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Eleventh Circuit Issues Important Decision on Standing to Assert Lanham Act False Advertising Claims

On June 22, 2007, the Eleventh Circuit issued a noteworthy decision concerning standing to sue for false advertising under the Lanham Act. In *Phoenix of Broward, Inc. v. McDonald's Corp.*, __ F.3d __, 2007 WL 1791886 (11th Cir. 2007), the Eleventh Circuit affirmed the dismissal, for lack of standing, of a false advertising suit against McDonald's by a Burger King franchisee that was a direct competitor of McDonald's. In reaching this decision, the Eleventh Circuit declared that it was joining the Third and Fifth Circuits in applying a five-factor test to determine whether a plaintiff has so-called "prudential" standing to sue under the Lanham Act, and rejected both the "categorical approach" adopted by the Seventh, Ninth and Tenth Circuits, which approach requires the plaintiff to be—and arguably is satisfied if the plaintiff is—a competitor of the defendant, and the more liberal standard for Lanham Act standing adopted by the First and Second Circuits.

As the Eleventh Circuit correctly noted, there are two components of standing, not merely for Lanham Act plaintiffs, but for anyone suing under color of federal law. The first component—so-called Article III standing—is constitutionally based. A plaintiff has Article III standing if the complaint sets forth an Article III case or controversy; in other words, that the complaint adequately alleges actual injury traceable to defendant's alleged wrongdoing, and that a favorable judicial ruling is likely to provide plaintiff with redress for that injury. Plaintiff's Article III standing was not disputed in the *Phoenix* case. The second standing component—prudential standing—"embodies judicially self-imposed limits on the exercise of federal jurisdiction," even in cases where Article III standing exists. *Phoenix*, 2007 WL 1791886, at *3.

Section 43(a)(1) of the Lanham Act provides that one who advertises falsely "shall be liable in a civil action by *any person* who believes that he or she is or is likely to be damaged" (emphasis added). Yet, despite that broad statutory language, federal appellate courts agree that Congress did not intend to abrogate the doctrine of prudential standing in Lanham Act cases. *See*, *e.g.*, *Phoenix*, 2007 WL 1791886, at *4-*5 (citing *Conte Bros. Automotive, Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 227-30 (3d Cir. 1998); *Procter & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 561-62 (5th Cir. 2001)). There is unanimity as to one key limitation on prudential standing, namely that consumers and consumer groups lack standing to maintain a Lanham Act false advertising suit.[1] But, no such unanimity exists when the plaintiff is or acts for a business or businesses, and alleges an injury to its business interests.

Survey of the varying approaches to standing among the circuits

The Eleventh Circuit's decision in *Phoenix* surveyed federal appellate jurisprudence regarding standing to sue for false advertising. Rejecting plaintiff's argument that a majority of the circuits followed a "categorical approach," in which actual or direct competition between the parties (a) is required and (b) suffices to vest the plaintiff with standing to sue, the Eleventh Circuit concluded that only the Seventh, Ninth and Tenth Circuits "come the closest to categorically holding that the plaintiff must be in 'actual' or 'direct' competition with the defendant and assert a

[1] *See*, *e.g.*, *Colligan v. Activities Club of New York, Ltd.*, 442 F.2d 686, 692 (2d Cir. 1971); *Conte Bros. Automotive, Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 229 (3d Cir. 1998); *Made in the U.S.A. Foundation v. Phillips Foods, Inc.*, 365 F.3d 278, 281 (4th Cir. 2004); *Dovenmuehle v. Gilldom Mortg. Midwest Corp.*, 871 F.2d 697, 700 (7th Cir. 1989); *Barrus v. Sylvania*, 55 F.3d 468, 470 (9th Cir. 1995); *Stanfield v. Osborne Indus.*, 52 F.3d 867, 873 (10th Cir. 1995).

'competitive injury to establish prudential standing under Section 43(a).'" *Phoenix*, 2007 WL 1791886, at *7 (citing *Jack Russell Terrier Network of N. Cal. v. Am. Kennel Club, Inc.*, 407 F.3d 1027, 1037 (9th Cir. 2005); *Hutchinson v. Pfeil*, 211 F.3d 515, 520 (10th Cir. 2000); *Johnny Blastoff, Inc. v. L.A. Rams Football Co.*, 188 F.3d 427, 438 (7th Cir. 1999)).

