographic" provisions concerning registerability—Section 2(a), Section 2(e)(2), and Section 2(e)(3). *See TMEP*, §1210; *see also* 15 U.S.C. §1052. For our purposes, however, the only relevant subsection is Section 2(a), as it is the only one that can provide a basis for canceling an incontestable registration. *See* 15 U.S.C. §1064(3).

As the Trademark Office has explained, Section 2(a) has two separate parts, one dealing with "deceptive" matter, and one applicable only to marks for wines and spirits:

> Section 2(a) of the Trademark Act ... prohibits registration of a designation that consists of or comprises [1] deceptive matter, *as well as* [2] geographical indications which, when used on or in connection with wines or spirits, identifies a place other than the origin of the goods.

*TMEP*, §1210 (emphasis added) (numerals added). This language is from the statute:

> **Sect. 2.** No trademark ... shall be refused registration on the principle register on account of its nature unless it—
>
> (a) Consists of or comprises [1] ... deceptive ... matter; ... or [2] a geographical indication which, when used on or in connection with the wines or spirits, identifies a place other than the origin of the goods and is first used on or in connection with wines or spirits by the applicant on or after one year after [January 1, 1995].

15 U.S.C. §1052(a) (numerals added); *compare with TMEP*, §1210 (quoted above).

As a preliminary matter, it should therefore be obvious that the second prong of Section 2(a) (concerning "geographical indications" used with wines and spirits) does not apply. Plaintiffs never allege that "STOLICHNAYA" is a "geographical indication," just that it "*suggests* a well known geographic location" (*see* D.I. 66, p. 13), which is not the same thing. Further, because of the express language of the "grandfather" provision, this subpart is subject to a bright-line rule and "applies only to geographical indications that were first used in commerce on or after January 1, 1996...." *See TMEP*, §1210.05(b).[15] Thus, Plaintiffs' continued focus on this issue is much ado about nothing.

Instead, what Plaintiffs are *really* arguing is that the name STOLICHNAYA is supposedly "geographically deceptive," which is the *first* prong of Section 2(a). The test for geographic deceptiveness under the Lanham Act has four elements:

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[15] Plaintiffs have suggested that *K-Swiss, Inc. v. Swiss Army Brands, Inc.*, stands for the proposition that this statutory text does not apply if "subsequent to the issuance of the registration, the registrant itself causes the mark to become geographically descriptive." *See* D.I. 66, p. 14 (quoting 58 U.S.P.Q.2d 1540, 1542-43 (TTAB 2001). This is not correct. The Board's decision in *K-Swiss* (which did not involve "wines or spirits") turned *on the first "prong"* of Section 2(a)—namely, whether the mark was geographically deceptive—and, thus, did not involve the explicit "grandfather" provision.

To support a refusal of registration on the ground that a geographic term is deceptive under §2(a), the examining attorney must show that:

(1) the primary significance of the mark is a generally known geographic location;

(2) the goods or services do not originate in the place named in the mark;

(3) purchasers would be likely to believe that the goods or services originate in the geographic place identified in the mark ... ; and

(4) the misrepresentation is a material factor in the consumer's decision to buy the goods or use the services.

*TMEP*, §1210.01(c); *accord K-Swiss*, 58 U.S.P.Q.2d at 1541.

The first and third elements of the above test establish whether a mark might be "geographically descriptive." *Cf. TMEP*, §1210.01(a). Meanwhile, the second and fourth elements (which focus on where the goods come from and whether the purchaser's erroneous belief as to origin is "material") distinguishes between those marks that are "geographically *descriptive*" (under Section 2(e)(2)) and those that are "geographically *deceptive*" (under Section 2(a)). *Compare id*, §1210.01(c) *with id.*, §1210.01(a).[16]

For purposes of the present motion (and to simplify the analysis), Allied Domecq will therefore presume that Plaintiffs have adequately pled that elements two and four of this test for "geographic deceptiveness" have been met. Thus, the question for this Court is simply whether Plaintiffs have adequately pled that "STOLICHNAYA" as embodied in U.S. Trademark Reg. No. 865,462 is a "geographically descriptive" term. If they have

[16] The test for whether a mark is "geographically misdescriptive" is now the same as the test for whether a mark is "geographically deceptive." *See TMEP*, §§1210.01(b), 1210.05(a).

not, then Plaintiffs have failed to state a proper challenge to the incontestability of the mark under Section 2(a) (as referenced in Section 14(3) [15 U.S.C. §1064(3)]).[17]

**b. The Term STOLICHNAYA is Not "Descriptive"**

Turning then to the question of whether "STOLICHNAYA" when used on vodka can be regarded as "geographically descriptive," Allied Domecq directs this Court to the Second Circuit's decision in *Forschner Group, Inc. v. Arrow Trading Co.*, wherein the appellate court clearly stated the applicable test:

> A geographically descriptive term or phase is one that "designates geographical location and would tend to be regarded by buyers as descriptive of the geographic location of origins of the goods or services." That a phrase or term *evokes* geographic associations does not, standing alone, support a finding of geographic descriptiveness.[Note 5]. The phrase or term must also "designate geographical location."
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> [Note 5]: Conversely, a phrase or term that is merely evocative of a particular geographic origin *is* eligible for trademark status, even without proof of secondary meaning.

30 F.3d 348, 355, 355 n.5 (2d Cir. 1994) (emphasis in original) (quoting *McCarthy on Trademarks*; citing in footnote *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251, 256, 36 S. Ct. 269, 270 (1916)); *cf. TMEP*, §1210.02.

Here, the term in question—"STOLICHNAYA"—does not "designate" a geographic location. It is not called "MOSCOW" vodka, or "RUSSIAN FEDERATION" vodka, or even "BLACK SEA" vodka. It is "STOLICHNAYA" vodka, and although Plaintiffs have argued that the use of this Russian-language term *suggests* that the product

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[17] Plaintiffs have previously suggested that even if U.S. Trademark Reg. No. 865,462 for STOLICHNAYA is not "geographically deceptive," then perhaps U.S. Trademark Reg. No. 1,852,552 for STOLICHNAYA RUSSIAN VODKA & Design (which mark includes the words "RUSSIAN VODKA", shows a hotel and other graphics) is geographically descriptive (and, according to Plaintiffs, therefore "deceptive"), and, as a consequence, is not incontestable. *See* D.I. 41, p. 9 n.14. However, for the same reasons as discussed in Section III.A.4., *supra*, such an argument is immaterial. The only registration that matters as to the (continued)

is somehow associated with Russia (*see* D.I. 66, p. 13 ("The primary significance of the STOLICHNAYA Mark is that it suggests a well known geographic location — Russia") (emphasis added)) (*see also* D.I. 34, p. 10), that is insufficient as a matter of law to sustain a claim for geographic descriptiveness or deceptiveness. *See Forschner Group*, 30 F.3d at 355. After all, a mark that "suggests" a characteristic of a good (such as its country of origin) is *suggestive*; a "descriptive" mark *identifies* or *describes* a geographic location.[18] *See TMEP*, §§1209.01(a), (b); *accord Forschner Group*, 30 F.3d at 355 n.5 ("a phrase or term that is merely evocative of a particular geographic origin is eligible for trademark status" because it is inherently distinctive and not merely descriptive).[19]

Finally, Plaintiffs have failed to allege (and could never prove) that the *average American vodka consumer* would even understand that "STOLICHNAYA" supposedly means "from the capital," which is the basis for Plaintiffs' argument to begin with. *See* D.I. 46, ¶23. Even if a word "designates" a geographic location (which is not the case here), it must be *understood* by the "average American consumer" to function "as an

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question of "ownership" is U.S. Trademark Reg. No. 865,462; all later registrations that use the name STOLICHNAYA are subject to that "primary" mark. *See TMEP*, §§812.01, 1207 *et seq.*

[18] Specifically, Plaintiffs claim that "STOLICHNAYA" is an adjective meaning "from the capital" in Russian. *See* D.I. 66, p. 13; *but see* D.I. 23, Ex. B (when the Soviet entity V/O-SPI applied for the original trademark registration, it told the Trademark Office that "STOLICHNAYA" just meant the noun "capital," or "main city"). However, "from the capital" is a far cry from meaning "from RUSSIA," or "from MOSCOW," especially when one considers that there are plenty of other "capitals" where people also speak Russian (such as Minsk, Bishkek, and, for that matter, Albany, NY, and Washington, DC). As a result, some "imagination, thought or perception" on the part of the average consumer is needed to reach a conclusion as to the origin of the goods, which makes the mark *suggestive*. *See TMEP*, §1209.01(a).

[19] Plaintiffs cite *Scotch Whisky Ass'n v. U.S. Distilled Prods.*, 952 F.2d 1317 (Fed. Cir. 1991), as support for the contention that Allied Domecq's "mere use of the STOLICHNAYA Mark ... constitutes a violation of Section 2(a) of the Lanham Act." *See* D.I. 66, p. 13. The Federal Circuit's perfunctory analysis in *Scotch Whiskey*, however, is distinguishable on its facts. *See, e.g.*, 952 F.2d at 1318, 1319 (relying in part on the fact that it was "a common practice to market Scotch whisky in the United States under marks composed in whole or in part of Scottish surnames"); *cf. Joint Stock Soc. v. UDV North America, Inc.*, 266 F.3d 164, 170-71 (3d Cir. 2001) (SMIRNOFF [the most popular brand of premium vodka sold in this country] is made in the United States even though the trademark is a Russian surname). More (continued)

indication of the geographic source of the goods" in question. *See TMEP*, §1210.04(c); *In re Societe Generale des Eaux Minerales de Vittel, S.A.*, 824 F.2d 957, 959 (Fed. Cir. 1987) (appropriate test focuses on the understanding of "the mill-run of ... purchasers, not ... the unusually well-traveled, the aficionados of European watering places, or ... computer operators checking out the meaning of strange words on NEXIS"). Moreover, the requirement is especially appropriate in cases (such as here) involving a foreign language. *See ConAgra, Inc. v. Saaverda*, 4 U.S.P.Q.2d 1245, 1249 (TTAB 1987) (concluding that although TAPATIO in Spanish "denotes those people or things from Guadalajara[, Mexico]," the key question was "how many people in the United States would know the geographical significance" of the term") (*Behar Decl.*, Ex. C).[20]

### 6. "Equitable Principles" Are Affirmative Defenses to a Claim of Infringement and Are Not Grounds for Canceling a Registration and Defeating the Conclusive Evidence of Ownership

Plaintiffs' final new argument is that some, vague "equitable reasons" compel this Court to disregard the statutorily-mandated "conclusive evidence" of ownership afforded by the incontestable STOLICHNAYA registration. *See* D.I. 66, pp. 16-17 (citing 15 U.S.C. §1115(b)(9)). This argument fails for multiple reasons.

First, by its terms, the subpart Plaintiffs cite (Section 33(b)(9) of the Lanham Act) is an affirmative defense to a charge of infringement. *See* 15 U.S.C. §1115(b)(9) ("[the registrant's exclusive] right to use the registered mark shall be subject to *proof of*

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fundamentally, though, to the extent that the Federal Circuit's analysis of Section 2(a) conflicts with the Second Circuit's analysis in *Forschner Group*, the latter is clearly controlling in this District.

[20] Of course, in *ConAgra*, the term TAPATIO was actually a "designation" in Spanish for "people and things from Guadalajara." *See* 4 U.S.P.Q.2d at 1249; *cf. Forschner Group*, 30 F.3d at 355 (a geographically descriptive term must "designate[] geographical location"). In contrast, STOLICHNAYA does not mean "from Moscow," or even that something is "from Russia." *See* D.I. 46, ¶23. Rather, according to Plaintiffs (*see* D.I. 66, p. 13), it merely "suggests" that the goods might be from Russia.

*infringement* ... and ... *the following defenses* or defects[, including] ... (9) [t]hat equitable principles, including laches, estoppel, and acquiescence, are applicable") (emphasis added). That section of the statute does not identify the grounds upon which a registration may be cancelled, which are addressed in Section 14 and do not include any equitable challenges. *See* 15 U.S.C. §1064(3) (listing the grounds upon which an incontestable registration may be affirmatively cancelled).[21]

Second, the "equitable principles" that can function as a defense to a claim of infringement brought by the Registrant (which is not an allegation that has been made) are restricted to the specific defenses enumerated in Section 33(b)(9) (namely, "laches, estoppel, and acquiescence") and any defenses that are closely related thereto (which includes "unclean hands"). *See id.*; *accord McCarthy on Trademarks and Unfair Competition*, §32:151 (2004) ("In the author's view, [Section 33(b)(9)] is limited to defenses traditionally and historically in the same class as laches, estoppel and acquiescence."). None of those defenses, however, have been asserted here (*see* D.I. 46), and contrary to Plaintiffs' suggestion (*see* D.I. 66, p. 16), the statute does not authorize a defense on "all possible equitable grounds." This can be seen by comparing Section 33(b)(9), which lists the "equitable principles" that may be asserted against a claim based on an incontestable registration, with Section 33(a), which states that "any ... equitable defense or defect, *including those set forth in [Section 33(b)]*" may be raised as a defense to a claim of infringement based on a *contestable* mark. *See* 15 U.S.C. §1115; *accord*

[21] Plaintiffs cite *Iowa Health Sys. v. Trinity Health Corp.* as justification that the "defense" of "unclean hands" can be asserted affirmatively, "apparently for cancellation of a trademark registration." *See* D.I. 66, p. 16 n.12. In *Iowa Health Sys.*, however, the court expressly stated that it "will assume, *without deciding*, that 'unclean hands' can be asserted as a counterclaim on which the claimant may obtain equitable relief." *See* 177 F. Supp.2d 897, 924 (N.D. Iowa 2001). Meanwhile, in *Blue Planet Software, Inc. v. Games, Int'l, LLC*, "unclean hands" was raised as an affirmative defense. *See* 344 F. Supp.2d 425, 438 (S.D.N.Y. 2004).

*Levi Strauss & Co. v. GTFM, Inc.*, 196 F.Supp2d 971, 983 (N.D. Cal. 2002) (noting that "[i]f a challenger were permitted to raise any and all non-enumerated defenses under the guise of 'equitable principles,' incontestable status would be superfluous").

And third, *even if* the defenses enumerated in Section 33(b)(9) could sustain an affirmative attack on the registrant's ownership status (which they do not), and *even if* the "equitable principles" in question were not limited to the defenses of laches, estoppel, acquiescence, and unclean hands (none of which are alleged here), Plaintiffs would *still* not have a basis for challenging the incontestability of the STOLICHNAYA registration. Like any other affirmative defense, the statutory defenses listed in Section 33(b)(9) must be affirmatively pled. *See* Fed. R. Civ. P. 8(c); *accord Phillip Morris, Inc. v. Imperial Tobacco Co.*, 251 F. Supp. 362, 379 (E.D. Va. 1965) (citing Rule 8(c)), *aff'd*, 401 F.2d 179 (4th Cir. 1968). Plaintiffs, however, have failed to plead or articulate a single equitable defense. Instead, Plaintiffs merely set forth a mishmash of recycled allegations (*e.g.*, SPI stole the mark; Pepsi did not own the registration; Allied Domecq paid too little) under the non-descriptive heading "equitable reasons," and ask the reader to infer that *some* "equitable principle" must have been properly alleged. *See* D.I. 66, p. 17.

Plaintiffs' failure to identify a specific equitable defense seems to be a thinly-veiled attempt to avoid scrutiny of its claim. Even were this Court to credit the idea of using an affirmative defense to an infringement claim as a basis to seek cancellation of an incontestable registration, how is one to know what equitable principle is being asserted? For example, are Plaintiffs alleging an "estoppel"? If so, that defense would require a showing that Allied Domecq, among other things, engaged in conduct that amounts to a false representation, and that it did so with the intent that such conduct would be *relied*

*upon* by the other party, who then must have "changed its position in a prejudicial manner," and there is no allegation of that here. *See, e.g., Cohen v. Elephant Wireless, Inc.*, 2004 WL 1872421, *5 (S.D.N.Y. 2004) (*Behar Decl.*, Ex. D). What about "unclean hands?" Probably not, as Plaintiffs would then need to show that when Allied Domecq acquired the registration from Pepsi, it engaged in unscrupulous conduct that affected "the equitable relations" between Allied Domecq and *Plaintiffs* (which would be impossible given that FTE *did not even exist* at that time; *see* D.I. 45, ¶111).

* * *

As Allied Domecq noted at the outset, this is truly a simple case, and it is ripe for summary disposition. Although Plaintiffs have *raised* every conceivable ground for contesting Allied Domecq's incontestable rights (along with some grounds that do not even apply, such as "defenses"), they either have not (or cannot) plead the facts necessary to support those claims (*e.g.*, "fraud," "geographic descriptiveness"), or their claims are irrelevant and simply do not apply here (*e.g.*, the various iterations of their attacks on "ownership"). As a consequence, Plaintiffs cannot state a claim upon which relief could be granted as to any of their "Ownership" or "Trademark" claims, and those claims (along with the "Copyright" and "Fraud" claims) should be dismissed.

**B. The Rule 12(b)(6) Motion Filed by the SPI Defendants**

The motion that the SPI Defendants filed after briefing on Allied Domecq's original motion overlaps substantially with Allied Domecq's motion. Officially, the SPI Defendants seek to dismiss common Counts I, II, IV-V, and XIV-XV (which have been asserted against both the SPI Defendants and Allied Domecq), along with independent Counts III, VI-VIII (which have only been asserted against the SPI Defendants). *See id.*

As will be explained, however, the resolution of Allied Domecq's motion resolves most of Plaintiffs' claims against the SPI Defendants. The next domino is ready to topple.

More specifically, the legal bases on which the SPI Defendants seek to dismiss the common Counts are, in pertinent part, quite similar to the grounds on which Allied Domecq has moved to dismiss those same claims. *Compare generally* D.I. 51 *with* D.I. 23 and D.I. 37 (Allied Domecq's filings). Moreover, the independent Counts VI-VIII that Plaintiffs have alleged against the SPI Defendants are simply corollaries of the "Trademark Claims" XI-XIII that Plaintiffs assert against Allied Domecq.[22] As such, if this Court agrees that (1) Plaintiffs' "Ownership" and "Trademark" claims should be dismissed because Plaintiffs have not set forth a proper statutory claim upon which a court could find that the primary STOLICHNAYA trademark registration is not "incontestable"; (2) Plaintiffs' "Copyright" claim is premature because Allied Domecq was never provided with formal statutory notice of any intent to enforce the supposedly restored copyright; and (3) Plaintiffs' "Fraud" claims cannot be based on an allegation that a third party such as PepsiCo or the U.S. Trademark Office supposedly "relied" on certain representations, then much of SPI's motion should be granted as well.

After that, all of Plaintiffs' case that would remain pending against the SPI Defendants would be the stand-alone tort claim (Count III), as to which SPI has asserted independent grounds for dismissal, and which issue has been fully briefed by the parties. *See* D.I. 51, pp. 22-25, 30-32. In addition, the SPI Defendants have also moved to

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[22] In those claims, Plaintiffs allege that the SPI Defendants are liable for various forms of "contributory" trademark infringement. *See* D.I. 46, ¶¶135-150. It is axiomatic, however, that if there is no "direct" infringement as a matter of law, there can be no "contributory" infringement either. *See, e.g., McCarthy on Trademarks*, §25:18; *Inwood Labs, Inc. v. Ives Labs, Inc.*, 456 U.S. 844, 854-55 (1982) ("contributory infringement" will be found "if a manufacturer or distributor intentionally induces another *to infringe* a (continued)

dismiss that remaining claim (along with all other asserted claims) for failure to join an indispensable party, *see id.*, pp. 33-38, which motion will be touched on briefly below.

