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THE PRACTICE

More Parties Getting into the (Lanham) Act

Supreme Court's decision in Lexmark case gives broader standing to bring false-advertising claims.

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When the Lanham Act was passed in 1946, it created a broad new federal cause of action for unfair competition, allowing businesses to sue based on false statements competitors made about their own products, not just over disparaging statements made about the plaintiff's goods. Because state unfair-competition statutes and common law principles vary widely, the Lanham Act has become the centerpiece of modern private false-advertising litigation.

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The act broadly prohibits false or misleading statements in commercial advertising or promotion concerning the "nature, characteristics, qualities, or geographic origin" of "goods, services or commercial activities," and confers standing to sue on "any person who believes that he or she is or is likely to be damaged by" such statements to bring suit.

In March, the U.S. Supreme Court in *Lexmark International Inc. v. Static Control Components* considered for the first time the reach of these standing provisions. A unanimous court rejected each of the "competing approaches" that different courts of appeals have fashioned over the years to define Lanham Act standing. Instead, the court adopted a simple—and perhaps vague—two-part test.

First, a false-advertising plaintiff must come within the "zone of interests" protected by the Lanham Act, which requires allegations of "an injury to a commercial interest in reputation or sales." Therefore, a business that loses sales or suffers a diminished reputation normally may sue, but a "consumer who is hoodwinked into purchasing a disappointing product" cannot.

Second, invoking the "venerable principle" that "the judicial remedy cannot encompass every conceivable harm that can be traced to alleged wrongdoing," a plaintiff's injury must be proximately caused by the violation. Admitting that the "proximate-cause inquiry is not easy to define," the court explained that it presents the question "whether the harm alleged has a sufficiently close connection to the conduct the statute prohibits."

DETAILS OF THE CASE

The Lexmark case involved a dispute between players in the market for toner cartridges.

In some jurisdictions, this reprint may be considered attorney advertising. Past representations are no guarantee of future outcomes.

Lexmark manufactures and sells laser printers and toner cartridges, and designs its printers to work only with its own cartridges. Businesses known as remanufacturers acquire used Lexmark cartridges, refurbish them and then market them in competition with new and refurbished cartridges sold by Lexmark. To encourage consumers to return used cartridges to it for resale, and keep the cartridges out of the hands of remanufacturers, Lexmark includes a microchip in certain cartridges that disables the cartridge when it runs out of toner. For the cartridges to be reused, the microchip would have to be replaced by Lexmark.

In response, Static Control Components Inc., which markets the components necessary for remanufacturers to refurbish cartridges, developed a chip that mimics the microchip in Lexmark's cartridges. By purchasing Static Control's chips, remanufacturers were able to refurbish cartridges notwithstanding Lexmark's efforts.

The result was a series of claims and counterclaims. Lexmark sued Static Control for copyright and patent infringement, and Static Control alleged federal antitrust and common law unfair-competition claims. The Supreme Court focused on Static Control's Lanham Act false-advertising claims. Those claims alleged that Lexmark falsely told consumers that they were required to return cartridges to Lexmark after a single use, and that Lexmark told remanufacturers that it was illegal to sell refurbished Lexmark cartridges or use Static Control products.

The district court dismissed the Lanham Act claims. Applying a test derived from antitrust law, it found that the remanufacturers were the directly injured party, and that Static Control's injury was too remote.

The U.S. Court of Appeals for the Sixth Circuit reversed, holding, under a test developed by the U.S. Court of Appeals for the Second Circuit, that Static Control had shown a "reasonable basis" that its interests would be damaged by false advertising.

Applying its new two-part test, the Supreme Court concluded that Static Control had standing. Its injuries, consisting of lost sales and reputational damage, are "precisely the sorts of commercial interests the [Lanham] Act protects." Proximate cause was also shown: Although this was not a "classic" false-advertising claim between direct competitors, Lexmark had directly targeted Static Control by asserting that its business was illegal. When a plaintiff alleges "reputational injury from disparagement, competition is not required for proximate cause," the court found.

Significantly, Static Control alleged that its microchips had no use other than refurbishing Lexmark cartridges. Therefore, false advertising that diminished the business of the remanufacturers necessarily hurt Static Control, without the need to determine whether Static Control's injuries were actually attributable to other causes. Static Control was accordingly an "immediate victim" of the allegedly false statements made about the remanufacturers.

The Lexmark decision will have no effect on false-advertising cases between direct competitors, but is likely to expand litigation in industries where suppliers can show that their sales or reputation are clearly and directly tied to statements made about their customers.

That will be particularly true in those circuits (the Seventh, Ninth and Tenth) that had restricted standing to direct competitors, and in others (the Third, Fifth, Eighth and Eleventh) that employed an antitrust-based test similar to that applied by the *Lexmark* district court. And across the country, trial and appellate courts will have to make the difficult and often subjective judgments necessary to find proximate cause.

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