The Eleventh Circuit contrasted those decisions with decisions by the First and Second Circuits, which "have applied a less categorical approach to determine standing, wherein the dispositive issue is not the degree of 'competition,' but whether the plaintiff has a 'reasonable interest,' to be protected against the type of harm that the Lanham Act is intended to prevent." *Phoenix*, 2007 WL 1791886, at *7 (citing *Ortho Pharm. Corp. v. Cosprophar, Inc.*, 32 F.3d 690, 694 (2d Cir. 1994); *Camel Hair & Cashmere Inst. Inc. v. Associated Dry Goods Corp.*, 799 F.2d 6, 11 (1st Cir. 1986)).[2] As the *Phoenix* court noted, neither the First nor the Second Circuit requires a plaintiff to be a competitor. For example, as the Eleventh Circuit described, in the First Circuit's *Camel Hair* decision, a trade group of cashmere garment producers, none of the members of which competed with the defendant, had standing to sue a coat manufacturer that misrepresented the cashmere content of one of its garments because the trade group "had a strong interest in preserving the reputation of cashmere as a high quality fiber." *Phoenix*, 2007 WL 1791886, at *7 (citing *Camel Hair & Cashmere*, 799 F.2d at 11). Similarly, in the Second Circuit, where the products of the plaintiff and defendant are not in obvious competition, a plaintiff may also have standing but "the plaintiff must make a more substantial showing of injury and causation." *Phoenix*, 2007 WL 1791886, at *7 (citing *PDK Labs, Inc. v. Friedlander*, 103 F.3d 1105, 1111 (2d Cir. 1997)).[3]

Having considered the competing approaches noted above, the Eleventh Circuit elected instead to adopt the five-factor test established by the Third Circuit in *Conte Bros. Automotive, Inc. v. Quaker State-Slick 50, Inc.*, 165 F.3d 221, 233 (3d Cir. 1998), and later followed by the Fifth Circuit (*see Procter & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 561-62 (5th Cir. 2001)). The *Conte Bros.* test weighs the following five factors: (1) the nature of the plaintiff's injury; (2) the directness or indirectness of the asserted injury; (3) the proximity or remoteness of the party to the alleged injurious conduct; (4) the speculativeness of the damages claim; and (5) the risk of duplicative damages or complexity in apportioning damages. *Phoenix*, 2007 WL 1791886, at *6 (citing *Conte Bros.*, 165 F.3d at 233).

The Eleventh Circuit found the *Conte* test to adhere to the intent of the Lanham Act, yet provide the flexibility necessary to address factually disparate scenarios likely to arise among false advertising cases. *Phoenix*, 2007 WL 1791886, at *6. The court explained the utility of the *Conte Bros.* test as follows: "[r]ather than blindly accept a plaintiff's allegation that it is a 'competitor' that has suffered a 'competitive injury,' the *Conte Bros.* test is designed to determine whether the injury alleged is the type of injury that the Lanham Act was designed to redress—harm to the plaintiff's 'ability to compete' in the marketplace and erosion of the plaintiff's 'good will and reputation' that has been directly and proximately caused by the defendant's false advertising." *Phoenix*, 2007 WL 1791886, at *8 (citing *Conte Bros.*, 165 F.3d at 234-36).

Significantly, the Eleventh Circuit rejected the plaintiff's contention that the *Conte Bros.* test was intended by the Third Circuit to expand Lanham Act standing to entities *other than* direct competitors, not to serve as as a vehicle to prevent such suits by direct competitors. In rejecting plaintiff's argument and holding that the *Conte Bros.* test could result in the denial of standing to direct competitors, the Eleventh Circuit cited but one, lone district court case. *See Phoenix*, 2007 WL 1791886, at *8 (citing *KIS, S.A. v. Foto Fantasy, Inc.*, 240 F. Supp. 2d 608, 610-11, 616 (N.D. Tex. 2002)).

