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Court synchronizes requirement for false-advertising claims

On March 25, the U.S. Supreme Court decided *Lexmark International Inc. v. Static Control Components Inc.* in a unanimous decision by Justice Antonin G. Scalia that settled a three-way circuit split over the framework for determining a party's standing to sue for false-advertising under Section 43(a) of the Lanham Act.

Casting aside the three existing standards, the Supreme Court synchronized this area of law, effectively eliminating the incentive for forum-shopping that previously plagued false-advertising claims.

The Supreme Court's decision marked the culmination of a lengthy dispute between Lexmark International Inc., a well-known manufacturer of printers and printer cartridges, and Static Control Components Inc., a company that sells the components necessary to remanufacture Lexmark cartridges.

The crux of the parties' dispute centered on Static Control's development of a cartridge microchip that mimicked Lexmark's microchip and enabled cartridge remanufacturers to refill and resell certain Lexmark toner cartridges, allegedly in violation of Lexmark's terms and intellectual property. In response, Lexmark sent letters to many of Static Control's customers indicating that it was illegal to use Static Control's products to refurbish and resell Lexmark cartridges.

In December 2002, Lexmark sued Static Control for copyright infringement of two computer programs on its cartridge microchip. Static Control counterclaimed for antitrust violations and for false advertising under the Lanham Act. On the issue of false advertising, Static Control alleged that, as a direct result of

misrepresentations in the letters Lexmark sent to its customers, Static Control lost sales and its business reputation was damaged.

Over the next several years, the parties lost their respective intellectual property and antitrust claims. Static Control also initially lost its false advertising claim on the basis that it lacked standing. However, in August 2012, the 6th U.S. Circuit Court of Appeals reversed the trial court and held that Static Control had sufficient standing to bring a false advertising claim against Lexmark.

In its opinion, the 6th Circuit grappled with the circuit split and highlighted the potentially disparate outcomes based on the three conflicting standards. Of the existing standards, the 6th Circuit adopted the 2nd Circuit's "reasonable interest" test under which a Lanham Act plaintiff has standing if it can demonstrate a reasonable interest to be protected against the alleged false advertising and a reasonable basis for believing that the alleged false advertising will damage that interest.

The 6th Circuit declined to adopt the categorical approach applied by 7th, 9th and 10th circuits under which a Lanham Act false-advertising claim may be brought only by a direct competitor. The 6th Circuit also rebuffed the multifaceted approach followed by the 3rd, 5th, 8th and 11th circuits under which the criteria used to determine standing for Sherman Act antitrust violations are applied to determine standing for Lanham Act false-advertising claims.

The Supreme Court affirmed the 6th Circuit but, in doing so,

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rejected each of the three existing standards. Instead, the Supreme Court established its own "zone of interests" test based on the statutory intent of the Lanham Act. Under this new standard, the plaintiff of a false-advertising claim must plead, and ultimately prove, (1) an injury to a commercial interest in sales or business reputation and (2) that the injury

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was proximately caused by the defendant's misrepresentations. The Supreme Court made clear that the plaintiff and defendant need not be direct competitors.

Applying this standard, the Supreme Court held that Static Control had sufficient standing for its false-advertising claim. The court explained that Static Control's alleged injuries of lost sales and damage to its business reputation were commercial interests that fall squarely within the zone of interests protected by the Lanham Act.

On the proximate cause issue, the court found that Static Control met the requirement in two ways. First, Static Control's allegations that Lexmark disparaged its reputation and products by asserting that Static Control's busi-

ness was illegal were sufficient to show proximate cause.

Second, Static Control further established proximate cause by alleging that its microchips were necessary for and had no purpose other than refurbishing Lexmark toner cartridges. Accordingly, for each cartridge not sold by a remanufacturer as a result of Lexmark's disparaging statements, Static Control alleged an equal number of lost sales of its microchips. The court considered this unique scenario of a 1:1 ratio of lost sales between direct and indirect competitors to also demonstrate proximate cause.

While it is still too early to observe the long-term effect the Supreme Court's zone of interests test will have on false-advertising claims, it is clear that this synchronous standard will obviate the incentive to forum shop, which was commonplace under the three-way

circuit split.

Some have predicted an increase in the number of false-advertising claims brought by indirect competitors, particularly in the 7th, 9th and 10th circuits, which previously allowed claims only by direct competitors. In contrast, others have suggested that the proximate cause element imposed by the Supreme Court may actually reduce the number of plaintiffs with standing, especially in jurisdictions that previously imposed a broader test.

Ultimately, the new standard brings clarity to a formerly nebulous issue of law, eliminates uncertainty on the standing issue and will likely reduce the associated litigation costs, thus, making it beneficial to plaintiffs and defendants alike.