**C. The Rule 19 Motion Filed by the SPI Defendants**

As noted above, the SPI Defendants have also moved to dismiss the asserted claims based on Plaintiffs' failure join certain parties (specifically, "FGUP" and the Russian Federation) as plaintiffs to Counts I-VIII and XIV-XV. *See id.* For substantially the reasons stated in SPI's pleading, Allied Domecq concurs that, if one assumes that Plaintiffs have stated proper "Ownership" and "Trademark" claims, joinder of FGUP and Russia would be needed given the conflicting allegations Plaintiffs have made as to which party supposedly owns the reversionary contractual interests in the mark that Pepsi granted in the June 1991 Agreement (as amended). *Compare, e.g.*, D.I. 46, ¶110 ("[t]he Marks have always been owned by either the Soviet government or the ... Russian Federation") *with id.*, ¶¶75 ("VVO-SPI 'reassigned' [the Marks] to PepsiCo," and "[t]he 'reassignment' was subject to a reversionary right in favor of VVO-SPI") *and* ¶110 ("VVO-SPI [is] known today as FGUP VO SPI").[23]

Allied Domecq must stress, however, that the exercise of deciding who is a "necessary" party to claims that nonetheless are defective is as productive as a debate about angles dancing on pinheads. Contemplating such a scenario requires one to stack layers of hypotheticals upon themselves (*e.g.*, that an "ownership" claim is proper; that

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trademark, or if it continues to supply its product to one whom it knows or has reason to know is *engaging in trademark infringement*") (emphasis added).

[23] Although Plaintiffs claim that FGUP "has no current claim to the Marks" (*see* D.I. 46, ¶110), there is no allegation as to how the reversionary rights supposedly owned by VVO-SPI (now FGUP) were transferred to the Russian Federation. Further, it is internally inconsistent for Plaintiffs to state on the one hand that VVO-SPI "assigned" or "reassigned" or "licensed" the mark (*see id.*, ¶¶74-75), and then claim on the other hand that the mark has "always been owned" by either the Soviet Union or Russia (*see id.*, ¶110).

some entity in Russia actually "owns" the mark; that contractual reversionary rights are the equivalent of legal title). Moreover, it readily becomes apparent that PepsiCo would also be a "necessary" party to this absurdity, and thus they would also have to be joined.

Logically played out, the analysis would proceed as follows. If we are to assume that Allied Domecq's registration is not "incontestable," what happens? First, as noted previously (*see* n.1, *supra*), one must recognize that even if it loses its "incontestable" status, Allied Domecq's federal registration for STOLICHNAYA would *still* constitute *prima facie* evidence that Allied Domecq owns the mark (*see* 15 U.S.C. §1115(a)), and there should be no question that Pepsi actually assigned the mark to Allied Domecq, which makes Allied Domecq the present owner and resolves this issue. *See* D.I. 23, Exs. C, G. However, *even if* one were to follow Plaintiffs' suggestion, disregard such evidence, and, in effect, void the Pepsi/Allied Domecq transaction, one must ask the question: who would have title to the registration? The answer is clear—Pepsi.

If Pepsi supposedly did not transfer the mark and registration to Allied Domecq (despite what Pepsi, Allied Domecq, and the Trademark Office all say), then evidently Pepsi *still owns it. Accord Financial Matters*, 1993 WL 378844 at *4 (concluding that, as of late-1993, "PepsiCo clearly ha[d] the exclusive ownership and right to use the [STOLICHNAYA] marks as a matter of U.S. trademark law"). And while Plaintiffs may argue that Pepsi would have been contractually obligated to *assign* the registration to the Russian Federation in January 2001 if it had not transferred title to Allied Domecq, the fact remains that Pepsi would obviously be a necessary party because, but for the January 2001 Assignment to Allied Domecq, Pepsi would *still own title* to the property at issue.

Were Pepsi (or any party) to be placed in the position where it was forced to assign a registration to a third-party, then obviously it would want to make sure that *all* parties who might have a claim on the asset are joined as plaintiffs. As SPI correctly notes, however, this cast of characters would, by Plaintiffs' own allegations, include the Russian Federation and FGUP, along with SPI. *See* D.I. 46, ¶¶74-75, 100; D.I. 51, pp. 33-38. Moreover, it is premature to speculate as to whom else Pepsi may deem to be a "necessary" party as they obviously have not weighed in on this hypothetical.

In addition, and to carry this blue sky analysis even further, Pepsi would also be a necessary party to Plaintiffs' "fraud" claims if we were to assume that, contrary to Second Circuit law, a party can state a claim for fraud by alleging that a third-party (here, Pepsi) relied on the supposedly fraudulent representation. *See* D.I. 46, ¶¶122 (alleging that Allied Domecq engaged in acts of "fraud" by supposedly "causing false information" to be presented to Pepsi, and upon which Pepsi allegedly relied); *cf. Lollo*, 148 F.3d at 196 ("a plaintiff does not establish the reliance element of fraud for purposes of ... New York law by showing only that a third party relied on a defendant's false statements"). After all, if any party was defrauded by whatever "false information" Allied Domecq allegedly communicated to Pepsi (which information Plaintiffs still have not identified), it was Pepsi, which, according to Plaintiffs, then violated some obligation it owed to a third party (although whether that third party would be Plaintiffs, the Russian Federation, or FGUP is still uncertain). And because Pepsi's supposed violation of that obligation would, at a minimum, expose it to a claim of breach of contract (*see* Section II.A.3., *supra*), then Pepsi could claim to have been *damaged* by its reliance on Allied Domecq's statement, thus perfecting a possible fraud claim against Allied Domecq.

To be sure, of course, Pepsi could never sustain such a claim as (1) there was no fraud engaged in by Allied Domecq; (2) no one has sued Pepsi for breach of contract (nor, most likely, can they); and (3) Pepsi warranted *to Allied Domecq* that it had the full power and authority to transfer title, thus vitiating any supposed "reliance" Plaintiffs would have this Court infer that Pepsi might have had on whatever "false information" Allied Domecq supposedly presented to Pepsi. Nonetheless, were Plaintiffs allowed to state a fraud claim based on Pepsi's "reliance," Pepsi would again be a necessary party.

At the end of the day, however, no one is a "necessary" party to the claims Plaintiffs assert because Plaintiffs are asserting the wrong claims. They are claiming to "own" a mark even though they have *never owned it*; they are claiming that there is an "infringement" of the mark even though they *do not control it*; they are claiming that there is a "copyright" violation even though they *never restored it*; and they are claiming that a "fraud" was committed even though they *never relied on it*. None of those allegations can support a claim for relief and, as such, an analysis of which parties are necessary for the adjudication of those infirm claims is superfluous.

**D. The Motion for Summary Judgment Filed by Plaintiffs**

The last motion that needs to be addressed was never a serious motion at all. Rather, as their counsel explained, Plaintiffs filed their motion for summary judgment on Count XIII ("false advertising") in an effort to "persuad[e] [Allied Domecq] to talk to [Plaintiffs] about a possible business resolution of the case." *See* D.I. 74, p. 3. Whether as a legal pleading or negotiating ploy, however, Plaintiffs' filing has no merit.

The predicate for Plaintiffs' motion is their remarkable contention that there supposedly is no dispute as to whether the vodka that Allied Domecq advertises and sells as "Russian Vodka" is, in fact, from Russia. *See* D.I. 65, pp. 2-3, 6. And as "proof" of

their claim, Plaintiffs cite *themselves*, arguing that because they do not know *how* the vodka that the SPI Defendants produce in Russia is exported to Latvia for bottling (and eventual distribution and sale in the Untied States by Allied Domecq), it obviously must not be made in Russia. *See* D.I. 60, ¶¶18-23 (relied on by Plaintiffs in D.I. 65 at pp. 2, 8-9). In so doing, however, Plaintiffs are merely pointing to the *absence* of evidence (*e.g.*, the supposed lack of Russian customs records, Plaintiffs' inability to identify the export shipments), and asking this Court to infer that some negative fact must therefore be true.

This argument, however, has no merit. The simple fact of the matter is that the vodka Allied Domecq sells in the United States is from the Russian Federation. As such, it may be called "Russian Vodka," and Plaintiffs' motion must therefore be denied.

Evidence establishing that STOLICHNAYA vodka sold in the United States originates in the Russian Federation is set forth in the *Declaration of Jean François Lavigne*, and has been confirmed by Allied Domecq's vodka supplier (SPI), which has offered the *Declaration of Georgy Rolandovich Kipiani*. In those declarations, which are submitted herewith, both declarants attest to the Russian origin of the vodka based on their own personal knowledge. *See Lavigne Decl.*, ¶¶3-10; *Kipani Decl.*, ¶¶2, 5-10. Such submissions are more than sufficient to establish that, at a minimum, there is a genuine issue of material fact.[24] *Accord, e.g.*, Fed. R. Civ. P. 56(e).

In addition to the above issues of fact, Plaintiffs' summary judgment filing also contains numerous legal deficiencies, including a misstatement of the applicable "country of origin" law, and a complete misapplication of the "primary significance" test as

[24] Actually, to be fair, when all of the evidence is considered (including the declarations submitted herewith), there *is* no "genuine issue" as to the origin of Allied Domecq's vodka—it is from Russia, and (continued)

regards the term "STOLICHNAYA." *See* D.I. 65, pp. 4-5, 14 n.10, 18-19.[25] It is not necessary, however, for Allied Domecq to dwell on these or any other legal issues as the factual dispute already dooms Plaintiffs' motion. Nonetheless, should this Court request further briefing as to any of these legal issues, Allied Domecq will respond accordingly.

## III. CONCLUSION

For the reasons above, and those set forth during briefing and argument on Allied Domecq's *Motion to Dismiss* (as converted by the Court; *see* D.I. 45), Allied Domecq requests that Counts I, II, IV, V, IX, and XI-XV as alleged against Allied Domecq be dismissed either in whole (with regard to Counts I, II, IV, IX, XI, XII, XIV, and XV) or in part (Counts V and XIII) (excluding "false advertising").[26] Allied Domecq further

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Plaintiffs have not offered any evidence to suggest otherwise. As such, summary judgment *in favor of* Allied Domecq would be appropriate if Allied Domecq were to so move at a later date.

[25] For example, regarding the "country of origin" issue, Plaintiffs claim that Russian vodka supposedly must have "particular characteristics" under Russian law, and intimate that not all "Russian vodka" may be called "Russian Vodka" according to the Russian Federation. *See* D.I. 65, pp. 3, 4-5. This argument, however, is irrelevant. The test for whether a distilled spirit sold in the United States may be called "Russian Vodka" is an issue to be decided under *U.S. law*, as expressed in the regulations promulgated by the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department. *See generally* 27 U.S.C. §§201 *et seq.* Those regulations state that something may be called "vodka" if it is a "neutral spirit[] so distilled, or so treated after distillation with charcoal or other materials, as to be without distinctive character, aroma, taste, or color," and it may be called "Russian" as long as it not "produced in any other place than the particular place or region indicated in the name." *See* 27 C.F.R. §§5.22(a)(1), (k)(3). A foreign county's regulations (such as those that apply to "Canadian," "Irish," and "Scotch" whiskeys) only apply when that country participates in the U.S.'s "country of origin" certificate program, which program has very specific requirements. *See* 27 C.F.R. §§5.52, 5.56. The Russian Federation, however, opted out of that program as of August 25, 1998. *See* Bureau of Alcohol, Tobacco, and Firearms, *Industry Circular*, No. 94-2 (8/19/94) (*Behar Decl.*, Ex. E). As such, *even if* the vodka Allied Domecq sells in the United States does not have the "particular characteristics" recently required under Russian export laws (although, in point of fact, it *does*), it still is (and may lawfully be called) "Russian Vodka" under U.S. law.

[26] As noted earlier (*see* n.2, *supra*), Allied Domecq also believes that Count X is deficient as well, and submits that this Court may dismiss that Count as a matter of law for the same reasons that underlie Allied Domecq's motion as to the other "Trademark" claims. In the alternative, Allied Domecq reserves the right to address that claim in a later motion should this Court grant Allied Domecq's motion in whole or in part.

submits that based on the existence of a genuine issue of material fact, Plaintiff's *Motion for Summary Judgment* as to Count XIII should also be denied. Finally, if this Court were to deny the pending *Motion to Dismiss*, Allied Domecq submits that PepsiCo would need to be joined for the just adjudication of the remaining claims. However, as Allied Domecq does not believe that any of claims at issue can survive the present motion to dismiss, it is not necessary for this Court to consider Pepsi's joinder.

Respectfully submitted,

Dated: August 31, 2005

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12535/22:578787

# EXHIBIT 14

**IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK**

FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT and OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ZAVOD ALKOGOL'NOI PRODUKCHII "OST-ALCO".

*Plaintiffs*,

v.

SPIRITS INTERNATIONAL N.V., SPI SPIRITS LIMITED, SPI GROUP SA, ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V., ALLIED DOMECQ SPIRITS & WINE USA, INC., and YURI SHEFLER and ALEXEY OLIYNIK (both individuals),

*Defendants*.

Case No.: 1:04-cv-08510 (GBD)

**ALLIED DOMECQ'S COUNTER-STATEMENT OF MATERIAL FACTS PURSUANT TO LOCAL RULE 56.1(b)**

***Addressing:***

**The Motion for Summary Judgment Filed by the Plaintiffs**

Defendants, Allied Domecq Spirits & Wine USA, Inc. and Allied Domecq International Holdings B.V. (collectively, "Allied Domecq"), respectfully submit this counter-statement of material facts pursuant to Local Rule 56.1(b) in response to the Local Rule 56.1 Statement submitted by Plaintiffs in support of their *Motion for Summary Judgment* on Count XIII ("false advertising").

As noted below, Allied Domecq does not dispute many of Plaintiffs' peripheral allegations (albeit for purposes of the present motion only; *see* Local Rule 56.1(c)) as those allegations are not relevant to the resolution of this motion given the totality of the evidence of record. Namely, as established by the *Declaration of Jean François Lavigne* and the *Declaration of Georgy Rolandovich Kipiani*, and contrary to the central allegation Plaintiffs make in support of their motion (*see* D.I. 65, pp. 2, 8-9) (referencing D.I. 60, ¶¶18-23), the vodka Allied Domecq sells in the United States under the STOLICHNAYA brand is produced in Russia and, thus, may properly be called "Russian Vodka." Therefore, at a minimum, there exists a genuine issue of material fact.

**Response to Plaintiffs' Statement of Material Facts**

1.-6. Pursuant to Local Rule 56.1(c), Allied Domecq does not dispute these allegations as they are not relevant for the purposes of the present motion, which can be resolved based solely on the existence of a genuine issue of material fact as to Plaintiffs' allegations that the vodka in question is not made in Russia.

7. This allegation is not relevant for purposes of the present motion, which can be resolved based solely on the existence of a genuine issue of material fact as to Plaintiffs' allegations that the vodka in question is not made in Russia. Still, Allied Domecq notes that when the Soviet entity V/O-SPI applied for the original STOLICHNAYA trademark registration, it told the U.S. Trademark Office that "STOLICHNAYA" just meant the noun "capital," or "main city, which is different from the interpretation that Plaintiffs use today. *See* D.I. 23, Ex. B.

8.-11. Pursuant to Local Rule 56.1(c), Allied Domecq does not dispute these allegations as they are not relevant for the purposes of the present motion, which can be

resolved based solely on the existence of a genuine issue of material fact as to Plaintiffs' allegations that the vodka in question is not made in Russia.

12. As set forth in the *Declaration of Jean François Lavigne* and the *Declaration of Georgy Rolandovich Kipiani*, certain *aspects* of the process for supplying the U.S. market with STOLICHNAYA vodka now take place in Latvia, such as bottling the product for final export. *See Lavigne Decl.*, ¶¶6-9; *Kipiani Decl.*, ¶¶8-10. As both men make clear, however, the vodka itself is made in Russia. *See Lavigne Decl.*, ¶¶3-5, 10; *Kipiani Decl.*, ¶¶5-7.

13.-15. Pursuant to Local Rule 56.1(c), Allied Domecq does not dispute these allegations as they are not relevant for the purposes of the present motion, which can be resolved based solely on the existence of a genuine issue of material fact as to Plaintiffs' allegations that the vodka in question is not made in Russia.

16. This allegation is not relevant for purposes of resolving the present motion. As Allied Domecq has explained in its opposition brief (*see Opp. Br.*, p. 32 n.25), the test for whether a distilled spirit sold in the United States may be called "Russian Vodka" is an issue to be decided under U.S. law, as expressed in the regulations promulgated by the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department. *See generally* 27 U.S.C. §§201 *et seq.* Those regulations state that something may be called "vodka" if it is a "neutral spirit[] so distilled, or so treated after distillation with charcoal or other materials, as to be without distinctive character, aroma, taste, or color," and it may be called "Russian" as long as it not "produced in any other place than the particular place or region indicated in the name." *See* 27 C.F.R. §§5.22(a)(1), (k)(3). A foreign county's regulations (such as those that apply to "Canadian," "Irish," and "Scotch" whiskeys) only apply when that country participates in the U.S.'s "country of origin" certificate program, which program has very specific requirements. *See* 27 C.F.R. §§5.52, 5.56. The Russian Federation, however, opted out of that program as of August 25, 1998. *See* Bureau of Alcohol, Tobacco, and Firearms, *Industry Circular*, No. 94-2 (8/19/94) (*Behar Decl.*, Ex. __).

17.-18. As set forth in the *Declaration of Jean François Lavigne* and the *Declaration of Georgy Rolandovich Kipiani*, certain *aspects* of the process for supplying the U.S. market with STOLICHNAYA vodka now take place in Latvia, such as bottling the product for final export. *See Lavigne Decl.*, ¶¶6-9; *Kipiani Decl.*, ¶¶8-10. As both men make clear, however, the vodka itself is made in Russia. *See Lavigne Decl.*, ¶¶3-5, 10; *Kipiani Decl.*, ¶¶5-7.

19.-22. These allegations are not relevant for purposes of resolving the present motion, which can be resolved based solely on the existence of a genuine issue of material fact as to Plaintiffs' allegations that the vodka in question is not made in Russia. Moreover, Allied Domecq notes that there is no requirement under U.S. law that the vodka Allied Domecq sells here under the STOLICHNAYA brand must have been identified by that trademark prior to sale in the United States. Also, Allied Domecq again references the *Declaration of Jean François Lavigne* and the

*Declaration of Georgy Rolandovich Kipiani*, wherein it is made clear that the vodka Allied Domecq sells in the United States under the STOLICHNAYA brand is made in Russia. *See Lavigne Decl.*, ¶¶3-5, 10; *Kipiani Decl.*, ¶¶5-7.

23. This allegation is not relevant for purposes of resolving the present motion, which can be resolved based solely on the existence of a genuine issue of material fact as to Plaintiffs' allegations that the vodka in question is not made in Russia. Moreover, Allied Domecq notes that there is no requirement under U.S. law that "vodka" be made according to a "particular recipe," or that it have a "distinctive chemical composition." Rather, U.S. law only requires that for something to be called "vodka," it must be a "neutral spirit[] so distilled, or so treated after distillation with charcoal or other materials, as to be without distinctive character, aroma, taste, or color." *See* 27 C.F.R. §§5.22(a)(1). Also, Allied Domecq again references the *Declaration of Jean François Lavigne* and the *Declaration of Georgy Rolandovich Kipiani*, wherein it is made clear that the vodka Allied Domecq sells in the United States under the STOLICHNAYA brand is made in Russia. *See Lavigne Decl.*, ¶¶3-5, 10; *Kipiani Decl.*, ¶¶5-7.