Eleventh Circuit's analysis of plaintiff's standing under the *Conte Bros.* test

Having chosen to follow the *Conte Bros.* test, the Eleventh Circuit in *Phoenix* assessed the facts before it under that decision's five-factor analysis. The fact pattern the Eleventh Circuit faced was unusual. Plaintiff was a Burger King franchisee operating a single Burger King restaurant in Fort Lauderdale, Florida. From the mid-1990's until 2001, McDonald's used a third-party company to conduct various in-store promotions based on the Monopoly® board game and other popular cultural icons, through which McDonald's restaurants offered chances to win various prizes ranging from low-value items, such as the chain's food offerings, to high-value awards that included a small number of $1 million grand prizes. Prizes were disclosed in game pieces customers obtained at McDonald's restaurants. In an extensive national advertising campaign to promote these prize games,

[2] Thus, in the First Circuit, a plaintiff must have "a reasonable interest in being protected [against false advertising and] must also show a link or nexus between itself and the alleged falsehood." *Phoenix*, 2007 WL 1791886, at *7 (citing *Camel Hair & Cashmere*, 799 F.2d at 11-12). The Second Circuit employs a similar analysis, requiring a plaintiff to "demonstrate both (1) a reasonable interest to be protected against the advertiser's false or misleading claims, and (2) a reasonable basis for believing that this interest is likely to be damaged by the false or misleading advertising." *Phoenix*, 2007 WL 1791886, at *7 (citing *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 169 (2d Cir. 2007)).

[3] The *Phoenix* court observed that, at least since 2004, the Fourth Circuit also does not follow the categorical approach to prudential standing. *See Phoenix*, 2007 WL 1791886, at *7, n.4. The Sixth and Eighth Circuits have yet to settle on the test to be applied to determine standing, though the Eighth Circuit has analyzed the varying approaches. *See Am. Ass'n of Orthodontists v. Yellow Book USA, Inc.*, 434 F.3d 1100, 1104 (8th Cir. 2006).

McDonald's represented that all participants would have an equal chance to win all of the prizes. Federal authorities subsequently uncovered a scheme through which an employee of the third party McDonald's engaged to run the promotions had fraudulently rigged the games and diverted many of the high-value prizes to specific winners. The U.S. Attorney General then publicly disclosed the fraudulent scheme and stated it "denied McDonald's customers a fair and equal chance of winning."

Thereafter, consumers filed multiple class action lawsuits against McDonald's alleging fraud, negligence and unjust enrichment, which McDonald's settled by offering an instant giveaway of fifteen $1 million prizes. Plaintiff's suit in this action was filed several years after the fraud had been uncovered. Plaintiff claimed that McDonald's falsely advertised promotions diverted customers away from Burger King and "unnaturally" increased McDonald's' profits. Although plaintiff alleged that McDonald's "equal chance to win" false advertising continued for some time even after McDonald's learned of the findings of the federal investigation, there was no allegation of any current false advertising on McDonald's part, and no apparent claim for injunctive relief.

The district court granted McDonald's motion to dismiss. In affirming, the Eleventh Circuit held that the first *Conte Bros.* factor—whether plaintiff's alleged injury was the type the Lanham Act was designed to address—favored plaintiff. Noting that Lanham Act section 43(a) is focused on protecting commercial interests harmed by false advertising and preventing the unfair diversion of reputation and goodwill, the Eleventh Circuit held that plaintiff was seeking to protect exactly those interests by seeking redress for an alleged profit spike purportedly garnered by McDonald's as a result of the false advertising, and a related decrease in plaintiff's sales and increase in its counter-promotion costs. *Phoenix*, 2007 WL 1791886, at *9.

