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Practice Update

The Supreme Court Resolves a Circuit Split Regarding Standing to Sue for False Advertising Under the Lanham Act

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By Ira S. Sacks, Mark S. Lafayette, and Amy S. Price

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In *Lexmark Int'l, Inc. v. Static Control Components, Inc.* (March 25, 2014), the Supreme Court unanimously held that "to invoke the Lanham Act's cause of action for false advertising, a plaintiff must plead (and ultimately prove) an injury to a commercial interest in sales or business reputation proximately caused by the defendant's misrepresentations," attempting to clarify the standing requirements for bringing a false advertising claim.

Lexmark sells laser printers and designs its printers to work only with its own toner cartridges. In an attempt to prevent cartridge remanufacturers from refurbishing cartridges to be compatible with Lexmark printers, Lexmark designed and applied a microchip to each cartridge that would disable an empty cartridge until Lexmark replaced the chip. Static Control sells parts necessary to remanufacture Lexmark cartridges, but is not itself a cartridge remanufacturer. Static Control developed a microchip that mimics Lexmark's chip so that remanufacturers were able to refurbish and resell used cartridges compatible with Lexmark printers.

Lexmark sued Static Control in 2002, alleging copyright infringement. Static Control

counterclaimed, alleging that Lexmark violated the Lanham Act by misrepresenting to companies and consumers the legality of the refurbished cartridges. Lexmark moved to dismiss the false advertising claim, arguing that Static Control had no standing because it was not a competitor of Lexmark. The district court held, applying a multi-factor balancing test, that Static Control lacked "prudential standing" because there were more direct potential plaintiffs, that is, remanufacturers, Lexmark's intended competitors. The Sixth Circuit reversed, applying the Second Circuit's "reasonable interest" test, finding that Static Control had properly alleged a cognizable interest in its business reputation and sales to remanufacturers and sufficiently alleged that those interests were harmed by Lexmark's statements to the remanufacturers.

The Supreme Court affirmed, but rejected the "reasonable interest" test, along with the multi-factor balancing, and direct competitor tests applied by other circuits. The Court stated that the issue presented was not one of "prudential standing," but rather one of traditional statutory interpretation in determining whether a cause of action encompasses a particular plaintiff's claim. Thus, the question was whether Static Control fell within the class of plaintiffs Congress authorized to sue under the Lanham Act. This test is similar to the antitrust standing doctrine established long ago by the Court in *Associated Gen. Contractors v. California State Council of Carpenters* (1983).

Turning first to the purpose of the Lanham Act, the Court found that the concept of ***unfair competition*** under the Act is concerned with injuries to business reputation and present and future sales. The Court noted, as other courts had found, that neither a consumer who is "hoodwinked" into purchasing a defective product nor a business misled by a supplier into purchasing an inferior product were the type of plaintiffs contemplated by the Act.

Secondly, the Court stated that a cause of action is limited to plaintiffs whose injuries are proximately caused by the violation. Thus, the economic or reputational injury must flow directly from the defendant's misconduct, which under the Lanham Act "occurs when deception of consumers causes them to withhold trade from the plaintiff." Applying the test to Static Control, the Court held that Static Control's lost sales and damage to its reputation were precisely the sorts of commercial interests the Act protects.

Turning to the proximate cause prong, the Court noted that Lexmark and Static Control were not direct competitors. However, the Court stated that direct competition was not required for proximate cause, even if the defendant's aim was to harm its immediate competitors, and the plaintiff merely suffered collateral damage. Here, despite the intervening link of injury to the remanufacturers, the injury to Static Control was so integral to the violation that the proximate cause prong was satisfied. The Court took into consideration the fact that the microchips Static Control sold were necessary for, and had no other use than, refurbishing Lexmark cartridges. Thus, any injury to the remanufacturers' business necessarily injured Static Control. However, the Court counseled that the alleged injury to Static Control constituted a "relatively unique" case in which there is a "1:1 relationship" between the harm suffered by the direct and indirect competitors, since Static Control's allegations suggested that every refurbished cartridge not sold by a remanufacturer as a result of Lexmark's misrepresentations resulted in the same number of microchips not sold by Static Control.

The Court's counseling in this area suggests that at some point along a continuum, injury to direct competitors will be insufficient to suggest resulting injury to non-competitors. Surely, since the Court rejected the categorical "direct competitor" test previously applied in the Seventh, Ninth, and Tenth Circuits, the *Lexmark* decision broadened the scope

of false advertising claims brought by a non-competitor.

In addition, the extent to which the *Lexmark* will – and was meant to – apply to other claims brought under the Lanham Act remains an open question. Some courts have assumed, without deciding, that the *Lexmark* test applies to other causes of actions brought under the Lanham Act. For example, one court applied the *Lexmark* test to a trademark infringement claim, *Ahmed v. Hosting.com* (June 27, 2014), and the court ultimately found plaintiff's allegations of damage to his commercial interest insufficient. *Ahmed* was an unusual situation because there were serious – indeed, dispositive – issues as to whether plaintiff had any of the rights upon which he sued.

Finally, it will be interesting to see how *Lexmark* is applied in practice. Courts repeatedly struggled to apply the antitrust standing tests of *Associated General Contractors*. One may expect similar struggles with *Lexmark*.