24.-25. These allegations are not relevant for purposes of resolving the present motion, which can be resolved based solely on the existence of a genuine issue of material fact as to Plaintiffs' allegations that the vodka in question is not made in Russia. Moreover, Allied Domecq notes that the referenced German court decision did not involve U.S. law, and Allied Domecq was not even a party. The test for whether a distilled spirit sold in the United States may be called "Russian Vodka" is an issue to be decided under U.S. law, as expressed in the regulations promulgated by the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department. *See* 27 U.S.C. §§201 *et seq.*; *see also Opp. Br.*, p. 32 n.25.

26. This allegation is not relevant for purposes of resolving the present motion, which can be resolved based solely on the existence of a genuine issue of material fact as to Plaintiffs' allegations that the vodka in question is not made in Russia. Moreover, as Allied Domecq has explained in its opposition brief (*see Opp. Br.*, pp. 21-22), even if a word "designates" a geographic location (which is not the case with the term "STOLICHNAYA"; *see id.*, pp. 20-21), one must then ask whether it would be *understood* by the "average American consumer" (as opposed to by a particular subclass, such as Russian immigrants) to function "as an indication of the geographic source of the goods." *See TMEP*, §1210.04(c); *In re Societe Generale des Eaux Minerales de Vittel, S.A.*, 824 F.2d 957, 959 (Fed. Cir. 1987); *ConAgra, Inc. v. Saaverda*, 4 U.S.P.Q.2d 1245, 1249 (TTAB 1987).

27. Allied Domecq did not "fraudulently" obtain any registrations from PepsiCo, and Plaintiffs have never alleged any facts to support such a claim. *See generally* D.I. 36, nn. 2, 4; D.I. 37, pp. 14-16; Fed. R. Civ. P. 9(b); *Cement and Concrete Workers Dist. Council Welfare Fund v. Lollo*, 148 F.3d 194, 196 (2d Cir. 1998).

## Statement of Additional Material Facts

Pursuant to Local Rule 56.1(c), Allied Domecq submits that the following material fact is presently in dispute, thereby precluding the requested grant of summary judgment relief. Allied Domecq does not believe, however, that this is an issue that ultimately will need to be tried, as the evidence (presently of record and otherwise) is overwhelming that no reasonable juror could conclude that the vodka in question is not "Russia Vodka" under U.S. law. As such, summary judgment *in favor of* Allied Domecq would be appropriate if Allied Domecq were to so move at a later date.

28. The vodka Allied Domecq sells in the United States under the STOLICHNAYA brand is made in Russia. *See Lavigne Decl.*, ¶¶2-10; *Kipiani Decl.*, ¶¶5-10.

Respectfully submitted,

Dated: August 31, 2005

/s/ Brad M. Behar
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*Counsel for Defendants, Allied Domecq Spirits & Wine USA, Inc. and Allied Domecq International Holdings B.V.*

12535/22:581443

# EXHIBIT 15

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT AND OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ALKOGOL'NOI PRODUKCHI "OST ALCO."<br><br>*Plaintiffs,*<br><br>v.<br><br>SPIRITS INTERNATIONAL N.V., SPI SPIRITS (CYPRUS) LIMITED, SPI GROUP SA, YURI SHEFLER, ALEXEY OLIYNIK, ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V., ALLIED DOMECQ SPIRITS & WINE USA, INC. D/B/A ALLIED DOMECQ SPIRITS, USA,<br><br>*Defendants.* | Civil Action No. 1:04-CV-08510 (GBD) |

## DECLARATION OF GEORGY ROLANDOVICH KIPIANI

1. I am a member of the Board of Directors of S.P.I. Group SA and have served in this role since September 2003. I am also the Chairman of the Board of the Open Joint Stock Company Talvis ("Talvis"), which runs a distillery in Tambov, Russian Federation, which is indirectly partly owned by S.P.I. Group SA.[1]

2. In these capacities, and primarily as a member of the Board of Directors of S.P.I. Group SA, I am responsible for and have personal knowledge of all aspects of the production of STOLICHNAYA vodka for export to the United States.

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[1] S.P.I. Production BV, a Dutch corporation, holds 21% of shares in Talvis. S.P.I. Production BV is wholly owned by S.P.I. Group SA.

3. Among other things, I manage the supply of raw materials used in the production of vodka, oversee the vodka production, monitor the laboratory technologies used by all distilleries to ensure quality control, and supervise the shipment, receipt, bottling, and packaging of the vodka products.

4. SPI produces the following STOLICHNAYA vodka products for export to the United States:[2] STOLICHNAYA (Red Label, 40% ABV); STOLICHNAYA Blue (Blue Label, 50% ABV); STOLICHNAYA Gold (Black Label, 40% ABV); STOLICHNAYA elit; STOLI Citros; STOLI Razberi; STOLI Cranberi; STOLI Strasberi; STOLI Ohranj; STOLI Vanil; and STOLI Persik.

5. STOLICHNAYA vodka destined for the United States market is produced at two distilleries: Talvis (located in the city of Tambov, RF) and SPI-RVVC (located in the city of Kaliningrad, RF). Each vodka is produced in its entirety at the Talvis or SPI-RVVC distillery and is shipped in bulk to SPI's Latvijas Balzams distillery (located in Riga, Latvia) for bottling and distribution only.

6. The vodka production process used at the two facilities is the same and involves the following steps, starting from pure alcohol spirits: (1) preparation of water; (2) preparation of water and pure alcohol solution; (3) filtration through silica sand; (4) filtration through activated charcoal; (5) addition of ingredients; and (6) adjustment of the alcohol-by-volume ("ABV") percentages.

[2] I use the term "SPI" generally to include S.P.I. Spirits (Cyprus) Limited, Spirits International N.V., and other SPI entities involved in the export of spirits and wines worldwide, including the Talvis and SPI-RVVC distilleries, which are both indirectly partly owned by S.P.I. Group SA.

7. More specifically, all STOLICHNAYA vodka products destined for the United States start from 100% Lux rectified pure grain alcohol produced in Russia at the Talvis distillery. (The Talvis distillery supplies SPI-RVVC with rectified pure grain alcohol through bulk shipments by railroad tank containers.) Upon receipt of the rectified pure grain alcohol, we prepare a water-alcohol solution of the necessary strength and then filter the mix through a charcoal refining battery at a constant speed of 30 decaliters per hour. In passing through the charcoal refining battery, the water-alcohol solution passes first through a silica sand filter, then a charcoal column filled with birch activated charcoal, then another silica sand filter, and finally a fine purification filter. Through this filtration process, we remove impurities and enhance the organoleptic qualities (qualities that stimulate the sense organs, such as taste, color, odor, and feel) and physicochemical characteristics of the solution. We collect the filtered solution in an adjustment tank, where we add ingredients in accordance with the recipe. We then perform laboratory chemical testing and, if necessary, adjust the alcohol content (ABV)[3] of the solution. The finished product is vodka that is ready for consumption.

8. After the vodka destined for sale in the United States has been produced at the Talvis and SPI-RVVC distilleries, we pump it into tank containers for shipping to SPI's Latvijas Balzams distillery in Riga, Latvia. Because in 2002 the Russian Federation seized STOLICHNAYA vodka produced by SPI-RVVC for export, we now export the vodka under a different brand name. At SPI's Latvijas Balzams distillery, we do not add any ingredient to the vodka or change it in any way. We test the vodka to ensure quality control; we filter it

[3] For example, to make the main STOLICHNAYA product, which contains 40% ABV, we need to add approximately three parts of treated water for every two parts of pure alcohol. Although the appropriate ABV mixture is made prior to filtering, minor modifications to the ABV may be made in the adjustment tank to compensate for changes that occur during the filtration process.

mechanically to remove impurities that may have been acquired during shipping; and we bottle it, affix the applicable STOLICHNAYA labels to the bottles, and package the bottles for export to the United States. Some aspects of the process are described in more detail below.

9. We take strict quality control measures throughout the production process, as well as after the vodka has been transported to Latvijas Balzams. At Latvijas Balzams, we pump the vodka out of the tank containers into special fixed stainless steel tanks. We test samples of the vodka for quality control, and only after the Production Laboratory issues a quality certificate do we bottle the vodka.

10. As the vodka is pumped to the bottling station, it passes through two or three mechanical polypropylene filters designed to remove any particulate matter that may have entered the vodka during shipping. This filtration process does not change the vodka in any respect, and we add no ingredients to the shipped product.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on August 26, 2005 in Москва, Россия.

Georgy Rolandovich Kiprani

# EXHIBIT 16

**IN THE UNITED STATES DISTRICT COURT**
**FOR THE SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ALKOGOL'NOI PRODUKCII "OST ALCO"<br><br>Plaintiffs,<br><br>v.<br><br>SPIRITS INTERNATIONAL N.V., SPI SPIRITS LIMITED, SPI GROUP SA, YURI SHEFLER, ALEXEY OLIYNIK, ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V., ALLIED DOMECO SPIRITS & WINE USA, INC. D/B/A ALLIED DOMECQ SPIRITS, USA<br><br>Defendant. | **Civil Action No. 1:04-CV-08510 (GBD)**<br><br>**FILED ELECTRONICALLY** |

**DECLARATION OF JEAN FRANCOIS LAVIGNE IN SUPPORT OF OPPOSITION TO MOTION FOR SUMMARY JUDGMENT**

On behalf of Defendants, Allied Domecq International Holdings, B.V. and Allied Domecq Spirits & Wine USA, Inc. (collectively, "Allied Domecq"), I submit the following declaration, which is made of my own personal knowledge, and I would and could competently testify thereto if called upon to do so.

1. I am Group Director for Environmental and Technical Affairs, Allied Domecq, PLC ("Allied Domecq Group").

2. Among my responsibilities is quality assurance for the Allied Domecq Group, including the monitoring of quality control assurance for the

STOLICHNAYA product made for Allied Domecq Spirits & Wine USA, Inc. ("Allied Domecq") and intended for shipment to and sale within the United States.

3. In the course of my responsibilities, I have personally visited the SPI Group facility located within Russia during the last year, which produces vodka under contract for the Allied Domecq Group and Allied Domecq, where Russian spirits are blended, filtered and finished to produce bottle proof, bulk Russian vodka.

4. The purpose of my visits was to understand and confirm the details of production of Russian vodka destined for eventual export to and sale in the United States, and to confirm that production was in compliance with the requirements of Allied Domecq for the production and delivery of Russian vodka.

5. During my visits described above, I personally observed the blending, filtering and finishing of vodka at the SPI Russian facility, and the storage of that vodka in bulk storage containers.

6. I have also personally visited the SPI bottling facilities in Latvia, and inspected shipping documents accompanying bulk shipments of Russian vodka from the SPI Russian facility. Those documents confirmed the bulk Russian vodka shipments received at the SPI facility in Latvia, originated at

the SPI Russian vodka blending facility described above. I also visually inspected the delivery trucks delivering the bulk Russian vodka from Russia to the SPI Latvian bottling facility.

7. I assisted SPI personnel in creating and implementing a control process to assure that the vodka delivered in bulk from Russia to the Latvian bottling facility, was segregated, stored and eventually used to bottle STOLICHNAYA vodka for delivery to Allied Domecq, destined for import into the United States.

8. During visits to the SPI facility in Latvia, I personally observed the process of filtration and bottling of bulk vodka as STOLICHNAYA vodka for Allied Domecq, and labeling of that vodka as "Russian vodka" destined for the United States.

9. I have also personally checked shipping containers of STOLICHNAYA Russian vodka destined for the United States to assure that all requirements of Allied Domecq were being met.

10. In the course of my duties, I have personal knowledge and have concluded that the vodka which is produced and bottled as STOLICHNAYA for sale in the United States originates from and is Russian vodka, and is properly labeled as Russian vodka.

I declare under penalty of perjury under the laws of the United States and the State of New York and the country of France, that the foregoing is true and correct.

Executed in the City of Paris, France:

Date: August 26, 2005

Jean François Lavigne

Republic of France
City of Paris
Embassy of the United States of America } SS:

I hereby certify that on this day the individual (s) named below appeared before me and acknowledged to me that the attached instrument was executed freely and voluntarily

Jean-François LAVIGNE

Consul of the United States of America Loma Ramsay 8/26/05 Date

Loma Ramsay
Consular Officer
U.S. EMBASSY-PARIS FRANCE

# EXHIBIT 17

**IN THE UNITED STATES DISTRICT COURT**
**FOR THE SOUTHERN DISTRICT OF NEW YORK**

| | |
|---|---|
| FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT AND OBSCHESTVO S OGRANICHENNOI OTVETSTVENNOST'YU CHERNOGOLOVSKII ALKOGOL'NOI PRODUKCII "OST ALCO,"<br><br>*Plaintiffs,*<br><br>*v.*<br><br>SPIRITS INTERNATIONAL N.V., SPI SPIRITS LIMITED, SPI GROUP SA, YURI SHEFLER, ALEXEY OLIYNIK, ALLIED DOMECQ INTERNATIONAL HOLDINGS B.V., ALLIED DOMECQ SPIRITS & WINE USA, INC. D/B/A ALLIED DOMECQ SPIRITS, USA,<br><br>*Defendants.* | Civil Action No. 1:04–CV–08510 (GBD) (THK) |

**JOINDER OF SPI DEFENDANTS IN OPPOSITION TO PLAINTIFFS' MOTION FOR SUMMARY JUDGMENT**

For the reasons set forth in Allied Domecq's Consolidated Submission, filed today, and in particular in light of the Declaration submitted by Georgy Rolandovich Kipiani, a member of the Board of Directors of S.P.I. Group SA, the SPI Defendants oppose Plaintiffs' Motion for Summary Judgment.

Respectfully submitted,

s/Bradley J. Nash /
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Oscar M. Garibaldi (OG 6351)
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*Attorneys for SPI Defendants*

August 31, 2005

**CERTIFICATE OF SERVICE**

The undersigned member of the bar of this court hereby certifies that true and correct copies of the foregoing Joinder of SPI Defendants in Opposition to Plaintiffs' Motion for Summary Judgment was served upon:

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*Attorneys for AD Defendants*

by electronic filing under the Rules of this Court.

August 31, 2005

Respectfully submitted,

s/Bradley J. Nash
Bradley J. Nash (BN 800

# EXHIBIT 18

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK
----------X

FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT, et al.,

Plaintiffs,

v. 04 CV 8510 (GBD)

OBSCHESTVO S OGRANICHENNOI, et al.,

Defendants.

----------X

April 28, 2005
10:30 a.m.

Before:

HON. GEORGE B. DANIELS,

District Judge

APPEARANCES

QUINN EMANUEL URQUHART OLIVER & HEDGES, LLP
Attorneys for Plaintiffs
BY: DAVID W. QUINTO
JEFFREY A. CONCIATORI
JONATHAN B. OBLAK

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Attorneys for Defendant Allied
BY: EDWARD T. COLBERT
WILLIAM MERONE
GREGG A. PARADISE

COVINGTON & BURLING
Attorneys for Defendants SPI
BY: NEIL K. ROMAN





(Case called)

THE COURT: Okay, good morning. Let me -- I think this is the way I'd like to proceed. I got a lot of papers. Quite frankly, it was easiest for me to understand when I got the first set of papers than when I get the eighth set of papers, so I want to make sure I can keep the issues straight.

I'd like to -- I think what makes sense is I'd like to work sort of backwards rather than address the first amended complaint. It seems to me it makes more sense to address the claims in the proposed second amended complaint because the defendants objected to some claims, didn't object to others, and then those claims that are, I might just simply say filed, I'll give you the second amended complaints, and let's see what I'm supposed to dismiss out of it, and then see if there is anything left, rather than hearing an argument about the first amended complaint, then going to the second amended complaint. So my inclination, although I can be persuaded otherwise, is just to grant the relief to amend, and then convert all the motions to dismiss the counts to motions to dismiss the appropriate counts out of the second amended complaint, and then see what we have left. So if I do it that way, I think what I would really should do then is have the defendant organize it for me, take me count by count again in terms of your arguments of what you're saying shouldn't, should be dismissed, and what you're not moving to dismiss, and so we can





see -- I can focus directly on those particular counts that are really at issue. I know fraud counts and couple of the other counts are really the main counts that the defendant are moving to dismiss. So I guess, Mr. Colbert?

MR. COLBERT: Yes, your Honor.

THE COURT: I'll hear from you, sure.

MR. COLBERT: I'll be happy to try and review the bidding a little bit if -- see where we are here. As your Honor noted, we moved to dismiss nine of 14 counts on the first complaint. The reason we only moved as to nine is because the Allied Domecq defendants were only named in nine of them. As your Honor may be aware, some counts are only against the Allied Domecq defendants, some only against SPI, some against both, so there were nine, and we moved to dismiss all nine. Then, as your Honor pointed out, there was a whole second amended complaint that came in. And where we are, as I can see from that, is that from the first one, two of the counts have been abandoned, essentially. The old count nine, which is Paris Convention, they've withdrawn, I think agreeing there is no cause of action. They also changed Count 10. They changed the statute or basically they withdrew the count under the original statute. They realleged it under a different statutory basis. So in that sense I think both nine and ten have been withdrawn from the original case. So I think the Court can enter whatever order it wants with respect to those





and it gets done.

Now, one of the issues we have here is rather than with some of the new counts, which we'll get to in a minute, they reused some of the old counts numbers as opposed to saying 16, 17, 18. So that's why we have some of the same numbers that's nine and ten. They amended various facts in counts one, two, five, 10, 13 and 14 -- had some amended facts in them, again talking about the counts that are involved in our motion. They argue that those factual changes were sufficient to overcome our motion, and I'll address later in our argument that they're not, and we'll go through each one of them why they're not, with two -- with one exception.

I will say that with respect to the next thing that was added, three new counts, they add Allied Domecq to count two, which originally had been asserted only against SPI. They asserted fraud count against Allied Domecq. They replaced nine, which was the old Paris Convention. They replaced that with a new one, aiding and abetting fraud. So that's actually a new count, and they added 15, which is the rectify the register under Section 37 or 1119. Those are three that we've moved or we've opposed their motion to amend, and we'll get to that. Those are three separate ones.

Three counts were left unchanged, which was four, 11 and 12, and we'll address those, but we believe that there is all the reasons we set out in our original papers. That leaves

only the new 10, that is, the change of the statute count for 10 -- we did not oppose that particular amendment, while reserving the right to move to dismiss. Because if we're correct on the motions to dismiss the other counts, this will naturally fall by itself. There is no point in, essentially, drawing whole new motion papers. That's, as I see the count, is abandon two counts. The statutory basis for 10 is changed. That one is -- the new 10 is not subject to the motion here today. And we also conceded that the false advertising part of the federal unfair competition claim, they make out a cause of action. Not that it's accurate, but they actually make out a cause of action. And I'd like to point out at this point that that particular cause is unrelated to title mark. Anybody could have brought that action, and I think they've made out a cause here. So that's not connected with the others. That's why that's a separate case.

THE COURT: So can you just -- let's just run down the numbers of the counts in the second amended complaint that you at this point are moving to dismiss so I can make sure that I focused on those particular counts, as they are numbered now in the second --

MR. COLBERT: We've, as they're numbered now, we have moved to dismiss one, four, five, 11, through 15. 15 is the old one. It's 11 through 14 we move to dismiss from the original one. That leaves the other ones we originally moved





papers just, we just received this week. Let me -- one thing, it's very clear here, I think there is a couple of critical issues in this case the Court needs to keep in front of it that I believe are undisputed and undisputable and will, once we resolve those issues, everything will fall into place.