0The court did find the third factor, the proximity of the plaintiff to the allegedly harmful conduct, to favor standing. This factor seeks whether "there is an identifiable class of persons whose self-interest would normally motivate them to vindicate the public interest," and thus obviate or reduce the justification for permitting plaintiff to maintain the claim. *Phoenix*, 2007 WL 1791886, at *12. Noting that consumers, who otherwise might have been motivated to sue McDonald's, lacked standing under the Lanham Act, and that there was no more likely or proximate group of commercial plaintiffs, the Eleventh Circuit found that this factor favored standing. *Id.*

The Eleventh Circuit held, however, that the fourth and fifth *Conte Bros.* factors, both of which focus on damages, weighed against prudential standing. As to the fourth factor, the Court of Appeals concluded that Phoenix could not overcome the speculative nature of its alleged damages claim, because the challenged McDonald's advertising was not false as to the vast majority of offered prizes, which customers actually did have an equal chance to win, and because there were many competitors of McDonald's in the fast food market besides Burger King to whom Burger King's lost profits and McDonald's gained profits might be attributable. Thus, the court held that "it requires too much speculation to conclude that an ascertainable percentage of both the increase in McDonald's sales and the concomitant decrease in Burger King's sales . . . is directly attributable to McDonald's alleged misrepresentations about the chances of winning high-value prizes." *Phoenix*, 2007 WL 1791886, at *13. The court also held that disgorgement of McDonald's profits earned from the Monopoly promotion could not satisfy the fourth factor because disgorgement could be sought by any plaintiff.

Similarly, the court held that the fifth factor, an assessment of the risk of duplicative damages and the complexity of apportioning damages, also weighed against standing. The court reasoned that granting Phoenix standing would mean that every fast food competitor of McDonald's arguing its sales had fallen during the Monopoly promotion would also have standing, which would make apportioning damages highly complex. *Phoenix*, 2007 WL 1791886, at *14.

With only two of the five factors favoring standing, the court concluded that, while the case was a "close question," Phoenix did not have prudential standing. The court was careful to note that its decision was closely tied to the precise facts of the case presented. Thus, it cautioned, the outcome might have been different if only one prize was up for grabs and the claims concerning the chances of winning it were false or if McDonald's false claims had extended to all of the prizes available to consumers.

Analysis of the Eleventh Circuit's decision

The Eleventh Circuit's decision in *Phoenix* is troubling conceptually. Whatever the merits of the *Conte Bros.* five factor test, the Court of Appeals' application of it to deny standing in an action by a direct competitor of the advertiser seems unsound. Doubtless, the court reached the right end result on these facts, namely that plaintiff's highly dubious theory of causation and damages failed. But achieving this end by a questionable application of the doctrine of prudential standing could give rise to further confusion in an already unsettled area of the law. If the Eleventh Circuit's intention was to clear up this doctrinal confusion, in this it surely failed.

Fortunately, the court made clear enough that its reasoning was intended to be confined to Phoenix's unusual set of facts, in which (1) McDonald's advertising did not address any attributes of either its own, Burger King's or any other competitor's products and (2) the case did not involve any ongoing conduct by the advertiser or any request for injunctive relief. Indeed, had injunctive relief been sought, much of the court's discussion of the last two *Conte Bros.*

factors, which in the court's view, tipped the scale against standing, would have been nonsensical. Assume a hypothetical suit in which a competitor seeks both monetary and injunctive relief against McDonald's for false health-related advertising statements about Big Macs®. Just as in the *Phoenix* case, the plaintiff in this hypothetical might face difficulties in establishing causation between the alleged false advertising and plaintiff's lost profits due in large part to the presence of other competitors in the marketplace, whose activities also could be affecting plaintiff's profits. But the presence of other competitors could not deprive plaintiff of standing to seek injunctive relief; otherwise, advertisers would get a free pass to advertise falsely as long as they had multiple competitors and did not single any out in the challenged advertising. Plainly, this is not what the Lanham Act intended, nor what any case has ever held. Indeed, the notion that a party could have standing to sue for injunctive relief but not for damages under the Lanham Act runs afoul of the statutory language and more than a half-century of Lanham Act jurisprudence.

In all likelihood, the Eleventh Circuit's *Phoenix* decision will not cause any damage to the interests of competitors or the public in preventing deceptive advertising. Nonetheless, the unsettled waters of Lanham Act standing jurisprudence are certainly no less calm in *Phoenix's* wake.

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