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How Much "Competition", If Any, Is Required to Establish Standing in Lanham Act False Advertising Cases—the Supreme Court May Be Interested in Resolving the Three-Way Circuit Split

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Lanham Act false advertising law is largely consistent among the various federal circuit courts. However, one area of Lanham Act jurisprudence where the federal appellate courts do not see eye-to-eye concerns who has standing to sue under the Lanham Act's false advertising prong. This month, the United States Supreme Court signaled that it may finally weigh in to resolve a three-way circuit split regarding who has standing to bring such a claim.

Background

Lexmark International, Inc. ("Lexmark") produces laser printers and toner cartridges for those printers. Lexmark developed microchips for both the toner cartridges and the printers so that Lexmark printers will reject any toner cartridges not containing a matching microchip. Lexmark had obtained patent protection for certain aspects of the cartridges. Static Control Components, Inc. ("Static Control") identified how to replicate the microchips and sell the microchips to re-manufacturers.

Lexmark sued Static Control for copyright violations related to its source code. Static Control counterclaimed for, *inter alia*, false advertising under the Lanham Act. The U.S. District Court for the Eastern District of Kentucky dismissed all of Static Control's counterclaims.[1]

On August 29, 2012, the Sixth Circuit reversed the dismissal of Static Control's false advertising counterclaim.[2] Static Control had alleged that Lexmark engaged in false advertising when it "falsely informed customers that Static Control's products infringe Lexmark's purported intellectual property," thus causing Static Control's customers to believe that Static Control is engaged in illegal conduct, and thereby damaging its business and reputation.[3]

The Sixth Circuit had previously held in *Frisch's Restaurants. Inc v. Elby's Big Boy of Steubenville, Inc*. that a Lanham Act claimant only needs to demonstrate a likelihood of injury and causation to establish standing.[4] The Court of Appeals in *Static Control* recognized that other federal circuits to have addressed the issue have applied a more rigorous standard. The Seventh, Ninth and Tenth Circuits use a categorical test, permitting Lanham Act suits only by an actual competitor of the advertiser.[5] The Third, Fifth, Eighth and Eleventh Circuits use the five factor test identified in *Associated General Contractors, Inc v. California State Council of Carpenters*, 459 U.S. 519 (1983), which examines 1) the nature of plaintiff's alleged 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 claims; and 5) the risk of duplicative damages or complexity in apportioning damages (the "AGC factors").[6] The District Court, having applied the AGC factors, found that Static Control lacked standing to bring its Lanham Act claims.

On appeal, the Sixth Circuit recognized that its earlier *Frisch's Restaurants* decision was for trademark infringement, not false advertising. However the Sixth Circuit in *Static Control* rejected a distinction between the two types of claims for purposes of standing, noting that "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."[7]

Petition for Certiorari

On January 14, 2013, Lexmark petitioned for certiorari, asking the Supreme Court to resolve the three-way circuit split on standing requirements for Lanham Act false advertising cases.[8] Lexmark argued that if "either of the two 'narrower approaches' to Lanham Act standing were applied in this case, it is likely that Static Control would not have standing to assert its Lanham Act counterclaims."[9]

On February 15th, Static Control waived its right to respond. However, two days after the petition was distributed for conference, the Supreme Court requested that Static Control file a response by April 1. Empirically, the Supreme Court's request for a response somewhat increases the likelihood it will grant certiorari. According to a published report, the Supreme Court grants 4.2% of cert petitions on the paid docket, but grants 16.9% of petitions for which a response was requested.[10]

[1] *Static Control Components, Inc v. Lexmark Intern., Inc*., 2006 U.S. Dist. LEXIS (E.D. Ky. Sept. 28, 2006)

[2] *Static Control Components, Inc v. Lexmark Intern., Inc*., 697 F.3d 387 (6th Cir. 2012)

[3] *Id*. at 409.

[4] *Frisch's Rests., Inc v. Elby's Big Boy of Steubenville, Inc*., 670 F.2d 642, 649-50 (6th Cir. 1982)

[5] *Lexmark Intern, Inc*., 697 F.3d at 410.

[6] *Id*.

[7] *Id*. at 411.

[8] *Static Control Components, Inc v. Lexmark Intern., Inc*., 697 F.3d 387 (6th Cir. 2012), petition for cert. filed, 81 U.S.L.W. 3414 (U.S. Jan. 14, 2013)(No. 12-873)

[9] *Id*. at 6.

[10] Ryan Davis, *High Court May Take Fight Over False Ad Standing*, Law360, Mar. 4, 2013, *available at* http://www.law360.com/articles/420491/high-court-may-take-fight-over-false-ad-standing