First, Allied Domecq, and I'll just refer to them generally as opposed to which one, if that's okay, your Honor, Allied Domecq owns the title to the trademark Stolichnaya, which is the critical issue here. They received that right by an assignment of the title from Pepsico. Pepsico received those by an assignment of the rights from V. O. Sojuzplodoimport, which was a Soviet Union entity, which itself had gotten title from Pepsi back eight years earlier. So that's an assignment. In the reply, the sur-reply they seem to suggest, by using quotation marks around the word assignment, that it is not really an assignment. They suggest to the Court that, gee, while we want to have had this assignment in 1991, while it was to our benefit to have assignment in 1991, now we'd like not to be an assignment, we'd like to actually be a license agreement. There is no mistake, this is an assignment. It's an assignment under U.S. law. It's recorded in the patent office under U.S. law. There is no basis to claim this is anything but an assignment. So once you know that Allied Domecq owns title and it's an assignment of the rights, then the issue comes in is, is it incontestable, and we believe --





was the old nine, that's we've -- that's in our opposition motion to amend. So that's why it's out. Those, that nine and 10 were the ones that were different.

THE COURT: Okay. All right. So now at issue are the counts one, four, five, 11, 12, 13, 14, 15 of the proposed amended complaint.

MR. COLBERT: And now we --

THE COURT: Second.

MR. COLBERT: And we oppose two, nine and 15 of the new counts and proposed amended complaint, to which are of the two, nine, 15, we oppose those as being insufficient to make out a cause of action, therefore, futile.

THE COURT: Okay, so. All right. So I have one, four, five, 11, 12, 13, 14 which are the counts that were alleged in the first amended complaint, and then I have 15, two, and nine, which are the new proposed counts that you are objecting to as being futile.

MR. COLBERT: That's correct.

THE COURT: Okay.

MR. COLBERT: Would you like me to proceed?

THE COURT: Whichever way is going to be easiest for me.

MR. COLBERT: Okay. Let me, having done that, and we've already handled some of the motions, but, and I think I'll -- something was -- came up in sur-reply papers, reply





THE COURT: Well, let me just back up before I go too far. I was trying to understand from the way the complaint was worded whether or not the allegations or the facts, agreed facts are that Pepsico had had rights that were to continue beyond the period of -- beyond 2001.

MR. COLBERT: Your Honor, what Pepsico had was Pepsico had titled the mark. It owned the mark. Pepsi also had a contract with V.O. and its successors, and we'll get to that in a little bit. That's part of the issue. And that contract provided certain things, which included a residual reversionary right going back to V.O. or going back to its successor, or to whomever it designated or might designate. It also provided that Pepsi might continue those rights and have the mark past 2001. The issue was they owned title. There were contractual rights potentially to take it back, all right, and so there was limitation. Let's, if I can use it by analogy, let's think of it like real property. You might own title to the house and there might be a mortgage on it, so you may have some restricted ability to what you do with the house or you can sell the house because it would be subject to the holder of the mortgage, or there could be an option on your house or your land, your farm, which means you'd be subject to some restriction. Even though you held the title, someone else may have an option to it, or it could have a lease on your property, and therefore, there could be -- would some

restriction to sell because it would be subject to the lease. So by analogy here, it's not that uncommon for circumstance to be where you own the mark and there may be restrictions on your right. For example, part of the deal as alleged by plaintiff was in 1991, Pepsico agreed to buy product exclusively from V.O. Sojuzplodoimport, V.O., as part of the transaction which Pepsi again acquired title to the mark. So the issue here is was it title? Clearly it's title. There is no argument. There is no dispute here that Pepsi owned lawful title, Pepsi got a lawful assignment from V.O. Sojuzpoldoimport, an instrumentality supposedly of Soviet Union, that's the allegations in the complaint.

Having said that, then we need to examine the claims here, that is the claim of ownership in the United States which result in United States ownership, not Russian ownership. We need to examine that in light of who owns the mark. And remember, the USSR structured the deal to be an assignment of the title. The USSR acquired the title in 1983. It held title from 1983 to 1991. It entered into a deal with Pepsi, the company which had been doing business all along, and entered into a deal which it wanted to make assignment. It did make that assignment, elected to make assignment, and now it needs to be bound by its election to make that assignment under U.S. law. So whether there are rights past 2001, which are contractual, whether those -- in fact, that's sort of --





there's -- your Honor, what seems to be the fight here, the argument is who owns the residual right, who owns a contractual right to ask for the mark back, or to receive the mark upon payment of money, or to receive the mark on the expiration of the contract, not who owns the mark in the United States at this time. And that's the tenor of this motion.

THE COURT: Well, I mean, is it accurate to say who does the right revert back to or who could exercise the right that, pursuant to the contract or might expire, where does -- when the contract ends, it seems to me it's not -- both sides have characterized it obviously differently. So I'm trying to figure out whether the difference is substantive in terms of the way its being characterized or whether or not -- what, in my view, might be a more accurate characterization. They say that, and I guess the easiest way to start is the focus on the way the fraud claim is alleged. They claim that Pepsi gave the defendant rights that the defendants were not entitled to, that it's not something that was brought by contract. It's something that the defendant said, give it to me because I'm the rightful successor in interest.

MR. COLBERT: Well, let me put --

THE COURT: Is that accurate or inaccurate from --

MR. COLBERT: Inaccurate, and let me explain why.

THE COURT: Is that in dispute?

MR. COLBERT: It's --





THE COURT: Before you say it's inaccurate --

MR. COLBERT: No.

THE COURT: -- is that in dispute or is that --

MR. COLBERT: Not as far as we're concerned.

THE COURT: As far as you're concerned, it doesn't mean anything.

MR. COLBERT: Well --

THE COURT: Is it in dispute between -- do you and the plaintiffs agree that that's not the case?

MR. COLBERT: I'm not sure I can answer the question. If I can just frame it so the Court understands, because your Honor keeps using the word defendants, and we have to be very careful here. We have the Allied Domecq defendants. In fact, the Allied Domecq defendants are the only defendants that have a dog in this fight, if I can use that expression. They're the only moving party here. They're the only ones with title here. There is no issue -- there is also a series in -- which is why not all the claims are against all defendants. We have attorneys here from the, what he's characterized as the SPI defendant. They're not a moving party here. They do not support either side here. The issue here is yes, they have alleged that SPI doesn't own the rights, but SPI has never owned these rights. If they define SPI as being some party not a successor to the Soviet Union, which is their claim, then they have never owned title. What they have owned is a





contractual right. Pepsi has owned this right since 1991, and there is no dispute about their time, and it was lawful title. They don't dispute that. What they dispute is that Pepsi did not have the right to assign it to Allied Domecq. And they say the reason why Pepsi did not have the right to assign it to Allied Domecq is because there was a contract in 1991 that said that if the Soviet Union asked for it back, you give it back to Soviet Union. In 1992 there was a contract that deleted that clause, amended, completed that clause in 1991 contract. They allege there is the operative construction of the fraud, that sometime early 1992, the amendment was changed and that the person -- that the person who entered in that contract had no ability to do it. Now, that's a whole separate issue which --

THE COURT: That's your characterization of it. My understanding is that they say no, that's not what they say is the fraud. They say the fraud occurred 2001.

MR. COLBERT: Well, but we need to parse that out, your Honor, because they've, in fact, said that was the fraud, and then they said there is another fraud in 2001 when the mark was assigned. In fact, the marks were actually assigned in 2000. They were operatively transferred and recorded in 2001. But is that the fraud? We need to address what fraud is.

THE COURT: Well, let's put it this way. They -- no, I don't think there is a reading of their complaint that one could say that the fraud that they're alleging is actionable in

this case is a 1992 fraud.

MR. COLBERT: They have alleged that that's actual action and they've alleged it against the SPI defendants.

THE COURT: Well, I thought they alleged that the 2001 transfer, fraudulent transfer is what's actionable.

MR. COLBERT: Actually, your Honor, if you could --

THE COURT: All right.

MR. COLBERT: I can go back. There is a hundred and some odd paragraphs, but in fact that's -- that starts out is the 1992 is sort of the crux of it. What happened that was originally -- remember, your Honor, Allied Domecq was not named as a fraud defendant in the original complaint. They weren't named a fraud defendant in the first amended complaint. They were not named a fraud defendant, nor an aiding and abetting fraud defendant until the second amended complaint when they saw the motion to dismiss, and I believe realized they needed something in order to maintain an action against Allied Domecq for whatever purpose. And we can address that in a minute, but that's when it came up. And so why can they -- why would they say it's 2001 now against Allied Domecq? Because, obviously Allied had nothing to do with the 1992 action, whatever that was. Allied Domecq didn't come into this until 2000 and took title in 2001. So, remember now if you look -- let's look, let's, if I could, so that's where we go. Then we need address the question of the fraud in the acquisition from Pepsi. And





it's a very different fraud from the fraud alleged against SPI, which is the common law fraud, the aiding and abetting fraud.

In order to have fraud here, it has to be fraud on the patent office. To attack that, to attack our title you have to say it was fraud on the patent office.

THE COURT: Well, that's all -- what count are you addressing when you say, the fraud? When you say fraud -- I don't want to merge the attack. I mean, I don't want to merge the attack on title or the registration or -- I want to keep that separate. They say there is a separate common law fraud, all right, that -- and that's -- they don't say it's a fraud on the patent office. They say it's a fraud on them. There is no such thing as a fraud on a patent office that's actionable by them, and I don't think --

MR. COLBERT: The only thing -- the only reason, the reason of patent -- the reason the fraud on the patent office comes up is that's the basis upon which the attack -- the contestability of registration, the only basis really they can attack the contestability of the registration. So if we have a contestable registration, all of their Lanham Act, all of their common law trademark, all their delusion counts, their unfair competition counts, all those fall. So let's talk about, for example, count one claim that we own the mark, that SPI, I mean, excuse me, FTE owns the mark, that would fall. All those counts would fall if Allied Domecq has valid title, that was





not obtained from the office by fraud.

Now, they've listed four things, which I'll go through, to attack the incontestability. One is fraud, and there's three others which I will go through and easily dispose of. In addition -- so that was all those counts, I guess one, it's one -- one, four, 11, 12 and 13, all fall if Allied Domecq has valid title. And I believe in their sur-reply brief they concede that now. They concede it by saying that we, Allied Domecq, have admitted that if they could defeat incontestability, their count stands, which is the other side of the coin of saying if they can't, they all fall. And that's what attacks -- count two is a common law count of fraud. We can address that now. There is four things you have to show on that, and they have to show all four, and we've only moved on one, which is reliance. I'm going to get into that now if your Honor would like, although that was our opposition to the amendment rather than our motion to dismiss, but if your Honor wants to sort of take it out of order, I'll be happy to.

THE COURT: Well, I would assume it's dispositive of all those, all of those claims.

MR. COLBERT: Well, count two and count nine is common law are a little different from their use of fraud on patent office in order to try and sustain all the counts and just listed, which are all, basically, trademark counts, infringement counts, delusion counts, unfair competition.





THE COURT: All right.

MR. COLBERT: Now, I want to back up a second because I did say one element of the federal unfair competition count, just one element, not the whole count, is false advertising. We've conceded they've made out a count on that. So going back to it, the issue is did Pepsi have the right to assign Allied Domecq; if they did, and we believe we made out in the papers we'd be happy to address it, they absolutely had the right to do that. Now, in order to try and -- so if you want me to address all of the counts in the second amended complaint, which we believe should be dismissed, the deal with the trademark cases, I can do that right now, trademark issues.

THE COURT: Okay, that's fine. If what you characterize, Pepsi had the right to the -- that's not the way they characterize it. They say even if Pepsi had the right, that a fraud was committed to motivate them to do, so, so that doesn't resolve the issue simply to say Pepsi does have the right.

MR. COLBERT: That's count two, and I'll be happy to get to that, but it's really the reason I want to parse it, that's a separate issue from the issue whether or not --

THE COURT: All right.

MR. COLBERT: In other words, what they're saying is that yes, as a matter of law, Pepsi had title. Pepsi had the right to assign title. Yes, we had this contested mark, but

they can defeat that because fraud on the patent office and some other issues. So I want to address, if we get that, then all those counts fall. We can address the fraud counts, the common law fraud counts, okay. And now -- so the plaintiff first argued several times that the issue of incontestability is not relevant here and is not relevant because they're not seeking to cancel the mark. Well, let's leave aside for a moment count ten, which is a cancellation action. Let's leave that aside for a moment. The fact is that count one is an example, which is a declaration. They own the mark is exactly and precisely the kinds of action that you cannot bring against an incontestable mark, so they have to defeat it. I believe in their reply brief they finally conceded that they must defeat it because they come up with four reasons in a sur-reply, four reasons why it's not incontestable, and these are found in Section 1064 of the statute. The four are, that there was fraud on the patent office in obtaining the registration or maintaining the registration; two, that the registration was not obtained in conformance with Section 2A -- I'll address that -- there is several things to bring up on that; three, that the mark was used by Allied Domecq to misrepresent the source of the goods sold on, under the mark; and four, there is a final decision adverse to a claim of ownership. That action comes -- they sort of take that from Section 1065. And I'll address that, but the first three come right out of statutory





exceptions to the incontestability rule. Now --I'm taking my notes out of order so let's look at the fraud in the PTO.

Now, fraud in the PTO counts has to be alleged. The fraud on the preponderance has to be alleged with the same particularly, sort of particularly set up by Rule 9B, same particularly as common law fraud. Now, we moved to dismiss on the basis of the fact that we're incontestable. They raise the issue that it's not incontestable. We have asked them for what specific information is it that was provided to the patent office that was fraudulent, that induced patent office to issue the registration, or to register Allied Domecq. Well, the plaintiff says they don't know what that false information is. It's just some false information. And they said they can't tell us because it's particularly within the scope of knowledge of the defendants, as to what was shown to the patent office. Let me just break that down. Everything filed with the patent trademark office is a public document. Now, we thought perhaps they're arguing that the assignment papers, that is, when Pepsi signed the assignment papers and assignment papers were recorded on January 2nd, 2001, with the U.S. Patent and Trademark Office, was that the fraudulent act? Well, they don't say that's what it was. So, therefore, they must be referring to something else. And whether or not -- and we can go into the other cases as to just how -- they have to at least say what the substance of the communication was. Are they





suggesting there is something else other than the filing of the record of the document? If there is, we're entitled to know what it is. I mean, I cannot believe that they would come in to the court and make an allegation of fraud, common law fraud against the prominent American and international corporation and claim fraud and issue press releases they're suing that company for fraud, and not have any idea what it is. And we can not respond either in this Court or publicly to evade generalized allegation of misrepresentation or inaccurate information. We need to know specifically what it is. We can address those. I think they're saying it must be something, please give us discovery so we can find out if there is something. We can't reply to that. That's why the courts have a position of particularity to avoid just this kind of abuse.

Now, I also like to say, assume for the moment that there was a fraudulent representation in recording the assignment. There isn't; they haven't. And, one, we don't know what it is, but if there were one, the remedy is to cancel that and, therefore, the marks would be Pepsi's again, because Pepsi was a prior title holder. It was from Pepsi that Allied Domecq took title. Now, if, for example, they were alleged that the assignment document filed with the patent trademark office was forged or that Mr. Whitman's signature on the document was forged, or that Mr. Whitman hadn't -- had no authority to bind Pepsi, then we might have a fraud count, but





there is no such allegation in this case. That document is not alleged to be false. It's not alleged to be -- not have been signed by Pepsi. Pepsi did not intend to sign the title to Allied Domecq. Allied Domecq did not intend to receive it. Those are all truthful things. It's an accurate document. So we need to know what is it that was false, fraudulent that induced patent office to do something to record that mark in the name of Allied Domecq. Now, they did cite a sur-reply. I believe they cited the Blue Planet case, case saying that they're entitled to attack the registration for fraud. We've never contested that they're not entitled to do that. Now, the Blue Planet case, the allegations which were pled with specificity were that the person who filed the U.S. trademark application was not the owner at the time he filed it, knew he was not the owner at the time he filed it, and therefore, that was sufficiently pled with particularity to make out a fraud count, and therefore, would not dismiss the claim based on the incontestability of the mark. We have no such fact, no such allegations in this case. And, in fact, what we have is an admission by the plaintiff that registration was obtained, was lawful, it was incontestable, it was valid at the time it was assigned to Pepsi. It was valid while Pepsi held it. It was valid when Pepsi assigned it to Allied Domecq, so therefore, the question must be, was it invalid; was that transfer somehow fraudulent. Now, to the extent that they're arguing, which

we'll get into fraud case later, that we somehow defrauded Pepsi, I'll address that in a minute, that we, Pepsi, would be, Pepsi claim we're talking about now is patent office recording the assignment, so that we are entitled to assert incontestable title status.

Now, let me address the other three bases that they raise to try and defeat incontestability. First, they say that it's contrary to Section 2A. That's Section 1062 of Title 15.

And where this comes from, your Honor, is let me read from Section 1064. Section 1064 is cancellation of a registration. That's section 14. And what it says is -- again, this is a cancellation -- that it may be overcome -- and this is section three of 1064 -- at any time if the registered mark becomes generic -- it's not alleged here, or is functional -- it's not alleged here -- as has been abandoned -- not alleged here, and here's -- or its registration was obtained fraudulently or contrary to provisions of Section four of subsection a, b or c of Section two. That's what we're talking about, Subsection A. And then finally, or if the registered mark is being used by or the permission of the registrant so to misrepresent the source of goods. Now, let's look at section 2A. We've already dealt with fraud. Let me talk about Section Two. Section Two says, no trademark by which the goods may be -- no trademark for which the goods an applicant may be distinguished from the goods of another, shall





be refused registration on the principal registration on account of its nature, unless it -- and this is where we get to section 2A -- consists of or comprises immoral, deceptive or scandalous matter -- it's not alleged -- or matter which may disparage or falsely suggest a connection with persons living or dead, institutions, beliefs or national symbols, or bring them in contempt for or disrepute -- not alleged here; or, and reading back or, you know, the basic. So this is another one through registration if it, is a geographical indication which, when used on, or in connection with wines or spirits identifies a place other than the origin of the goods -- that's the first half, and is first used on or in connection with wines or spirits by the applicant, applicant, on or after one year after the date in which the WTO on agreement enters into force with respect to the United States. So let's look at that one, that is, it's contrary because its needs to identify a place, that is, a geographic indication which identifies a place. In their original papers they sort of blend that together, went up to the previous independent clause, which had language which said if it falsely suggests a connection with persons living or dead -- they took out the ellipses all through there with the semicolon -- had falsely suggested connections with a geographical indication. It's not the statute. Statute is a geographical indication which identifies place. Let's take a look at what we have here. The mark in question here is





Stolichnaya. In their moving papers they allege that the use of made in Russia, distilled in Russia, Russian vodka, those are things which falsely identify geographic origin, other than the place where it's made. Now, we can get -- now, for purposes of argument here, we have to concede everything they're making allegation about, but the geographic indicators that they point to are advertising or promotions or copy on a label. The issue here, 1064 and Section 2A is it has to be the mark, geographic indication; for example, something like burgundy, Bordeaux, those would be geographically indications which would suggest it's made in a place where it's not. If, in fact, you had those as a mark and you made it in upstate New York, this is no more -- this is no more geographical indicator than, for example, if I were to start a winery on Long Island, call it Chateau Colbert -- my name is French, sounds French people are going to say it suggests to me sounds French, maybe it's in France. But that is no more geographical indicator origin under section 2A than is Stolichnaya. In fact, Stolichnaya is no more an indicator of origin of, excuse me, of a geographic location than is Smirnoff, which is also a Russian name, which also used to be made in Russia and is now probably made in New Jersey. So the real issue is what is the mark. Is geographic indication? No. Does it identify a place? No. Now they say it's -- it suggests Russian. It's not the test. But does the mark identify a place. Now they do go into a very





elaborate argument eventually in their papers saying that because Stolichnaya in Russia means capital city, and that everybody knows it means capital city -- well, I know it because of this case. Didn't know it before, therefore, it identifies a geographic location. But even if you buy that argument, as stretched out and ludicrous as, I'm sorry to say I think it is, capital city of what capital? Of Washington? Capital of France? Capital of some other Russian -- what if it's capital of one of the former Soviet Republics? There are 15 Soviet Republics. What is it the capital of? If you follow their theory to a logical conclusion, you could make Stolichnaya any place but within the city limits of Moscow. That just highlights why it's not a proper analysis under Section 2A.

