Supreme Court Sets New Test in *Lexmark* for Whether a Party Has Standing to Bring a False Advertising Claim under the Lanham Act

On March 25, 2014, the Supreme Court in *Lexmark International, Inc. v. Static Control Components, Inc.*, No. 12-873 (Mar. 25, 2014), ruled that a two-part inquiry pairing the zone-of-interests test and a proximate-cause requirement applies when determining standing for false advertising claims under the Lanham Act, 15 U.S.C. § 1152(a). In so holding, the Court rejected the three tests that had been developed and applied by the circuit courts in favor of an inquiry grounded in principles that, according to the Court, are traditionally applied to statutorily created causes of action.

Lexmark manufactures and sells laser printers, as well as toner cartridges for those printers. Sonic Control makes and sells to third party "remanufacturers" components that are necessary to "remanufacture" or refurbish Lexmark toner cartridges. The dispute in this case arose because Static Control developed a microchip that could mimic a microchip used in Lexmark "Prebate" cartridges, which disabled a toner cartridge when the cartridge ran out of toner. In 2002, Lexmark sued Static Control for various copyright violations. Static Control counterclaimed, alleging, *inter alia*, violations of the Lanham Act's false advertising provision. Static Control alleges that Lexmark (a) "purposefully misleads end-users" to believe that they are legally required to return Prebate cartridges to Lexmark after a single use; and (b) sent letters to remanufacturers that falsely advised that it was illegal both to sell refurbished Prebate cartridges and to use Static Control's products in so doing. Lexmark moved to dismiss this claim based on Static Control's lack of standing.

In the opinion below, the Sixth Circuit had set forth the split in the circuit courts over which test applies when determining standing for false advertising claims under the Lanham Act:

- The Second and Sixth Circuits used a "reasonable interest" approach, finding that the claimant has standing if the claimant can demonstrate: (1) a reasonable interest to be protected against the alleged false advertising, and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising;
- The Seventh, Ninth, and Tenth Circuits used a categorical test, permitting Lanham Act suits only by an actual competitor making an unfair-competition claim; and
- The Third, Fifth, Eighth, and Eleventh Circuits used the "AGC" factors, which are used for determining standing for antitrust claims under the Lanham Act: (1) the causal connection between the antitrust violation and harm to the plaintiff and whether that harm was intended to be caused; (2) the nature of the plaintiff's alleged injury including the status of the plaintiff as consumer or competitor in the relevant market; (3) the directness or indirectness of the injury, and the related inquiry of whether the damages are speculative; (4) the potential for duplicative recovery or complex apportionment of damages; and (5) the existence of more direct victims of the alleged antitrust violation.

The Sixth Circuit upheld the broad "reasonable interest" approach in view of a prior decision by the same court, stating that "[b]ecause we have already addressed the appropriate level of standing . . . even if we were to prefer the approach taken by our sister circuits, we cannot overturn a prior published decision of this court absent inconsistent Supreme Court precedent or an en banc reversal." *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d 387, 411 (6th Cir. 2012). Applying this approach, the Sixth Circuit reversed the district court's dismissal of Static Control's false advertising claim, which had been based on an application of the "AGC" factors.

On appeal to the Supreme Court, Lexmark argued that the Court should import a multi-factor test derived from the narrow "AGC" test. Static Control argued that the proper inquiry is whether a company whose products are targeted with false advertising falls within the "zone of interests" of a statute whose text gives a remedy for false advertising about another's goods.

In its decision, the Court held that "a direct application of the zone-of-interests test and the proximate cause requirement supplies the relevant limits on who may sue." *Lexmark Int'l*, No. 12-873, slip op. at 16. In particular, a plaintiff alleging false advertising under § 1125(a) must ordinarily plead (and ultimately prove):

- "[A]n injury to a commercial interest in reputation or sales" in order to come within the zone-of-interests; and
- "[E]conomic or reputational injury flowing directly from the deception wrought by the defendant's advertising," which "occurs when deception of consumers causes them to withhold trade from the plaintiff."

Id. at 13, 15. In so holding, the Court made clear that the issue of standing to sue under § 1125(a) is grounded in statutory, not "prudential" concerns. *Id.* at 6-9.

In the Court's view, this two-part inquiry avoids the extremes of the "reasonable interest" test, which the Court characterized as effectively requiring only the bare minimum Article III standing and does not reflect the protections provided by § 1125(a); and the categorical direct-competitor test, which the Court found too broadly limits protection to just a false-advertiser's direct competitors. *Id.* at 17-18. The Court also wished to avoid the unpredictability of the AGC multi-factor test, which in application can be problematic and arbitrary, according to the Court. *Id.* at 16-17.

Applying this inquiry, the Court concluded that Static Control pleaded an adequate basis to proceed under § 1125(a) and is entitled to a chance to prove its case.

To find out how the Supreme Court's decision in *Lexmark* affects your interests, please contact your usual Ropes & Gray attorney or one of the following Ropes & Gray attorneys: Peter Brody, Gene Lee, Gabrielle Higgins, Jennifer Kwon, Mariel Goetz.