

Intellectual Property Alert

US Supreme Court Sets Forth Standing Requirement for Lanham Act Section 43(a) False Advertising Claims, Rejecting Requirement of Direct Competition

Significant for litigators and would-be litigants alike, the US Supreme Court's unanimous decision in *Lexmark Int'l, Inc. v. Static Control Components, Inc.* unifies and clarifies the law of false advertising standing across all circuits and, at least in some jurisdictions, expands the ranks of potential plaintiffs seeking to assert Lanham Act false advertising claims against noncompetitors.

In a unanimous decision that resolves a long-standing conflict among the lower courts, the US Supreme Court has clarified the threshold for standing to assert a false advertising claim under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). In *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 572 U.S. ____ (March 25, 2014), the Court rejected all three tests that various federal appellate courts have applied to the question of Section 43(a) standing, and held that standing exists for anyone who suffers lost sales or damage to its business reputation as a direct result of a defendant's false or misleading statements. The decision is significant not only because it unifies the law of false advertising standing across all circuits, but also because, at least in some jurisdictions, would-be false advertising plaintiffs who did not have standing under the Lanham Act can now bring suit even against noncompetitors. The decision is also significant because it confirms the rule long applied by lower courts that consumers—including businesses whose relevant interest is only as the purchaser of a product or service—do not have standing under the Lanham Act.

On its face, Section 43(a) appears to grant standing to “any person who believes that he or she is or is likely to be damaged by” the false advertising. 15 U.S.C. § 1125(a). But federal courts have consistently held that such a literal application of the statutory text would ignore the basic purpose behind the Lanham Act, which is to prevent unfair competition. Thus, courts have developed “prudential standing” tests to limit the potential universe of plaintiffs in a Lanham Act false advertising case.

Before the Supreme Court’s decision, the courts of appeals had applied at least three different prudential standing tests for Lanham Act false advertising cases. Four circuits—the Third, Fifth, Eighth and Eleventh—adopted a standing test applicable to federal antitrust claims in which the court weighs, among other things, the plaintiff’s proximity to the conduct at issue and the directness of the injury. Three circuits—the Seventh, Ninth and Tenth—limited standing to competitors of the defendant. The Second Circuit applied yet another test, looking to whether the plaintiff has a “reasonable interest” to be protected against the alleged false advertising.

In *Lexmark*, the Supreme Court took up the issue of which, if any, of these tests was correct. The false advertising claim at issue was asserted as a counterclaim by Static Control against Lexmark. Lexmark makes toner cartridges for its printers; no other company manufactures new toner cartridges that are compatible with Lexmark printers. There is, however, a secondary market for used, remanufactured toner cartridges, and Static Control—while not a remanufacturer itself—supplies parts to remanufacturers, including essential microchips that circumvent Lexmark’s efforts to prevent the use of remanufactured cartridges.

When Lexmark sued Static Control for patent and copyright infringement relating to its sale of that microchip, Static Control asserted a counterclaim for false advertising, alleging that Lexmark falsely stated to consumers that they were legally bound to return the toner cartridges at issue to Lexmark, and falsely stated to remanufacturers that it was illegal to sell refurbished Lexmark cartridges and that it was illegal to use Static Control’s products to refurbish the cartridges.

The district court dismissed Static Control’s Lanham Act claim for lack of prudential standing. The Sixth Circuit reversed, adopting the Second Circuit’s “reasonable interest” test and holding that Static Control met that standard.

Explaining that the label “prudential standing” was itself misleading and holding that the fundamental issue is whether Static Control falls within the class of plaintiffs whom Congress has authorized to sue under Section 43(a), the Supreme Court applied traditional principles of statutory interpretation, including two key presumptions: (1) that a statutory cause of action extends only to plaintiffs whose interests “fall within the zone of interests protected by the law

invoked,” and (2) that a statutory cause of action is limited to plaintiffs whose injuries are proximately caused by violations of the statute.

Applying these principles (and presumptions) of statutory interpretation, the Court held that the text of the Lanham Act makes clear that its goal, for purposes of false advertising cases, is to “protect persons engaged in . . . commerce against unfair competition.” Therefore, to come within the zone of interests in a Section 43(a) suit, “a plaintiff must allege an injury to a commercial interest in reputation or sales.” A consumer who is misled by false advertising, the Court held, cannot invoke the protection of the Lanham Act; nor can a business that is misled by a supplier into purchasing an inferior product, for, in that circumstance, the business is a consumer.

As for the requirement of proximate causation, the Court held that the injury to sales or reputation must “flow[] directly from the deception wrought by the defendant’s advertising.” However, the Court observed, because the commercial injuries from false advertising always are in some sense derivative of consumers’ deception, the intervening step of consumer deception is not fatal to the showing of “direct” proximate causation. Proximate causation generally is interrupted, however, when the deception injures a fellow commercial actor and that, in turn, affects the plaintiff. As the Supreme Court explained, a competitor put out of business by false advertising can sue for its losses; the competitor’s landlord and electric company cannot.

Applying these principles to Static Control’s claim, the Court first held that Static Control, which alleged lost sales and damage to its business reputation, undoubtedly was in the zone of interests protected by the Lanham Act. With respect to proximate causation, the Court held that while diversion of sales to a direct competitor might be the paradigmatic direct injury from false advertising, it was not the only type of injury cognizable under Section 43(a). Static Control’s claim that Lexmark disparaged its business and products—by asserting that Static Control’s business was illegal—adequately alleged an injury flowing directly from the audience’s belief in the disparaging statements. “[W]hen a party claims reputational injury from disparagement, competition is not required for proximate cause,” the Court explained. And, of perhaps greater significance in understanding the Court’s standing test, the Court held that because Static Control alleged that its microchips were necessary for refurbished Lexmark cartridges and could only be used in such cartridges, any false advertising that reduced the remanufacturers’ sales “necessarily injured Static Control as well,” such that the intervening link of injury to the remanufacturers did not defeat proximate causation. “In these relatively unique circumstances,” the Court held, the remanufacturers are not more immediate victims than Static Control.

The Supreme Court’s decision in *Lexmark* is significant for litigators and would-be litigants alike. It clarifies the previously fractious body of law regarding Lanham Act Section 43(a) standing, and, in the process, potentially averts for many litigators the question of where to sue. Moreover, at least in circuits that previously limited standing to direct competitors, it expands the ranks of potential false advertising plaintiffs. It remains to be seen, as the lower courts apply *Lexmark* to facts that might not match the “relatively unique circumstances” of Static Control’s

claimed injury, how much those ranks will be expanded and whether we will see a substantial increase in noncompetitors seeking to assert Lanham Act false advertising claims.

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