I'll also address the other parts even. If we get past that, even if you were to suggest -- even if you were to accept against logic that this was, in fact, a geographic indication of a location, then it still would be grand fathered, because this was first used, as statute provides, first used by the applicant or the applicant's predecessors prior to one year after the effective day of the WTO. In fact, if you look in the -- if you look in the documents that are before this Court, there is a copy of the registration, original first registration, United States of Stolichnaya, which is registered in the 1960's, states on the face of it --

see if I can find it right here. If your Honor has a copy, it's exhibits B to our original motion to dismiss counts one, four, five and nine through 14. See if I can provide the Court a copy. It's exhibit B.

THE COURT: I didn't bring that up with me.

MR. COLBERT: I'll give you this one here. It's exhibit B to our motion. So if your Honor will look, for example, on this registration, a registration as to which there is no dispute in this case is a valid registration, states the date of first use in the United States is 1946, which you need to go back that far. The first use this was registered in 1969. Couldn't be registered without use by applicant or its predecessor. This was used by Pepsi since the 1970's, Stolichnaya. It was used up to 2000 by Pepsi. It's been used under the same chain of rights as Pepsi by Allied Domecq since then. Those are rights go all the way back to the beginning. Now, as long as it's from -- your Honor, I'd like your Honor -- to point out to your Honor again, this is the issue in this case, the mark Stolichnaya, the word Russia, the word Russian, made in Russia do not appear on this registration. They're not part of the mark. It is a registration for vodka. They try and argue if they can get past the first hurdle, that's not geographic place, that the way you should interpret the balance of Section 2A, is that the first use by the applicant means the same thing as the first use by the registrant, which something





doesn't flow logically, and I'll address that in a minute as to why the statutory language would not permit that instruction, but it would be the first use by the registrant. As a improper geographic suggestion, that would mean that, for example, whether it was Pepsi or Allied Domecq, if Pepsi were to hold this and Pepsi did not assign this to Allied Domecq, if this happened prior to the end of 2000, if Pepsi had, again for whatever reason, begun sourcing a product from the same set of scenarios we have here, that even though Pepsi had been using this mark since 1970's, even though its rights go back to the '40s by virtue of assignment before that, that all of a sudden this, the specific grandfather rights that are contained in this statute Congress explicitly said were intended here disappeared. Because before, according to the plaintiff, the use of Stolichnaya was correct because it was made in Russia, now they couldn't use it because it's not made in Russia. Assuming their arguments, that they're correct about that, and therefore, the mark is improperly used, no longer contestable, that would throw the entire concept of grand fathering out the window. It would destroy that right entirely. I think you can't read -- can't have an instruction, as tortured as that to eliminate a specific statutory provision. Now, let's find out why.

THE COURT: I'm not sure that's -- I mean, I'm not sure -- that's not the argument they're making. They're not





making an argument against the original registrant Pepsi. They're making an argument with regard to subsequent registry.

MR. COLBERT: Yes, your Honor, but that's what we have to go back. Because they're saying that for some reason because we're an assignee registrant as opposed to Pepsi, which was an assignee registrant -- registrants before that going back in time. And remember just so keep in context, keep talking about now who owned title to this mark, over the last 36 years for 28 of them, no one inside Russia had title. This is not an unusual set of circumstances. Let's look at the section that referred back to Section 2A, which is 1064. Okay. The idea here is that the incontestability can be attacked any time if the registered mark becomes generic as example, present tense. It can be attacked if the registered mark is being used by the registrant to misrepresent source, as an example. But, the section they're relying on, 2A, specifically says in the exceptions to incontestability, or its registration was obtained fraudulently or contrary to the provisions of section four or of Section 2A. We've already dealt with fraud. So here we're talking about, it was obtained, the registration, the one we looked at here, from 1969 was obtained contrary to the provisions of 2A. They would like to read that out and say that if at any time going forward in the future this mark becomes an indication of geographic origin, then the validity of that mark, which may go back 20 or 30 years, decades, all of





a sudden becomes invalid and no longer contestable. It's not what 1064 provides. It's not what section 2A provides, and therefore, you cannot read the word applicant in 1064 to be the same as the current registrant. It means when the application was obtained. So, they're saying if the mark is used in commerce, today, contrary to provision of 2A, it's incontestable, it's not incontestable. Just like the language says, if it is used today, in a manner to falsely suggest or represent the source of goods, it's not incontestable. That language, the present tense language should be read into section 2A; that is, if the mark is being used today in commerce, in a way contrary to 2A. It's not the language -- that's not statutory language. It's a -- it's deliberate property, not the statutory language; otherwise, a mark would be subject to the whim of feature, and that's not the way the law is structured. It's not the way the law is written, it's not what Congress intended, in fact, specifically in legislative history of Section 2A.

Let's look at the next one, whether it is being used. Again, now we're back to the present tense in 1064, is being used, so as to misrepresent the source of the goods and services. Now, they're arguing here, basically, as I understand it, is that since either -- since they are the owner or should be the owner, that we're misrepresenting a source of goods by putting the name of Allied Domecq, title holder Allied

Domecq Spirit and Wine, the importer, SPI, as the distiller and seller. So they've, essentially, if you look at the sur-reply, essentially, argue that case. We pointed out in our papers that that kind of an argument requires blatant passing off the law is very clear, the sort of blatant common law passing off. There is no suggestion, no allegation in the complaint, no, sir, not even a suggestion in their papers here, or it should be in the complaint, there is anything in these labels suggest it comes from anybody other than SPI and Allied. And in the sur-reply papers, they don't address this at all. I think they've essentially conceded it. So I'll move on.

Let's look at the last one. They use the last gasp at trying to defeat the incontestability of the mark, and they cite to Section 15. Now, remember Section 14 is the one that gives you the statutory exemptions. That allows you to attack incontestability. They turn then to section 15. And there are two problems with this. One is that, and let me recap again here just so we know this is why it is important to know the chain of title. It doesn't matter whether V.O. is a successor to V.O. or not. Pepsi owned the marks. They got them from V.O. Sojuzplodoimport, the Soviet entity. They own them. Now, section 15 is procedural. It deals with a manner in which you would file a certificate with the United States patent and trademark office in order to have the United States trademark office declare your mark to be incontestable, as opposed to





having to rely on your proof later, declare it to be incontestable, and note that in the records of the United States patent and trademark office for all the world to see. And it sets out certain requirements of continuous use prior to the filing of the application, that sort of thing. And the one they point to is under section 1065, sub part one, that you may not file a section 15 affidavit, if -- let me go back. It says here, except for a ground on which application to cancel may be filed at any time under paragraph three and five of 1064. That's section 14, the one we just read. That's the one that identifies the basis on which you can attack it -- and except to the extent that, if any, to which use of the mark registrant in the principal infringes a valid right -- I'm sorry, I'll go slower -- declare shall be incontestable provided that, and again section 15 does not provide a ground to challenge incontestability. It just provides a basis upon which you may file certificates with the trademark office to have them declare the incontestability. And they point to Section one, that there has been no final decision adverse to registrant's claim of ownership of such mark for such goods or services or to registrant's rights to register the same or keep the same on the register. And they say, gee whiz, we got this final decision of a court in Russia. Now, without getting into whether it's final or not, and we'll accept that it's final for purpose of the argument, even if it were final, this





application was filed, the Section 15 declaration was filed. It became contestable years before the decision occurred. This would only apply if, for example, there were a decision that was final at the time you filed your application, your Section 15. But more importantly than that, it has to be a final decision with respect to your claim for ownership of the mark, which means the mark in the United States, you claim ownership in the United States. So if you use their theory, the other part of this, it also has a provision, the same section, your Honor, says -- just so we can highlight why it's clear -- Section 15 has another provision that says Section two. So this should apply just as equally to the logic of their argument. There is no proceeding involving said rights pending the patent and trademark office or in a court and not finally disposed of. If you were to buy their argument, that would mean that all anybody ever had to do was file an action in federal court or state court or in the trademark office claiming a right, and that claim alone would be sufficient to defeat the incontestability of the registration, and that's just plain nonsense. Now it's nonsense, but the Supreme Court has addressed precisely those kinds of arguments before. For example, incontestability means incontestable except to set out in section 14 or 1064. Section 15 simply doesn't apply to challenges to incontestability.

Now, so, we've got to the point now, I believe we've





established that Allied Domecq is the owner of the title. There has been no allegation of fraud sufficient to sustain an allegation under 1064. The other bases are improper, therefore, there is no legitimate challenge for this Court -- there is no facts upon which this Court could find or any reasonable jury could find that there was fraud, because there's been no particularity in the pleadings. We don't know what it is today.

So where does that leave us? That leaves us with counts one, four, five, and 10 through 13 -- excuse me, 11 through 13, or 11 through 14, 11 through 14. 14 -- 11 through 13 must fall because they've all fall -- they stipulated they fall. The courts, Judge Connor, for example, one of the cases they cite said if it's incontestable, those counts have to fall. So what does that leave us with? It leaves us with the false advertising count, which we've said they make out a count. It leaves us with the copyright claim. Now, I would like the Court's indulgence -- oh, misappropriation. Those were the ones that are -- misappropriation we've dealt with that in the counts. There is an argument as for which is the Statute of Limitations, whether there's three years or six years. We believe we've cited the authority to the Court indicates that even if fraud is the element by which you were able to steal a property right, it's still three years. The cases which they site are ongoing continuing schemes of fraud,

which they do in their sur-reply papers try to suggest that, gee whiz, that's precisely what's going on here. But I'd like to actually cite to their own papers. They call this a heist. They said that the acquisition by Allied Domecq was a heist on January 1, 2001. It was stolen on January 2001. That's what happened. And they say fraud is how they stole it. Well, the case also you look at it that way which they -- how it was alleged in their papers. If that's how you look at it, then whether it was fraud or whether they snuck into Pepsi's office and put a gun to someone else's head or whether they stole paperwork, it was an event which occurred more than three years prior to the filing of the paper and it is time barred.

Before I get into the fraud issues on our opposition we also have to address a copyright issues. I would like the Court's indulgence to have Mr. Merone address the copyrights if it is all right with the Court and I can do it now or go into the fraud issues.

THE COURT: Why don't we go into the fraud because --

MR. COLBERT: Okay. I thought the Court might prefer to have us do -- this takes us to the motion to amend and the three counts which are three new counts that we posed. Now, in their papers I believe they concede that if the new claim is legally insufficient on its face, then it ought be denied just the same as if we filed a motion to dismiss. So let's take a look at what they've alleged.





Now, in order to allege a fraud action, as the Court knows, you have to have a material false representation. You have to have an intent to defraud. You have to have the plaintiff -- the plaintiff has to have reasonably relied on the representation, and plaintiff has to suffer -- has to have suffered damages. Now, we think that their papers don't fully make out a count on any of these things. And we've suggested, for example, in our footnotes, which we've established that they don't plead any of these with particularity, but our motion is based on the fact that they don't allege in their complaint, and they don't set forth in any of their motion papers, an allegation that it was the plaintiff; that it was either FTE or the Soviet Union, or the Russian government, however you want to look at it. It was not the plaintiff that relied on any representation. We've reserved the right to move on those. But, essentially, they say that Pepsico relied on a fraud count, two count -- this is where we get to the 2001 timeframe, somehow Pepsico relied on misrepresentation by Allied Domecq, and that's why Pepsico assigned the trademark rights to Allied Domecq.

Now, leaving aside Rule Nine problem that they don't say what that misrepresentation was, they say it was Pepsico that relied on the misrepresentation, not them. Later they say well, gee whiz, it's the public that relied on misrepresentations with respect to fraud, with respect to the





source of the goods. That's not relevant to this issue, but they throw that out there. But no place do they say that it was the plaintiff that relied on anything. Now, they try and avoid that by saying that there really isn't any requirement in New York law that the plaintiff has to rely on. And they make some arguments that really, and deal with cases that talk about whether or not the direct communication that supposedly is the false representation was made directly to the plaintiff, or to somebody else. But the issue is reliance. Now, they -- we relied on the Lalo case. Now in Lalo the Court addressed an argument that, and I quote, a plaintiff injured as a proximate result of fraud should be able to recover regardless of whether he or third party is the one deceived. That was how the Lalo case set it up. And to quote the Second Circuit, we disagree. That was page 196 of the decision. The Court went on specifically to hold, and I'll quote, we hold that a plaintiff does not establish the reliance element of fraud for purposes of New York law by showing only that a third party relied on a defendant's false statements. It's on the same page same cite So the Court went onto reject the citations by the plaintiffs in that case, as either governed under different statute in that case like RICO with the same circumstance here or as misplaced. For example, the Judge Connor case which they cited is authorized -- one of their cited cases had another case in which he held specifically, Judge Connor did, that a claim of





fraud will, and quote, the claim of fraud will not lie premise on the reliance of a third party.

So let's look at what other cases they cite. They cite the Hyosunk versus Samal case. Said in that case by Judge Scheindlin, I believe, he said -- he held that there really wasn't any requirement for reliance; that it could be fraud on the third party, which was sufficient. Now, I'll leave aside the fact that Judge Scheindlin also pointed out there were specific rules with respect to fraud, specific rules with regard to letters of credit, all right, in that case. Let's just look at from it a common law standpoint. Let's see what Judge Scheindlin actually said. Judge Scheindlin said that, while communications went to the bank -- I believe it was Citibank -- to release the funds, he said it was still based on the plaintiff's reliance on those documents. And I'll quote, I conclude, he said, that plaintiff has satisfied the element of reliance because it anticipatorily relied on Sumo's submissions. He went on to point that the plaintiff was given a copy of the purchase contract, which falsely set out the fabric content of the materials. On that basis he authorized Citibank to set up letters of credit. It's a direct communication to him. He also received copies of all the purchase orders, things which are -- which are all submitted to Citibank for purposes of the release of letters of credit. They all went to Hisong. These were all fraudulent. In fact,

he pointed out the fact that Hisong had the documents and that Sumo knew they had the documents. And he went on to say that even if misrepresentations were made to another person if the -- which is here, Citibank, the plaintiff relied on them to its detriment, the cause of action lies. 383 of that decision, he said, and I'll quote, where misrepresentations were made to a third party, plaintiff may state a claim for fraud, so long as it, the plaintiff, as long as it relied on those misrepresentations. There is no such allegation here. There is an allegation that Pepsico, and just Pepsico relied on it. There is no allegation that as to FTE, the Russian government, that anybody relied on any representations made to Pepsico with regard to assigning those marks; therefore, the argument that there is a cause of action made out for common law fraud as opposed to what we talked about fraud, common law fraud in 2001 simply won't lie. We don't need to attack the sufficiency of the pleading. We don't need to attack whether the other four elements because, as a matter of law in this circuit, they don't have standing, and Judge Scheindlin's decision, district court decision sort of distinguishing Lalo, quite frankly, we think that Lalo controls. But even if you were to accept Judge Scheindlin's decision, Judge Scheindlin found that there was actual reliance by the plaintiff. Therefore, Judge Scheindlin isn't really inconsistent.

Now, they do argue that, gee, we're trying to -- let





me just touch on the aiding and abetting. Of course the same standard applies. You have to have all the same elements. You have to have reliance by the plaintiff, and, again, there is no reliance. So for the same reason that the common law fraud count are two, false -- the aiding and abetting, which I think is nine, is new nine, that falls for the same reasons. They do say, and they claim in their reply papers that, gee, we don't deny existence of the underlying fraud by SPI against V.O. or against Soviet Union against the Russian -- whatever their allegations are, we don't deny them, somehow that's an admission that there was fraud. We knew of the fraud, and therefore, we're somehow equitably estopped in raising these issues. Of course it's nonsense. The reason we don't oppose anything is -- the reason we don't is on a motion to dismiss, like motion for summary judgment, motion to dismiss we can't contest the facts. We have to assert that there is -- even if you accept the facts that insufficient to make out a cause of action, therefore -- I mean, that's just a whole red herring. But, so, let's go back to the other parts of the complaints, which is that we're suggesting somehow that this cause of action, we point at Pepsico. We're not suggesting that they have a cause of action against anyone. We're suggesting that even if you accept all of the allegations of the complaint, what they appear to make out to us is they have a complaint that Pepsico should not have assigned Allied Domecq because it





was a breach of contract, not just a violation of trademark rights, not because they had time, not because they owned the mark, because they had some contractual rights that they should have been able to compel Pepsi or Pepsi should voluntarily transferred to the successor to V.O. whoever that was. We don't know who that was, for purposes of this motion. So they should have assigned. So that would be breach of contract.

Now, if it's true, somehow we defrauded Pepsi, if you get past the problem with specificity of pleading, if you get past the problem of standing, get past the fact they can't bring a cause because they didn't rely, then if Pepsi were defrauded somehow, by whatever it was, to assign to us, then Pepsico bring a cause of action against Allied Domecq, as a third party or cross-claim, were they sued for contract breach. We, your Honor -- I don't know why they haven't gone against Pepsi, because it seems to me that's where the complaint is. The other complaint is, that we had, is that the Russian government successor to Soviet Union, assuming that for the moment, had these rights through V.O., Sojuzplodoimport V.O. SPI -- I know the letters get very confusing, but had those contractual rights to get them back. So the other complaint they have, aside from Pepsi not sending it back, the other complaint they had is that somehow either V.O. Sojuzplodoimport breached its duties by giving it to somebody else, V. A. O. SPI instead of to the Russian government, or their individual





breaches his fiduciary duty. Importantly, the executive director of V.O, the Soviet Union entities, is the same person. a director of V. A. O they also complain that he didn't have the authority. Let's -- that's fine, but this is all -- remember, all this occurred after title went to Pepsi, so therefore, what they're fighting over is who owned those residual contractual rights. So at the end of the day, they may have action against this SPI, against V. A. O. SPI, J. A. O., V. Z. A. O. and all the other chain of corporate corporations in Russia, through which the contractual rights, not title to mark, not own the market in the United States, and we don't care if they owned the rights in Russia. We don't know. It's not relevant, but they had contractual rights with regard to the U.S., through those, and they may complain somehow they should get those contractual rights back, diversionary rights, that's a potential cause against Pepsi's potential cause, but they can't flow through to Allied Domecq. Pepsi might, as an example I just gave you, but for the purposes of the counts in this complaint, against this defendant, Allied Domecq, which owns valid title, which incontestable, which has not been challenged, validly pled fraud in the patent office, counts which has not been pled, the common law fraud count, these counts should all be dismissed and we should be left at this point with count one, which one is the unfair competition count. Which is the counts that has

the false advertising? It's the 1140 -- just let me give you the exact count.

THE COURT: Three, six, seven, eight, 10.

MR. COLBERT: I'm saying it's in the -- that's all we're saying. There is one part of one count that would remain. And that is -- anyway. Well, first of all, count 10 technically remains in the case as we've not moved with regard to new count ten, which should be like counts 16 or 17, and that one deals with petition to cancel. We think if we are correct on the others, the rest of them go out, that one has to fall, but there is -- count thirteen, which is unfair competition has a false advertising component, so part -- those allegations as to false advertising and count 13 will remain. Now the only other one left is the copyright count, which is count 14. I'd like Mr. Merone reason to address that issue if your Honor will indulge me.

