

SCOTUS: *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, New Standing Test for False Advertising and False Association Claims under the Lanham Act

In *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, the Supreme Court of the United States held that to have standing for a false advertising or false association claim under the Lanham Act, a plaintiff must show that the defendant's deception proximately caused reputational or economic harm.¹ In so ruling, the Court replaced three different Lanham Act standing tests adopted by various Circuit Courts of Appeal.

I. Background and procedural history

Lexmark manufactures and sells laser printers designed to work only with its own style of toner cartridges. Static Control is a maker and seller of components for the remanufacture of Lexmark cartridges and its customers are thus able to compete in the sale of cartridges for Lexmark printers. To curb this competition, Lexmark launched its "Prebate" program that offered customers a discount on Lexmark cartridges through a "shrinkwrap licensing" agreement. To enforce the "Prebate" terms, Lexmark installed a microchip to disable the cartridge after it ran out of toner. Static Control developed a microchip that could replace the Lexmark microchip, allowing its customers to continue to refurbish Lexmark cartridges for resale.

Lexmark sued Static Control in 2002, alleging copyright infringement of its microchip.² Static Control counter-claimed under § 1125(a) of the Lanham Act,³ alleging that 1) Lexmark misled "end-users to believe that they are legally bound by the Prebate terms" and 2) Lexmark sent letters to cartridge remanufacturers "falsely advising those companies that it was illegal to sell refurbished Prebate cartridges ... [that] use[d] Static Control's products"⁴ Static Control alleged that Lexmark's misrepresentations "proximately caused" economic and reputation injuries in the form of diverting sales from Static Control to Lexmark and "leading consumers and others in the trade to believe that [Static Control] is engaged in illegal conduct."⁵

The United States District Court for the Eastern District of Kentucky granted Lexmark's motion to dismiss on grounds that Static Control lacked "prudential standing" to bring the claim. On appeal, the Sixth Circuit surveyed the various Circuit Court approaches to Lanham Act standing and ruled Static Control had standing under the "reasonable interest" test the court adopted from the Second Circuit. The Supreme Court "granted certiorari to decide 'the appropriate analytical framework for determining a party's standing to maintain an action for false advertising under the Lanham Act.'"⁶

¹ *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, No. 12-873, slip op. at 15 (March 25, 2014) ("*Lexmark*"), available at http://www.supremecourt.gov/opinions/13pdf/12-873_n75o.pdf.

² *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 253 F.Supp.2d 943 (E.D. Ky. 2003).

³ Section 1125(a) of the Lanham Act "creates two distinct bases of liability: false association, §1125(a)(1)(A), and false advertising, § 1125(a)(1)(B)." *Lexmark*, slip op. at 3. False advertising is defined as "any person who, on or in connection with any goods or services ... uses ... any false or misleading description of fact or any false representation of fact, which . . . in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services or commercial activities" 15 U.S.C. § 1125(a)(1)(B).

⁴ *Lexmark*, slip op. at 3.

⁵ *Id.* at 4.

⁶ *Id.* at 5-6 (quoting Pet. For Cert. I; 569 U.S. ____ (2013)).

II. SCOTUS rules Lanham Act standing requires plaintiffs to show defendants false statements proximately caused economic or reputational harm

The Supreme Court, in a unanimous opinion written by Justice Scalia, affirmed the Court of Appeals judgment. The Court found that the issue of Static Control’s standing turned not on the doctrine of “prudential standing,” but rather was a question of statutory interpretation.⁷ To determine standing for § 1125(a) purposes, the Court adopted the presumptive and undemanding zone-of-interest test, which grants standing “to plaintiffs whose interests fall within the zone of interest protected by the law invoked.”⁸

The Court readily identified the interests protected by the Lanham Act, laid out explicitly in section 45 of the Lanham Act.⁹ Justice Scalia’s opinion noted that the Lanham Act’s stated interest of protecting persons against unfair competition is understood, under common law, “to be concerned with injuries to business reputation and present and future sales.”¹⁰ With the protected interests identified as “reputation or sales,” the Court then applied the regular practice of “incorporat[ing] a requirement of proximate cause” to a statutory cause of action. The result was that the various Circuit Court tests were replaced with a new standing analysis for the Lanham Act in which “a plaintiff suing under § 1125(a) ordinarily must show economic or reputational injury flowing directly from the deception wrought by the defendant’s advertising”¹¹

The Court then applied its new zone-of-interest plus proximate cause test and found that Static Control had standing to sue under § 1125(a) of the Lanham Act. Static Control’s alleged lost sales and damaged business reputation fell squarely within the zone-of-interests the Court identified as protected by the Lanham Act. The Court then found that proximate cause was satisfied for the alleged reputation and lost sales harms. For reputational harms, the Court ruled that “[w]hen a defendant harms a plaintiff’s reputation by casting aspersions on its business, the plaintiff’s injury flows directly from the audience’s belief in the disparaging statement.”¹² Proximate cause also existed between Lexmark’s allegedly false assertion that the Prebate terms were legally binding and alleged lost sales because a consequential reduction in refurbished cartridges sold by remanufacturers would result in a near one-to-one reduction in microchip sales by Static Control. Thus, the Court “conclude[d] that Static control has *alleged* an adequate basis to proceed under § 1125(a) [and] is entitled to a chance to prove its case.”¹³

III. Significance of the decision

The *Lexmark* decision establishes a new, arguably more lenient, standing requirement for false advertisement and false association claims under § 1125(a) of the Lanham Act in which a plaintiff must allege that defendant’s deceptive statements proximately caused economic or reputational harm to plaintiff’s business.

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⁷ As Justice Scalia noted, it is not in the Court’s prudential discretion whether “Congress *should* have authorized Static Control’s suit, but whether Congress in fact did so.” *Id.* at 9.

⁸ *Id.* at 10 (internal quotations omitted).

⁹ *See id.* at 12; *see also* 15 U.S.C. § 1127.

¹⁰ *Lexmark*, slip op. at 12.

¹¹ *Id.* at 15.

¹² *Id.* at 19.

¹³ *Id.* at 22.

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If you have any questions about the issues addressed in this memorandum or if you would like a copy of any of the materials mentioned, please do not hesitate to call or email Charles A. Gilman at 212.701.3403 or cgilman@cahill.com; Jon Mark at 212.701.3100 or jmark@cahill.com; John Schuster at 212.701.3323 or jschuster@cahill.com.

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