THE COURT: All right, sure.

MR. COLBERT: Thank you.

MR. MERONE: Good morning, your Honor.

THE COURT: Good morning.

MR. MERONE: I apologize for the complexity of trying to keep track. It is actually in the papers if someone wants to parse through, but it is -- there is actually another --

THE COURT: I have --

MR. MERONE: There is actually another count that is





in our motion to dismiss which Mr. Colbert did not address, we addressed it in our papers. It's their claim under Section 37 of the Lanham Act to rectify the register. We explain why that's not actually a cause of action because there is no -- no one could tell me what the elements are. It's just the jurisdictional basis for this Court to afford relief. And if you compare it to count one, which should be dismissed because, as Mr. Colbert had pointed out, if our mark is incontestable and they don't have a basis to attack count one, but if they have had the ability to count one, the only way for this Court to give them the relief they asked for in count one, namely, rectify the register, was under Section 37, it's merely jurisdictional statute. In there sur-reply brief they talk about the fact that Section 37 claim to cancel a mark can co-exist without the -- with other claims, which is absolutely true. Section 10 is -- their section, count 10 is there Section 37 cancellation claim. Section 15 is basically there is nothing there.

THE COURT: But, I mean, isn't -- I mean, in my review of the papers, isn't this sort of much ado about nothing? I mean, if you, as you say, if you went on count one --

MR. MERONE: Count 15 goes away.

THE COURT: It goes away if you --

MR. MERONE: Absolutely.

THE COURT: If you lose on count one, it doesn't





matter whether it goes away or not.

MR. MERONE: Well --

THE COURT: There is no prejudice to the defendant if they are successful on count one.

MR. MERONE: Yeah. It's duplicative, and there is no -- I mean, there is no element to count 15. I mean, it's just, it's there. I mean, it's just the basis for courts to afford relief. But you're absolutely right, it's co-extensive with count one.

The only other issue is I think, and maybe we missed one because there are a lot of papers here, the other issue is the copyright issue, which is a discreet issue. It's our position that they haven't alleged a copyright claim, and they can't. Very briefly, we'll just go through what has happened. They filed their first amended complaint alleging copyright infringement against us. We responded in our motion to dismiss by pointing out that they had not attached a copyright registration from Russia; that if there was a copyright, it would have expired because of Russia did not ascend to any international convention until much later, and that they had defective -- they hadn't pled chain of title.

In their second proposed amended complaint, they now have alleged that they have chain of title and attach what purports to be the copyright registration. Our reply to that is that, okay. And they say it's now has been restored under





the automatic restoration process of the Copyright Act. Our reply to that is, well, under the facts as alleged in the second amended complaint, Allen Domecq is reliance party as defined by the Copyright Act. And, therefore, because we're reliance party, they don't have standing to bring a claim for copyright infringement, unless they provide us with notice as provided under the copyright act.

Their sur-reply brief, and I know we're jumping around, their sur-reply brief they argue why they believe that we are not a reliance party, and say that they did provide notice. I just want to touch on those two points briefly, and which is all need, I think, to be said with regard to their claims that Pepsi -- their argument that we are not a reliance party is predicated on the position that Pepsi's use of, up until 2000 was -- of the copyright, was authorized. There is no allegation in the second amended complaint that that use was authorized. They seem to suggest that perhaps there was -- they implied maybe Pepsi was licensed to use the mark until 2000. There is no license to suggest that. And even if there was, it would be kind of strange to suggest that Pepsi was licensed to use the copy, the label, the -- in connection with vodka made by anybody as opposed to vodka just made by them. But from a purely 12(b)(6) standpoint, there is no even allegation to suggest that Pepsi's use was authorized of the copyright. They say that trademark under the copyright. It's

not there. And, quite frankly, it's very possible copyright rights were assigned to Pepsi, which would mean that they don't have standing to bring a copyright action. I also highlight an interesting point, that if, in fact, there was a license that licensed Pepsi to use this mark, and that it didn't just use the copyright, and it didn't just go along for the ride, so to speak, with the assignment of the trademark. And in June of 1991, that further evidences that the Russian Soviet government fully understood that it was between a license and an assignment they licensed, if maybe they licensed the copyright, I don't know. I haven't any evidence of that, but they assigned the trademark. If they assigned the copyright, they don't have a count for copyright infringement because they don't own the U.S. rights. If the Soviet government just licensed Pepsi with the copyright, there is no allegation that that's there. So based on facts as alleged in the second amended complaints, Allen Domecq qualifies as a reliance parties, and that's set out in our reply brief.

They make an argument that, well, our work is not a derivative work. They raise that in their sur-reply brief. If your Honor would like us to further brief that, I would be glad to do so. The copyright standards for derivative work is very minimal. If you compare the Pepsi label or our label to the 1953 label, you'll notice there is many many changes, additions of medals. The fact it's in English, the fact it includes a





red border, those were -- would all qualify as derivative works. It's not the same work under copyright standard. Basically, if you change anything other than edition or volume or some minor things, the copyright office, it's derivative work. It was placed in our reply brief. We'd be happy to do -- but there should be no question that it's a derivative work; therefore, Allied Domecq is a reliance party under the facts as they've alleged in the second amended complaints, which means that unless they provide us with informal notice of their intent to enforce the restored copyright against a reliance party, they cannot maintain a cause of action in federal court.

In their sur-reply brief they attach a letter from 2002, supposedly, standing for the proposition that that was notice. Two things. First, that's not in the second amended complaint. Second, even if it was in the second amended complaint, that's not notice. We haven't briefed that issue. It's not in the second amended complaint, but it wouldn't qualify as notice sufficient to sustain a cause of action against a reliance party under the copyright statute. I can go to the exact statute if you want, which talks about the notice, but it's not even -- they haven't even alleged there was notice. Just attach it to their brief. I don't think we have to, but for the record 17 U.S.C. Section 104 A(e)(2), sub part b -- I'm not making that up -- specifies you must say in your





letter, and the copyright office is very particular. There is certain things you must say. Their letter, even their claim of notice does not qualify as notice; therefore, they cannot maintain a copyright cause of action in this case, even if you believe their allegations.

THE COURT: All right. Let me give my Court Reporter a break. He's the only one working hardest here, so we'll take a short break and then I'll hear from plaintiffs.

MR. QUINTO: Thank you, your Honor.

(After the recess)

THE COURT: Be seated. Are you ready to proceed?

MR. QUINTO: We are, your Honor.

THE COURT: Sure.

MR. QUINTO: Your Honor, if I may, I'd like to take just a minute to explain the neutral procedural posture that we're in, and then I'll proceed with the argument from there. We had, plaintiffs, had intended to file, as their initial complaint, the document that is denominated first amended complaint. Prior to filing any action, I contacted both Allied Domecq PLC and Allied Spirits and Wines U.S.A., to ask whether they had any interest in discussing a possible resolution. I received no response. So we took out various allegations and causes of action from the complaint, and filed a stripped down version which became the initial complaint. Subsequently, I learned from Allied Domecq that it had no interest in





entertaining any kind of settlement proposal, although more recently things may have changed. In any event, we filed the first amended complaint which had always been intended as the initial complaint. So the second amended complaint is, from plaintiff's point of view, really the first amended complaint.

Let me briefly address, out of order, one cause of action from the second amended complaint, which has been utterly misconstrued by defendants, and I think when construed properly, their arguments can easily be disposed of. That's the tenth claim for relief for cancellation of the trademarks. Mr. Colbert made it sound like plaintiffs are both saying that they are and are not seeking cancellation, and he said that if the other claims fall, number 10 must fall as well. Not so. The complaint addresses two separate groups of trademarks. One group are those that were recorded registered to Pepsi and were assigned to Allied Domecq. Those marks are the, purportedly, incontestable marks. A second group of trademarks are the trademarks that are in the same family, but that are new marks the Pepsi never had, or at least never registered. They've been registered by Allied Domecq since 2001 and, accordingly, are not incontestable under any stretch of anyone's imagination. The tenth claim is directed to that second group of marks, those marks that belong to the same family, but that were never owned by Pepsi or less than five years old. So that's why there is a cancellation claim.

That said, I would like to address the major thrust of Mr. Colbert's argument, which is that Allied Domecq is a trademark owner and not a trademark licensee. Going back in time, the Soviet Union at one time was the registered owner of the trademarks in the United States. However, I'm informed that the Soviet Union learned that it could not bring suit in U.S. courts to enforce its rights in the marks, and thereupon, decided that in order to protect its marks, it would need to execute an, quote unquote, assignment to Pepsi. So Pepsi became the registered owner of the mark, and Pepsi had standing to bring suit to enforce the marks.

Today I think SPI could, if it wanted, enforce marks in the United States. However, the parties have chosen that they want Allied Domecq to be responsible for trademark enforcement. This is a common business arrangement among foreign mark owners and U.S. licensees. The problem is that U.S. trademark law does not allow a licensee, even an exclusive licensee, to bring suit to enforce a mark. A mark owner has standing to enforce a mark but not licensee. So, the only way for a foreign mark owner who wants a licensee, who is doing business here in the country, who is on the spot, who knows what infringements are occurring, the only way to allow the local licensee to enforce a mark is to execute an assignment of the marks to the licensee.

If one looks at the terms of the assignment, it's very





interesting. First, under Mr. Colbert's argument, Allied Domecq made one heck of a good deal for $10. It bought the rights to the vodka trademarks which are, apparently, used to sell 12 million cases annually of Stolichnaya in the United States, for $10. It got the marks and all the good will associated therewith. Interestingly, his argument does not address paragraph seven of the November 15, 2000 agreement. I think that's exhibit D to our complaints. This is the agreement between SPI and Allied Domecq. In paragraph 7.1 it says, in consideration of the assignment of the trademarks to Allied Domecq, International holdings B.V., A. D. I H. B., agrees to pay SPI as follows. And what follows is a payment schedule. I cannot tell the Court how much Allied Domecq paid, because the dollar terms are redacted, but there were three separate payments required over time from Allied Domecq to SPI in consideration of the assignment to the trademarks. So clearly the parties knew where the assignment was coming from. Clearly the parties knew where the trademarks were coming from, and that was SPI, not Pepsi.

The SPI, Allied Domecq agreement is interesting in other respects. Mr. Colbert tried to make it sound like there are some restrictions on the use of the trademarks that Allied Domecq owns, similar to the restrictions that a home owner may have if he's got a mortgage on his house. Not so. If your Honor owns a house and wants to sell it to me, your Honor is





free to do so, provided, of course, that the mortgage holder gets paid off, but you're free to sell the house. If you don't like your house red, you want it painted green, your Honor would be free to repaint it. If you want to change the windows, if you want to build a garage next door, you're free to do that. Those are among the incidents of ownership. If you examine the SPI Allied Domecq agreement, pursuant to which the trademarks were assigned, none of the incidents of ownership are present. There is not a restriction on selling the trademarks before SPI gets its three payments called for. It says, flatly, that Allied Domecq cannot sell the trademarks. Under that agreement, Allied Domecq could not sell the trademarks to me even if it wanted to. Also, notwithstanding that Allied Domecq purportedly owns the good will, it cannot do anything to damage the goodwill.

Further, notwithstanding that Allied Domecq is purportedly the owner, it cannot apply its marks to any other spirits product. It can't sell Stolichnaya gin. It cannot source its vodka from a different source. It has to sell only the vodka supplied to it by SPI. And, of course, after the expiration of 10 years, it has to return the trademarks to SPI. So, if you don't exalt form over substance, and look at what the agreement says, the agreement quite clearly is a license agreement. We've cited several cases to the Court in which other courts have said that you look through the form of the





agreement and look at what it is really going on. Mr. Colbert talked about the Blue Planet case from the Southern District of New York. Even another case that we've cited is the Edwin K. Williams case from the Ninth Circuit in which the magic language was, we grant, sell, I think it said assign all rights, and they used the term names, but marks, and the Court said that's not a sale. That's not assignment. It's a license agreement.

And in form that's what we have here. Just as Pepsi before Allied Domecq was a licensee, Pepsi was required to return the marks to the Soviet Union or its successor in interest, the Russian federation.

Mr. Colbert's argument that the only remedy is a breach of contract claim against Pepsi, is difficult to fathom. First, accepting as true the allegations of the complaint, Allied Domecq and Spirits conspired with one another to trick Pepsi into assigning the trademarks to them, by persuading Pepsi that they were the lawful successors to the Soviet Union and not the Russian federation. So --

THE COURT: What, in what way do you say that? I mean what representations? I don't see any specific -- as they said, there is no specific representations that you say were made tricked Pepsi into believing that. What do you say was said to Pepsi that made them falsely believe that to be the case?

MR. QUINTO: There were a series of amendments to the contract between Pepsi and the Soviet Union, and pursuant to those amendments, they identified V.A.O. Sojuzplodoimport as the successor in interest to V.B.O. and they said V.A.O. is the successor; you should take instruction from V.A.O. V.A.O. subsequently assigned or purported to assign its rights under the marks to the SPI defendants, and the SPI defendants then instructed Pepsi to assign the marks to Allied Domecq. Pepsi clearly would not have done so unless it had believed that the SPI defendants had the legal authority to direct that, unless Pepsi believed that SPI had become -- that the Spirits defendants had become a successor to the Soviet Union.

THE COURT: And what was the fact that you say that was alleged that was false?

MR. QUINTO: They were not the successor to the Soviet Union.

THE COURT: Well, what fact makes that not the case? I mean, you can't -- I mean if -- because someone's right entitlement is in dispute, that doesn't make it a false -- doesn't make it a misrepresentation of fact, to say I think I'm the rightful successor in interest. In what way do you say that, what fact that makes them not the rightful successor in interest that you say that they represented?

MR. QUINTO: Several, your Honor. First, they never disclosed to Pepsi that there was an issue concerning who held





title. They simply said, we hold title; we direct you to assign the marks to Allied Domecq. Beyond that, the Pepsi -- I'm sorry -- the Allied Domecq Spirits agreement is dated as of November 15, 2000. The agreement provides in paragraph 26 -- paragraph 26 is headed, certain trademark litigation, and it provides that, in the event any person or entity acting on behalf of a Russian federation, national or organization or entity of Russian origin, or organized in the laws of the Russian federation, or the government of the Russian federation, or any agency or instrumentality of the government of the Russian federation, brings suit to recover the reversionary interest in the trademarks, or actually brings suit alleging that the -- that SPI's reversionary interest in the trademarks is, for any reason, invalid, then each party, Allied Domecq and Spirits, would be obligated, at its sole expense, to defend that action. So clearly at the time they were entering into their agreement, they were well aware of the possibility that they might not have good title. Their agreement allowed for the possibility that this suit might some day be pending in this courthouse. Further --

THE COURT: Well, absent the Russian litigation, if there had been no Russian litigation, is there anything that you would have specifically alleged that was a false misrepresentation if there had not been the Russian litigation?

MR. QUINTO: Well, I believe so.





THE COURT: And what would be, absent the litigation, because I understand you're saying, well, they knew that this -- there had been litigation in Russia and that judgment had made certain determinations, so therefore, their representations that they were the successors was false, without that litigation, what specific -- would there be a basis to allege that they've made any false representations about their ownership?

MR. QUINTO: Yes.

THE COURT: And what specifically would be those false representations?

MR. QUINTO: Let me take a moment to tell the Court what I think the evidence will show. The evidence will show the following: That the Russian federation enacted a law providing for the privatization of public entities. That law provided that public entities could be transformed into private entities. Here the management of the state entity, which was V.B.O. Sojuzplodoimport, created a separate entity, one or more separate entities -- I'll come back to that in a minute -- called V.A.O. Sojuzplodoimport. The state entity V.V.O. continued to exist. But all the employees, the entire management and all the employees said we now work for V.A.O. They prepared a corporate charter, and they prepared a balance sheet. Their balance sheet showed that they were acquiring all the, what are known as material assets of V.V.O., material





assets would be real property, foreign accounts, foreign currencies, accounts receivable, that kind of thing. And they were listed on the balance sheet. The balance sheet also reflected that V.A.O. was purporting to accept the liabilities of V.V.O. And in 1992, they started -- they commenced operations as V.A.O. They wrote in their corporate charter, we are the successor to V.V.O. Using their initial balance sheet that I've described, and using that charter, they went to the Moscow registration chamber and they got their charter approved. They then went to the patent, the Russian patent and trademark office, and said we, V.A.O., are the successor to V.V.O. We're the transformed entity; look, our charter's been approved, so please register all these trademarks to our name. By 1993, V.A.O. had a brand new balance sheet suggesting that there is really a second V.A.O. entity. This new V.A.O. entity had a balance sheet reflected that at the beginning of the year it had no liabilities whatever. Those liabilities that it had purportedly assumed from V.A.O. from V.V.O. were now wiped from the books, and all it had done was keep the assets. Nowhere in this process was there any disclosure to the Russian government that it thought it was obtaining trademarks. The trademarks never appeared on any of the balance sheets. They were never identified as an asset. The Spirits defendants got involved in 19 -- in late 1996. V.A.O. had -- there's one other interesting step here too that your Honor may want to know

about. I said that the employees of V.V.O. created V.A.O. They also created another company called T.O.O. Implo. This company was something that they owned entirely by themselves. In 1992, when they were busy getting their corporate charter stamped and showing their initial balance sheet showing that they were purporting to accept the liabilities of V.V.O., they caused V.A.O. to issue stock to V.V.O., and V.V.O. became, on paper, the largest stockholder in V.A.O. by far. It had 28 percent, and I think everybody else had one or two percent each. Interestingly, after their corporate charter was approved, and after the trademarks were assigned, V.A.O., quote, expelled V.V.O. from its ownership interest, just expelled it, took the stock and awarded it to T.O.O. Implo. So the employees of V.V.O. wound up with a stock that was supposed to have gone to the Russian federation as part of the sale of the material assets. And note there was never any kind of sale of the intellectual property assets, which were even at that time valued at hundreds of millions of dollars. In fact, as of that time, the Russians had received an estimate from a German company called Siemex that the marks worldwide were valued at 300 million dollars, but no consideration at all was paid for the trademarks. Subsequently, in 1996, Mr. Shefler enters the picture. He starts to approach the other shareholders in V.A.O. There were approximately 50 other shareholders. These were agricultural cooperatives. V.O.'s business had been to





export and import food from and to the Soviet Union, so it was exporting food, foodstuffs, alcoholic products from a number of suppliers within the Soviet Union, and it made these suppliers very small shareholders in V.A.O. So Mr. Shefler approached shareholders of the agricultural cooperatives and purchased from them the right to vote their stock. He then called a special election, using all his -- the stock that he had the right to vote, and at the special election he had himself elected head of V.A.O. and had his confederate, Mr. Oliynik elected as the secretary of V.A.O.. By that point V.A.O. changed its name to V.Z.A.O. It was the same entity. And that occurred in early 1997. In this process, they inspected all the books and records of V.A.O., and anybody who looked V.A.O, those books and records, would see that there was never a transformation that had occurred. So the marks were not -- did not go from Russia to V.A.O. because no transformation had ever occurred. All that happened was there had been the ipse dixit assertion that we are the successor put in the corporate charter. There was the false balance sheet, and there was the false promise that the Russian federation had stock in this entity, and all that appeared was a sale of the material assets. Anybody who looked at this would've seen that there was no consideration whatever for any purchase of the intellectual properties of the trademarks that were already estimated $300 million, and that there was never any disclosure





to the Russian government that V.A.O. thought it was taking the trademarks. So Mr. Shefler -- and Mr. Oliynik, by the way, is a lawyer. They went through the books and records very thoroughly before they consummated their capture of V.Z.A.O. So they were clearly on notice that they were getting away with one. They were clearly on notice that they didn't have title to those trademarks. It wasn't simply a hypothetical concern that the Russian federation might some day bring a claim. They knew there was no basis for claiming those trademarks in the first instance, and the price that they paid for V.Z.A.O. I'm not sure what it was, but it was the stated capital of V.Z.A.O. was a few million dollars, clearly grossly disproportionate to buying trademarks worth 300 million.

THE COURT: But that wouldn't be a 2001 fraud. That would be a 1990 fraud.

MR. QUINTO: Well, it was an element in the fraudulent scheme. It's like if you planned to rob a bank and you buy your mask and you buy your gun and you get your dynamite, is that a bank robbery, or --

THE COURT: Well, not if I did it five years before then. I mean, not specifically for the purpose of robbing the bank. I mean, it's that -- I mean, there are two parts of it that I'm trying to analyze. One is that, well, as you say, it's like saying I set up a phony company 10 years ago and I incorporate, and my company is Jones, Inc., and then 10 years





later I enter into a contract as Jones, Inc., and then you say, well, you're committing a fraud 10 years later because even though you're doing business as Jones, Inc., you never properly -- you incorporated yourself as Jones, Inc. 10 years ago. I mean, it's sort of like saying -- I guess it's sort of your bank robbery analogy is sort of like saying 10 years ago I stole a car, and 10 years later I used it in a bank robbery, so therefore, you know, the theft of the car is part of the bank robbery. It's not exactly the way it goes.

MR. QUINTO: No, I'm not saying that the theft of the of the car is part of the bank robbery. I apologize if I'm being unclear. I think it's important to look at what else was occurring. Pepsi had been authorized by the Soviet Union to sell its vodka in the United States. That vodka was being produced in Russia. The revenues from the sale of the vodka were going to Russia. There were Russians being employed to manufacture the vodka. It was being bottled in Russia, and it was being exported to the United States. So the vodka was coming from Russia. Unlike now, now it comes from Latvia, and Pepsi had the right, given by the government, to use the mark. There hadn't yet been any attempt to assign the marks or the reversionary -- assign the marks to somebody else. From the point of view of the Russian government, it was still entitled to get the reversion of those marks. I think, looking at this in isolation, it may be a little difficult to say, well, you

know, wasn't somebody asleep at the switch and why didn't somebody in Russia notice sooner what was going on.

THE COURT: Well, I guess the real question is is it your position that Pepsi, absent the fraud, that Pepsi wouldn't have had the right to assign this to the defendant.

MR. QUINTO: Clearly.

THE COURT: Clearly what?

MR. QUINTO: It would not have that right.

THE COURT: They would not had the right to make any assignment at all, even if they were -- if there had been no fraud.

MR. QUINTO: That's right. If Pepsi had known the facts, if Pepsi had known the spirits was not the successor to the Soviet Union, it would've had no right to assign the marks to Allied Domecq.

THE COURT: Right, and they would have had no right to assign the marks to anyone at that point in 2001 or 2000 when they did so.

MR. QUINTO: Correct. They had to do - they were in everything, but name, a licensee.

THE COURT: Right.

MR. QUINTO: And they had to do with the marks whatever the owner of the marks -- which was the Russian government -- directed them to do.

THE COURT: But at that time the Russian government





didn't direct them to do anything.

MR. QUINTO: Correct.

THE COURT: So what you're saying that -- I, mean until the Russian government decides to step in, what is Pepsi's right? I mean, is their right just extinguished at a certain date and time?

MR. QUINTO: Well, I think Pepsi should probably have interpleaded the marks, but -- had they known that there was a dispute as to the ownership.

THE COURT: But I'm just saying if there wasn't a dispute as to the ownership.

MR. QUINTO: Well, Pepsi --

THE COURT: And -- absent the fraud, if everybody did exactly what they did in this case, what should have happened?

MR. QUINTO: Pepsi should have held on to the marks until the Russians directed them what to do with them.

THE COURT: And you say Pepsi would not had the right, if the Russian government didn't tell them to do anything elsewhere, to continue to use it, they wouldn't have had the right to assign it.

MR. QUINTO: Correct.

THE COURT: Okay.

MR. QUINTO: Just as Allied Domecq does not today have the right to assign the marks to you or I, under its agreement with SPI, with Spirits, it can assign the marks to its





affiliates, but it cannot assign the marks to others pursuant to paragraph 12.4 of its agreement with Spirits. If Allied Domecq were to undergo a change of control, Spirits would have the right immediately to take back the marks. And if the Court has followed the financial news recently, the Court may know that a change in control appears to be in the offing at Allied Domecq. The Wall Street Journal reported last Friday that Perneault Recare of France has partnered with a company called Fortune, and according to the Wall Street Journal, intends to purchase Allied Domecq P.L.C. and, quote, carve it up. And today's New York Times reported that a company called Constellation, teaming with Round Forman, which is a spirits manufacturer here in the U.S., are submitting a competing bid to try to acquire the assets of Allied Domecq. And Spirits has been quoted in various news media recently saying, well, we're not sure that we're going to agree that we're going to allow to release these marks to pass; we might want to take them back -- which is their prerogative under their agreement with Allied Domecq. It's absolutely inconsistent with the notion that Allied Domecq somehow owns the marks, and poses an interesting question. We have pointed out that in an action for trademark infringement, a plaintiff who can show a likelihood of success on the infringement claim is entitled to injunctive relief precisely because the inability to control the use of one's mark is defined by law as an irreparable injury. Here the





situation is beyond that. It's not just that the Russian government can't control the use of the mark. It doesn't have the use of its mark at all. So clearly the loss of the trademark is a fortiori, an irreparable injury.

THE COURT: Well, not necessarily, because the Russian government has abused the mark for decades, so it's not -- doesn't necessarily follow that it's irreparable injury. Because, as you said, even when the mark, the license, or the assignment was to expire, the Russian government didn't step in. It was assigned to somebody else. So I'm not quite sure you would have to demonstrate that they intended to do anything other than to let Pepsi continue to use it. To get an injunctive relief, I'm not sure the presumption necessarily would apply in this case because they were never using the mark and they don't have a trademark in the United States at all, so.

MR. QUINTO: Well, it's simply inaccurate to say that the Russian government didn't use the trademark for decades. Pepsi used the trades mark until 2001, under the authority --

THE COURT: Right --

MR. QUINTO: -- of the Soviet Union.

THE COURT: Right.

MR. QUINTO: So it's really only since then that we're talking about a period of non-use.

THE COURT: But even now, the Russian government

doesn't use -- doesn't claim ownership to the trademark in the United States and is not -- well --

MR. QUINTO: It does. That's why we're here.

THE COURT: The trademark, yes, but not -- it is not using it in the United States, other than to license it or assign it to someone else.

MR. QUINTO: But that's a use, I mean --

THE COURT: Well, but it's not necessarily irreparable injury. They can't be compensated in damages. So I'm not quite sure that you're saying that --

MR. QUINTO: Well, sure you can.

THE COURT: -- because they weren't using it, they weren't using it themselves, so, but that's not the -- that's really not the main issue here. I guess, you know, I guess I really want to go back and focus more on the counts themselves.

MR. QUINTO: All right.

THE COURT: You say that there was fraud. Let's start with the fraud count. You say it was fraud, and aiding and abetting fraud. You say that it's, in this case it's sufficient to say that the fraud is on Pepsi because -- the fraud existed because false representations were made to Pepsi, that they had the right that they didn't have, and that is sufficient for the third party to sue on a fraud claim and aiding and abetting fraud claim. Let me start backwards. Are there any -- what is the main set of facts that you're alleging





injunctive relief, except for the relief that you want in terms of the declaratory relief and the rights to the mark itself --

MR. QUINTO: Well, that's --

THE COURT: -- everything else is dollars. That's what you're looking for.

MR. QUINTO: No, that's not correct, your Honor. We're looking for the marks. The Soviet Union -- I'm sorry. The Russian federation has reclaimed the marks in Russian -- Stolichnaya is being sold to Russia. Every American who visits Russia, or I think there are 14 or 15 other countries where Russia is now selling its Stolichnaya vodka, people visiting those countries will buy Stolichnaya from one source. People here are getting it from a different source. The Russian government has an obvious interest in making sure that it has the same source worldwide, and it has an obvious interest in making sure that it can control the mark worldwide, and that's classic irreparable injury. And there are other actions pending in other countries. Recently I attended a trial of exactly these same issues between Ebcot Bay F. T. T. Import and Spirits in the Netherlands.

THE COURT: All right. Well, then let's just go back to the fraud. What, in what way did they -- what way under count nine -- I think it's count nine -- is there an aiding and abetting of the fraud? What do you say they did to help? What basis are they allowing for the fraud, other than being aware





that constitute the aiding and abetting, other than the knowledge, what do you say they did to help? That's what aiding and abetting is.

MR. QUINTO: If the Court will indulge me, I would like to make one further 30 second point on the irreparable injury, then I will turn to the Court's question.

I think the question of irreparable injury raises an interesting issue now, your Honor, because Allied Domecq has clearly been using the marks, and yet we have a situation where it's possible that Allied Domecq could decide to sell off this asset to any of the suitors who are seeking to buy its assets. If it were to do that, without SPI's blessing, or do it without SPI's knowledge, it could simply say, oh, we assigned the marks yesterday. Your only claim is for possibly inducing breach of contract against the purchaser or a breach of contract action against us, Spirits would find itself, under Allied Domecq's argument, without any means of reclaiming its marks.

THE COURT: You might, under those impending circumstances, be entitled to injunctive relief to prevent that.

MR. QUINTO: Well --

THE COURT: I wouldn't disagree with that. But in terms of the types of claims that you're raising now, you are just raising straight monetary claims. They really could be compensated in monetary damages. Most of this, except for the





of the fraud, what do you say they did?

MR. QUINTO: They had to do two things.

THE COURT: To aiding and betting.

MR. QUINTO: Right, to complete the fraud. They had to -- Allied Domecq had to accept the assignment from Pepsi. It had to pretend that for $10 it would -- bought the trademarks.

THE COURT: But that's not the aiding.

MR. QUINTO: Sure, it's --

THE COURT: Who are they aiding and abetting? I'm sorry.

MR. QUINTO: They are aiding and abetting Spirits International --

THE COURT: Oh, okay.

MR. QUINTO: -- in completing a fraud.

THE COURT: You're saying it's not an independent fraud by them. They are just aiding and abetting Spirits' fraud.

MR. QUINTO: And count nine -- yes.

THE COURT: But are you claiming under the same set of facts that they are indeperdently committing a fraud?

MR. QUINTO: Yes.

THE COURT: Okay. So how -- and is it a different fraud? You can't commit a fraud and aid and abet a fraud at the same time. So you either --

MR. QUINTO: Well, we're pleading in the alternative, I think.

THE COURT: Okay. Well, if that's -- but I don't know what alternative facts you're pleading. That's the only thing, I mean.

MR. QUINTO: We're pleading alternative theories.

THE COURT: If, on your facts there is -- on the facts that you've alleged there is not an aiding and abetting there, the fraud, they're the person, they're primarily and principally the defrauding party, under the facts that you've alleged here, right?

MR. QUINTO: I think it --

THE COURT: I mean, if they're not principally the defrauding party, is there any alternative theory, based on the facts that you've alleged it, that they're not principally the defrauders that they're somehow, they're aiding and abettors?

MR. QUINTO: I think so.

THE COURT: Okay. How would they not be the defrauders and the aiders and abettors in this situation?

MR. QUINTO: Well, I think one could argue that Allied Domecq acted as the agent of Spirits International, that it's really Spirits controlled by Mr. Shefler and Oliynik who orchestrated the entire fraud. Allied Domecq is really just the licensee. Whenever they buy vodka now, they buy it from Spirits. Spirits makes the profit. Spirits holds the





reversionary interest. Spirits gets the marks back in --

THE COURT: Okay, but that's not aiding and abetting the fraud. To aid and abet the fraud, we have to aid and abet the fraudulent activity, not aid and abet sale of the Spirits. That's not -- that wouldn't constitute aiding and abetting.

MR. QUINTO: All right. But Spirits International schemed to acquire the U.S. rights to the trademarks.

THE COURT: Okay.

MR. QUINTO: Spirits International and its predecessors in interest did everything that was required to make the heist possible.

THE COURT: Okay.

MR. QUINTO: The final act in the heist was to have an entity here accept the assignment of the trademarks from Pepsi, and then take that assignment to the U.S. PTO and register it, as if it was the lawful owner of the assignment.

THE COURT: All right.

MR. QUINTO: And in that regard, it enabled Spirits International to complete the theft of the U.S. rights to the trademarks.

THE COURT: I understand.

MR. QUINTO: One of the cases cited to the court is the Global Machine versus Global Banking Systems case. There the Court held, I'm sorry, the T.T.A.B. held that a recklessly false statement to a trademark examiner that one is the lawful





owner of a mark, constitutes a fraud on the U.S. PTO. In this regard, it cited Texaco V. Allied Chemical Corp. case from the Southern District of New York, reported at 193 U.S.P.Q. 716, for the proposition that where there was a charge -- where the charge was fraudulent procurement of a trademark registration, the allegation of false statements by the applicant with knowledge of the falsity was sufficiently pleaded under Rule 9b of the Federal Rules of Civil Procedure. And that's what we have here.

THE COURT: All right. So the basis for the fraud -- you say that the basis for the, for both the fraud on the patent office and the common law fraud, the false statement is solely the statement that they were the lawful owner.

MR. QUINTO: That's right.

THE COURT: And you say that they knew that to be false because of the Russian litigation or some other reason that you allege in the complaint?

MR. QUINTO: Well, let me answer that question two ways, your Honor.

THE COURT: Okay.

MR. QUINTO: First, I would say that it doesn't matter how they knew, if they knew. And the complaint alleges that they did in fact know. And the complaint cites several pieces, several facts for the basis of the statement that they knew. One was paragraph 26 that I read to the Court before, which





expressly discussed the parties' obligations in the event that an agency of the Russian government should sue to recover the trademarks. Secondly, we've alleged in the complaint, I think it's page -- paragraph 87 of the second amended complaint, that Allied Domecq made filings with the SEC here in the U.S., and warned investors that there was a possibility that it could lose the Stolichnaya marks because title was unclear. So they, in fact, knew. How did they know? I'm not certain how they knew, but we proffered two theories.

THE COURT: Well, I guess my question is, what do you say -- how do you say that they should have known?

MR. QUINTO: Well, in two ways: First, in conducting the due diligence -- and I've talked to witnesses who were involved at the time who worked for V.A.O., Mr. Shefler and Mr. Oliynik conducted due diligence. They went through the books and records. And, as we discussed, there is nothing in there that would show how the little tiny company V.A.O. bought trademarks worth $300 million.

THE COURT: Well, I assume Pepsi would've had such an obligation to do the same due diligence and so, therefore, they should be just as responsible for having that knowledge as they did.

MR. QUINTO: Well, I would disagree. First --

THE COURT: Okay.

MR. QUINTO: -- one distinction is, to my knowledge,

Pepsi never conducted due diligence of V.A.O., whereas Shefler and Oliynik in fact did.

THE COURT: Yes, but that doesn't protect them from -- I mean, that doesn't give them a fraud claim. You can't say, well, they could have done due diligence; they didn't do due diligence, so therefore, they were defrauded. They couldn't make that claim. They would not, and you couldn't derivatively make that claim either. In a business transaction, it's clear, the law is clear that, look, if you had an opportunity to do due diligence and you just decided something you should have known had you done the due diligence, you can't now claim that's a fraud because they didn't tell you.

MR. QUINTO: I don't think that follows, your Honor. I'm not expert in Russian law, but in my understanding of --

THE COURT: Neither am I.

MR. QUINTO: In my understanding of the American law, if ABC corporation has a contract with DEF corporation, and XYZ comes forward and says DEF has assigned its rights under the contract to us, I'm not aware that ABC has the right to go into DEF and say, let me inspect all your books and records, show me everything. These are, these are arm's length parties. ABC would not have the right to demand to examine all of the books and records of DEF.

THE COURT: Well, but ABC would have the right and the obligation to make sure that the person that they were dealing





with was, in fact, the person they were dealing with before they turned over property. I mean, that's -- they would have at least that obligation, and can't later say, well, now there's some cloud about it because, you know, they said that they were the people, but now the other people are saying they're not the people and it's a big dispute, so, and we didn't bother to check it out; we just took their representation they were the right person, and now there is some issue about it that they have the right. I mean, that --

MR. QUINTO: Well --

THE COURT: I mean, it can't be that it's in doubt. It's got to be that they knew that it was false when they made a statement, and it can't be that, you know, they should have suspected that it might not be the case or they should have expected somebody else might come in and claim, and ultimately be determined to have a higher right than they have. That doesn't make it. That doesn't make saying that, yeah, I think I'm the rightful owner, I don't care what anybody else says. Now, they may claim they're the rightful owner, but that doesn't -- you know, that doesn't make it a fraud on the person that necessarily -- make it a fraud on the person that does business with them.

MR. QUINTO: Well --

THE COURT: Companies do that all the time, say they got a right to do something, and somebody else comes in and





says they didn't have the right to do it, we had the right to do it. Just because they said they have the right to do it doesn't make it a fraud.

MR. QUINTO: I think we're getting a little astray talking about whether there is or is not a possible claim against Pepsi.

THE COURT: Well, no, we're not getting astray. Because my next point is that I want to, in the -- what it is critical to your argument is that what statements were made to Pepsi were false statements to Pepsi, because no false statements made to your client, and your client didn't rely on any false statements. So it really is critical for me to analyze why if -- let's put it this way. If Pepsi wasn't defrauded -- you weren't defrauded, because they could not have said something to Pepsi that was not a false statement that Pepsi relied upon, and you have some cause of action for fraud as a third party, under any of the cases you cited, that's not even the position that you urge. That they could make -- they could make statements to Pepsi and Pepsi had no -- and they not be -- meet all the elements of fraud, and, but somehow it wouldn't meet all the elements of fraud if Pepsi wants to sue, but it wouldn't meet all the elements of fraud when you want to sue. I don't think that's your position, is it? Do you think you have any right that is greater than what Pepsi would've had under a fraud claim?





MR. QUINTO: Yes, clearly.

THE COURT: And because why, because you claim injury?

MR. QUINTO: Right. Pepsi had no injury. Pepsi was not entitled to keep the marks beyond 2001.

THE COURT: But if no -- but I assume you agree that if no false statements were made to Pepsi, then you don't have a fraud claim.

MR. QUINTO: We have a fraud claim if a false statement was made to Pepsi or a false representation was made to the U.S. PTO.

THE COURT: Okay. Well, okay. I'll separate -- okay. So I was just dealing with Pepsi because you say it's irrelevant what Pepsi -- so are you saying that -- and who do you say has to rely on that?

MR. QUINTO: There are a number of cases we've cited.

THE COURT: Right.

MR. QUINTO: Including Judge Scheindlin's case distinguishing the Lola case, on which Allied Domecq relies, that stand for the proposition that if a misrepresentation is made to a third party, knowing that the plaintiff is going to be injured by the third party's reliance on that statement, then in that circumstance, where it's not a vague inchoate injury or inchoate vague class of plaintiffs, but a particular plaintiff you intend the third party to rely on a particular statement to the detriment of a particular plaintiff, that that

constitutes actionable fraud.

THE COURT: Right. The third party, or --

MR. QUINTO: No, not by the third party. By the party making the misrepresentation.

THE COURT: All right. So you say -- and I have to look more carefully at the cases again. I did look at them, but not as closely. In my standards, the standard classic case that those cases are supposed to deal with is when obviously there is some, at least some relationship, and in most cases some agency relationship so that a representation to the third party is obviously intended to be a representation that is, is critical to the person that's suing, and I'm not quite sure whether -- I have to look carefully at the cases because I'm not sure the cases stand for the proposition -- you may be right, but I'm not sure the cases stand for the proposition that it's Pepsi that's got to rely on the statements, even if those false statements are made to Pepsi. I'm not sure it stands for the proposition -- I'll look at it -- that Pepsi has to rely on those statements rather than you have to rely on those statements.

MR. QUINTO: In the Fushon America case, the misrepresentation was made to a third party which led it to extinguish an obligation owed to the plaintiff. In Deser versus Shatz --

THE COURT: But in that case the plaintiff was the





party that had authorized them to make what they would assume were going to be valid representations, to move forward with a transaction that they were all involved in. So in that sense it really was the plaintiff that was relying that -- on the fact that the defendant would give truthful information to the bank. It wasn't the fact that they -- I don't think Judge Scheindlin was trying to say, well, simply because the bank relied upon it, and some incidental injury caused to the plaintiff, that that was enough. I think in that case it was clear under any analysis that the plaintiff was relying on that those were counting on -- as if that's what reliance is, were counting on those, on those representations to the bank that would be relevant to their transaction, would be truthful representations. I'm not quite sure. I -- I've never seen a case where you say that, well, I tell X that I'm going to sell X my car, and I tell X that my car is parked on the street, so I get my money, I give X the keys, X drives away with the car. Y runs out and says, where's my car? And the case law stands for the proposition that Y was defrauded. Y wasn't defrauded. With regard to Y, a fraud may be -- may lie with regard to the money that I received from X, but you need a little bit -- unless you think that your cases stand for that broad a proposition -- and I don't -- and I don't think the cases stand for that proposition, but I'll look at it -- but I want to make clear whether or not you're saying that yes, the cases stand





for that proposition and that's what we have here, or are you saying, no, it doesn't stand for that broad a proposition and we have something a little different here.

MR. QUINTO: Well, I think they do, but I don't think that this case is that broad. Here the contention is that Spirits approaches Pepsi and says we are authorized to speak for the Russian federation. The Russian federation has given us the rights in these marks, so we come here as the agent of plaintiff, and as plaintiff's agent we direct you to assign the marks to Allied Domecq, and Pepsi does so. Allied Domecq accepts the assignment, takes them to the U.S. PTO and records them, saying we're the lawful assignee, we're the lawful owner. And our contention is that Spirits and Allied Domecq both knew this wasn't true. And I'd like to just try to put this in some context. When the Soviet Union broke up, the people raced in to try to steal all the assets of the state it could, so everybody was looting everything. And we've all read about the billionaires living in Moscow. I think I read recently the Moscow now has more billionaires than any other city in the world. These are not self-made people who pulled themselves up by the bootstraps beginning 13 years ago. These people all committed thefts of state property. And I think you have to look at -- from the point of view of the Russian federation, when everything is going out the door, it's a little hard to focus on whether there's title to this or title to that.





Little hard to separate out what it is going on.

THE COURT: But you haven't alleged theft here. That's the difference. You've alleged a fraud.

MR. QUINTO: We've alleged misappropriation, your Honor, which I think is a like word for theft.

THE COURT: No. It's, you know, you're not -- to steal something and to defraud someone of their property are two different things, and they're not the same elements. If I -- if, as they say, if I pick your pocket, you can't sue me for fraud. You know, if --

MR. QUINTO: Conversion.

THE COURT: If I steal your car, you can't sue me for fraud. You can sue me over theft, sue me for stealing, but -- some other loss, but you can't sue me for fraud. So the question is, you know, where the -- obviously, the unusual, rather than the usual circumstance that you've alleged here, is that you allege a fraud.

MR. QUINTO: Right.

THE COURT: No one has made any direct false representations to your client to which one could argue that it was expected your client was -- would rely upon, and your client relied upon it to their detriment.

MR. QUINTO: No.

THE COURT: It's not -- that's not the kind of -- that is the classic fraud claim, and that's not the kind of fraud

claim that you articulated in this complaint.

MR. QUINTO: Right. But what we have articulated is that false statements were made. They were made with the intention that somebody would rely on them. They were made with scienter. They were made with the intention that the reliance would be detrimental to my client, and there was reliance that resulted in detriment.

THE COURT: Reliance by who? Again, what is --

MR. QUINTO: Well, the reliance was by Pepsi and by the U.S. PTO.

THE COURT: So can I -- so you're saying it's not required that the reliance be on your client's part.

MR. QUINTO: That's correct. And I think that's what Fushon America, Deser versus Schatz, Buxton Manufacturing all say.

THE COURT: Now we're into the lunch hour. If you're going to more than 10 minutes or so, then we should come back after lunch.

MR. QUINTO: I think I can wrap up in 10 minutes, subject to any comments.

THE COURT: Can you do it in five?

MR. COLBERT: A lawyer's five, your Honor? Five to eight to 10. Yes, I can do it under 10.

THE COURT: You'll be more persuasive with a real five.





MR. COLBERT: I understand.

THE COURT: Let's finish it then. Go ahead. I'm sorry.

MR. QUINTO: Thank you, your Honor.

THE COURT: I'll let you finish.

MR. QUINTO: Mr. Colbert argued eloquently that a whole bunch of claims must fall if he can show that his client has valid title, and I think I've argued that his client does not have title, and if he can show that the registration is incontestable, and I would like to address that point. One point that he made is that who knows where Stolichnaya comes from; who would have any idea that Stolichnaya refers to Russia. I'd like to show exhibit E to the reply memorandum.

THE COURT: Well, that's not really his argument. His arguments is that's got to be part of the mark.

MR. QUINTO: Well --

THE COURT: I mean, now if I say, if I say Mercedes Benz Germany, it's from Germany, but it doesn't necessarily mean that I violated the mark if I say Mercedes Benz Germany and it's built in New Jersey.

MR. QUINTO: Your Honor, I've just handed you a copy of the Allied Domecq's registration, one of the marks at issue. That mark is Stolichnaya Russian vodka, which I submit suggests pretty clearly that Stolichnaya is associated with Russia.

THE COURT: Okay.





MR. QUINTO: The vodka is made in Latvia. The language of Latvia is Latvian, not Russian. The pick --

THE COURT: Is this the trademark at issue?

MR. QUINTO: This is one of the trademarks. There are two groups of trademarks.

THE COURT: Right. But is this one of the trademarks at issue?

MR. QUINTO: This is one of the trademarks at issue. This is exhibit E to Allied Domecq's reply memorandum in support of its motion to dismiss. We've also cited the Utman case to the court. There H. Utman was a manufacturer of Cuban cigars.

THE COURT: Right.

MR. QUINTO: After Castro took over, H. Utman could no longer manufacture Cuban cigars, so Carl Utman started manufacturing cigars in this country. And the Court said that the Carl Utman mark, which was a registered mark, was misdescriptive. And for the same reasons that that was misdescriptive, the use of Stolichnaya with a picture of a famous Moscow hotel, in the Russian language, doing everything it can to associate itself with the capital of Russia, not the capital of Latvia -- I'm not -- could not even name the capital of Latvia. Clearly it's being used in an effort to misrepresentation the source of the vodka. A.V. wants people to think it's Russian vodka, not Latvian vodka.





Mr. Colbert argued that their use is somehow grand fathered. That's not true, and I think this is a very dangerous argument. Pepsi was authorized to make -- to use the mark. Pepsi was actually selling Russian vodka. Mr. Colbert's argument is that once a mark has been registered for five years, after that anything is fair game. There are no remedies. If Allied Domecq wants to assign it to somebody else, Spirit can't do anything about it. If Allied Domecq wants to blatantly misrepresent where its vodka is coming from, can't do anything about it.

THE COURT: No. He just says that the statute clearly delineates at what point that's applicable. It's not applicable to people who have done it before it was enacted.

MR. QUINTO: Well, his argument, as I understand it, is that after five years, all bets are off, even if the mark has been assigned fraudulently. Not so. Let me turn very briefly to the copyright argument.

Mr. Colbert made three points. One is that he thinks Allied Domecq is reliance party, but that's not true, because Pepsi was making proper use of the mark.

Secondly, he claims that there wasn't notice. Whether the letter is or is not sufficient notice, I guess the Court may judge. If the Court feels -- believes that Allied Domecq was not a reliance party, the Court never reaches the issue of notice. It's irrelevant.

Finally, he argued or, actually, I'm sorry, it was Miss Parton who argued, what right did Pepsi have to sell vodka using the label; was it an assignment, was it a license? And I'm surprised that the answer wasn't obvious to somebody schooled in copyright law. The very obvious answer is the first sale doctrine. Under the first sale doctrine, if you buy a product, that is a copyright or contains a copyright, you are allowed to resell it. Pepsi was buying vodka from Russia. It was bottled in Russia. The labels were applied in Russia, and it sold that in the United States. Pursuant to the first sale doctrine, it did not need an assignment. It did not need a license, although I think the license was implied from the term of -- the terms of its trademark license agreement. In any event, if the Court is disposed to grant the motion as to the copyright claim, I would ask for leave to replead. If we were allowed to replead, I think we could plead these elements more clearly. Also, we would allege that the Russian government has gotten an assignment of copyright from the heir of Mr. Yakoff, who was the person who designed the label back in 1953.

THE COURT: Thank you, very much.

MR. COLBERT: Your Honor, if I may, can I accede one of my five minutes to Mr. Merone, then I'll pick up the theme from there?

MR. MERONE: Incredibly, I talk faster than he does.

THE COURT: Don't talk too fast, because my court





reporter doesn't have three hands.

MR. MERONE: They claim that Pepsi was making proper use. First of all, there is no license, there is no assignment. They claim that, well, it's okay, it's under the first sale doctrine, so that all their sales up till 2000 were lawful because they came from them. Well, the problem was Pepsi has not bought vodka from them since February 1992, when the supposed grand theft hijacking occurred. So they have not been buying vodka from them with the labels affixed by them. They've been buying vodka from VAO SPI with labels affixed. So if they're the copyright holder, they're not going to be able to allege that there is an implied license because they're selling the product to Pepsi, who is then selling it. There is no allegation in the complaint that Pepsi was exercising lawful use. Pepsi's use, if you believe their facts, which is as of February 1992 Pepsi breached its contract because it entered into a new contract with VAO SPI, and no longer abided by the 1991 agreement with A.V.O. SPI., if you buy that argument, since that date they've been in breach of that contract since that date any sale of with a copyrighted label constitutes infringements since it's before 1995, that makes Pepsi's act a violation under one, 17 U.S.C. 106, where reliance party.

They argue about notice. Your Honor, just take a look -- it's not in their second amended complaint, but -- take a look at the letter if you would, please. What they have





compared to the section, I don't want to -- there is a specific section. It says, you must provide it, a name of the copyright, you must provide English language translation. It's very formal. The word "copyright" however, does not even appear in their letter. They're citing a notice. There's been no notice, which means their claim must be dismissed, and they can't even refile a new claim, which would be a separate cause of action in a separate case for at least 12 months until we actually are given notice. That's the statute.

THE COURT: Thank you.

MR. COLBERT: Your Honor, if I may make my four minutes sufficient as possible. May I approach the board over there?

THE COURT: Sure.

MR. COLBERT: And use it? Thank you. Let's hope we have a marker.

THE COURT: I have a marker right there. I'll hand it to you.

MR. COLBERT: May I take this off?

THE COURT: Yes, please.

MR. COLBERT: Thank you very much. Let me clear up a couple points. I needed the board for one. His argument, he confuses the ideas of source and geography, this misrepresentation of source and geographic misdescription. For example, misrepresentation of source is one of the grounds to





attack incontestability. The geographical identification identifying place as 2A, it's a separate issue. If, in fact, the argument they're making is a use of Russian vodka, that's false advertising claim. We've already said. It makes out a cause of action. So to the extent they're using Russian vodka made in Russia, they claim that's false. They claim it's not proper, it's false advertising claim, and they've made that out. We've not said they've not made out a count so they confuse source and geography, mix the two concepts.

Second, he pointed to the Stolichnaya Russian vodka. I pointed out -- if they're suggesting that because for some reason, assuming against everything else they could cancel -- they'd have any rights in the mark Stolichnaya, simply not the case. They'd have to cancel the Stolichnaya mark, and that particular registration has nothing to do with it. But let me get to the board. Let me show you the problem. What I just listened to Mr. Quinto talk about I think illustrates the point. Here's the first point. In 1991, the USSR, I won't even get to the V.A.O. transfer the mark to Pepsi, they admit it. They've alleged it. It's in your complaint. That's a valid assignment of the title in the U.S. to Pepsi. There is no question there is proper title. Now, I listened for about a half hour as he detailed his case to the Court, I believe he would. All these acts of fraud, misrepresentation, theft from 1992 to 1997 to, through all the chain of companies, I can't

say more clearly, none of this makes any difference. It doesn't matter. Because none of that has any relationship to Pepsi's title. What they're arguing about is that whether it was the Russian court decision, whether it was the assignment of rights, whether somebody defrauded stockholders, all of that, it's fighting over perhaps the Russian trademark rights, maybe the reversionary contract rights, here. That's what they're fighting over. None of this has any effect on this. So this is a period from 1991 to 2000. Now, Pepsi sends it to Allied Domecq in 2001. There is no question that Pepsi had title. They owned it. They even stood here and argued, yes, Pepsi did have lawful title, although it just kind of time -- I'm sorry -- in name alone is title. So Pepsi owned it. Pepsi sold it to Allied Domecq. Now --

THE COURT: Well, his argument is not that they sold it to Allied Domecq; that the only reason he gave to it Allied Domecq was because of Allied Domecq's representation that they were lawfully entitled to it.

MR. COLBERT: That's the point. This point we're now -- your Honor pointed out the difference between all of this fraud and this 2001 fraud. And what is the fraud? Is it fraud or -- the argument is supposedly Allied Domecq told Pepsi something that Pepsi relied upon to assign the rights that it owned to Allied Domecq. We don't know what that was. Was it that Allied Domecq said that Pepsi owned it; is that what the





argument is? Because Allied Domecq surely didn't claim it owned it in 2000. So did they tell Pepsi, hey, Pepsi, you own it, and you can assign it to us? There is no allegation of that is basis in fact. It's been -- if you look in the records, the deed of the assignment in Pepsi, Pepsi two places says assignor, which is, Pepsi represents and warrants it has all necessary title and right to grant the assignment. That's Pepsi telling Allied Domecq, not the other way around. There is no allegation there was any false statement, there was any statement, any kind made to Pepsi. So, your Honor, clearly point out the fact there is no reliance by his client by the USSR by of the -- or anybody else on whatever was said. Pepsi is not here. There claiming they're going to be completely devoid of rights. Now, if the argument is somehow, okay, that Pepsi -- that they only own the contractual rights and Pepsi should not have assigned title, Pepsi owned it, they had time. It was recorded. If they had had power, they had the authority, they had the right, they might have breached the contract, which means if Pepsi -- if the argument is that we accepted title from Pepsi and Pepsi did not have the authority because it breached its contract, that is it, the authority, but it would have breached its right, its obligation to the USSR, then they should make that allegation in the complaint, and we can respond to it, and we can respond that Allied Domecq is a bona fide purchaser for value, and then we could fight





that fight. But that's not the case that's before this Court now. Court now is -- somehow this title didn't transfer to Pepsi and, therefore, Allied Domecq does not have any incontestable title. It couldn't be clearer that they do. So that's another avenue they could approach. It's a breach of contract case. So what did Allied Domecq tell Pepsi that caused Pepsi to assign it? We don't know. They don't advertise. There is no allegation of what it was, and it still would only be Pepsi's reliance. So going back over 10 years ago, USSR sends it to Pepsi. Pepsi sends it to Allied Domecq. That's the chain of title. Everything else is contract rights. So if somehow the plaintiff is successful against the other defendants -- and I need to emphasize to the Court the other defendants, because a half-hour speech that I heard about all this chain of alleged fraud all was aimed at SPI, and we don't know whether it's true. For purposes of this motion, it doesn't matter. If your Honor were to grant our motion to dismiss most of these claims, it's not going to effect SPI's presence in this case, nor their claims against SPI, nor the claims of fraud against SPI in any way. But they have not made out a fraud count against the PIL or -- the only thing left in this case should be the false advertising case.

THE COURT: All right. Thank you very much, gentlemen. All right, I appreciate it. Let me just --

MR. ROMAN: Your Honor, a real minute, not a lawyer's





minute, but a real minute. Neil Roman for the SPI defendants.

THE COURT: Yes.

MR. ROMAN: As you know, your Honor, we are not obligated to respond under your order of February 25, until 30 days after either you deny the motion for leave or the second amended complaint is filed. At the time that we, that we are to respond, we intend to file a motion to dismiss, to the extent that the motion to dismiss concerns counts which, in which we are named along with Allied Domecq, we would request your Honor to hold off on ruling on those counts because we are going to have, in addition to that now, some additional arguments both from our perspective, also arguments that we think that could have been made that were not made. So we would think it would help aid the Court if you could have our presentation.

THE COURT: All right. Well, okay. Obviously just depends on whether you think what is most efficient, you know, I can wait until I get the fully submitted or you can wait until I rule on the motions.

MR. COLBERT: I'd just like to state for position of the Allied Domecq defendants that we believe that the case is fully briefed, this Court can rule on our motions. What SPI's position may be on these papers, they had every opportunity to come in before. This is irrelevant to this Court's ability in fact should dismiss those counts to not property against Allied

we're dismissed, they'll still make whatever argument they want. It's not going to effect the Court's ability nor its --

THE COURT: Well, I don't want to spin my wheels and have to keep going through this on the same issues.

MR. ROMAN: We do think it would be more efficient if your Honor rule on both motions to dismiss at the same time.

THE COURT: Well, how soon would you submit your motion?

MR. ROMAN: If your Honor rules on the motion for leave as perhaps even today --

THE COURT: I am going to grant them leave to amend. I'm going to convert the motion into a motion to dismiss those counts and a motion to not allow the amendments as to the other counts, and then I'll entertain those.

MR. ROMAN: If that happens today, 30 days from today we will file our motion to dismiss.

THE COURT: All right, okay. Do this. File your motion to dismiss. I will -- I mean, it's unlikely anyway that I'm going to decide this within 60 days, probably 90 days. So go ahead, file your motion to dismiss. I'm going to go ahead and move forward to the extent that, obviously, I need -- there is a lot of work to do anyway, but I will wait till I get the motion and response, agree upon a schedule. So I can anticipate when I'll get it, and pretty much my guess is that -- I'm not sure another argument is necessary. If it is,





I'll bring you in, but otherwise within 30 days of -- probably 30, 60 days or when I get the motion fully submitted, I'll probably will go ahead and decide it, given the extensive argument we've had and assistance. I have papers that I already have, okay, and unless there's a specific issue that that is different than the issues we've discussed or your arguments are different, then I think I'm going to go forward so if you assume that I mean within 45 days I should have it pretty much fully submitted, and so I assume then another 3060 days after that I'll of a decision.

MR. ROMAN: Thank you, your Honor, although our motion to dismiss will also address the counts that are directed solely --

THE COURT: Sure.

MR. ROMAN -- at my clients.

THE COURT: All right. Then I'm going to start working, but I'll wait to -- anticipate that I'll get a motion in 30 days, a response in 30 days after that, and a reply within 15 days after that, and then I'll be ready to move forward. Okay. All right.

MR. ROMAN: Thank you.

MR. QUINIO: Thank you, your Honor.

(Adjourned)