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Advertising

Court Struggles With Question of Who Should Have Standing Under Lanham Act

The U.S. Supreme Court struggled with the question of how to determine who has standing to bring a claim of false advertising under federal law as counsel for parties involved in the printer business made their arguments before the court on Dec. 3 (*Lexmark International, Inc. v. Static Control Components, Inc.*, U.S., No. 12-873, *argued* 12/3/13).

Some justices also questioned the concept of ''prudential standing,'' wondering when courts should look beyond a statute's own text to limit who can bring claims created by such a statute and Justice Stephen G. Breyer tried to illustrate the issues with an analogy about an ice cream parlor facing accusations of using poisoned chocolate sauce.

Lexmark and Static Control's History. Lexmark International Inc. of Lexington, Ky., is a maker of laser printers for use with computer systems. For certain high-cost printers, Lexmark instituted a discount program called a ''prebate.''

Those customers that purchased toner cartridges at the lowered prebate price were required to return used ink cartridges to Lexmark for refilling. Those who purchased the cartridges at the regular price were not subject to this restriction.

In order to enforce the prebate restriction, Lexmark installed two computer programs that managed access to the printer cartridge by the printer.

One program, the Toner Loading Program, a very short piece of code, was designed to measure the amount of toner remaining in the cartridge. This program was located on a chip on the cartridge.

The Printer Engine Program, a longer program installed on the printer itself, controlled a number of printer functions.

Static Control Components Inc. of Sanford, N.C., sells parts and supplies for reusing used printer toner cartridges. Static Control made a chip, the Smartek chip, for sale to makers of third-party replacement toner cartridges. Many such third parties take used toner cartridges and refurbish them for reuse.

Thus, the chip, if used in a refurbished cartridge, would mimic the effect of the chip on the Lexmark cartridges, allowing customers to obtain and use cartridges from sources other than Lexmark. The Smartek chip contained an identical copy of the Toner Loading Program.

This argument represented the latest skirmish between two companies in the laser printer business in a dispute that has now lasted more than a decade and has touched on most of the intellectual property regimes covered by federal law.

Initial Patent, Copyright Decisions. In 2002, Lexmark sued Static Control, alleging that Static Control's mimicking of the Toner Loading Program infringed Lexmark's copyright interests.

In February 2003, Judge Karl S. Forester of the U.S. District Court for the Eastern District of Kentucky ruled that Static Control's activity was likely to violate the anticircumvention provisions of the Digital Millennium Copyright Act, 17 U.S.C. § 1201, et seq., and imposed a preliminary injunction.

In February 2004, Static Control filed an action seeking a declaration that its new line of re-engineered toner chips did not infringe Lexmark's copyrights or violate the anticircumvention provisions of the DMCA.

In that declaratory judgment action, Lexmark filed several counterclaims, including claims of patent infringement. Lexmark also joined as defendants some of Static Control's customers, which used the chip to remanufacture used printer cartridges.

In September 2004, the federal district court ruled that Lexmark could pursue its counterclaims against Static Control in this proceeding.

In October 2004, the Sixth Circuit vacated the preliminary injunction, ruling that Lexmark's claim might fail because the control measure at issue merely prevented use of the printer without controlling access to the content of the Toner Loading Program (*Lexmark International Inc. v. Static Control Components Inc.*, 387 F.3d 522, 72 U.S.P.Q.2d 1839 (6th Cir. 2004).

The Sixth Circuit called into question whether the Toner Loading Program was protected under copyright law. It concluded that Lexmark had failed to demonstrate a likelihood of success on the merits of its infringement and DMCA claims and remanded the matter back to the district court. In October 2005, the Sixth Circuit rejected Lexmark's request for en banc review.

In August 2005, the district court consolidated Lexmark's infringement action with Static Control's declaratory judgment action.

On remand, Static Control moved for partial summary judgment on the copyright infringement claim and the district court found that the Toner Loading Program was not sufficiently original to be afforded copyright protection.

Nine mechanical patents held by Lexmark were found valid, and the court granted summary judgment of direct patent infringement against some of the third-party cartridge remanufacturers. However, by this time, they had already settled with Lexmark.

The district court also found valid Lexmark's single-use prebate license, which meant that the sale of a toner cartridge to a user did not exhaust Lexmark's patent rights.

The district court also granted Lexmark's motion for dismissal of Static Control's antitrust, Lanham Act and state law counterclaims. Thus, when the case went to trial, the jury was presented only with the issues of patent inducement and patent misuse.

The jury handed down a verdict in Static Control's favor on the question of inducement of patent infringement and advised the court that Lexmark had misused its patents.

Lexmark then renewed a motion for judgment as a matter of law and moved for a retrial, arguing that the evidence had been sufficient to establish direct infringement by the cartridge remanufacturers and that evidence of inducement had been erroneously excluded at trial.

False Advertising Issue. Judge Gregory F. Van Tatenhove of the U.S. District Court for the Eastern District of Kentucky, reversing the prior decision that Lexmark had not exhausted its patent rights, denied the motions.

Both parties appealed and the Sixth Circuit determined that Static Control had sufficiently alleged a claim of false advertising under Section 43(a) of the Lanham Trademark Act of 1946, 15 U.S.C. § 1125(a)(1), based on Lexmark's statements to its customers that Static Control's products were infringing.

The appeals court rejected Lexmark's argument that standing in this case should only be granted to direct competitors (177 DER A-8, 9/13/12). Lexmark argued that Static Control was not a direct competitor because it only made parts for refurbishing printer cartridges. Static Control—unlike its customers—did not actually sell goods that directly competed with Lexmark's goods.

According to Sixth Circuit precedent, standing for a false advertising claim could be based on a showing of a ''reasonable interest.'' The appeals court also restored Static Control's counterclaims of unfair competition and false advertising under North Carolina state law.

On June 3, the Supreme Court granted certiorari on Lexmark's question of which of three different tests should apply to the question of who has standing to bring claims of false advertising under the Lanham Act.

Petitioner Argues for Narrowed Standing. Arguing for Lexmark, Steven B. Loy of Stoll Keenon Ogden PLLC, Lexington, Ky., argued that the appropriate standard for standing under Section 43(a) was a multi-factor test set forth by *Associated General Contractors of California Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983), which has been adopted by the Third, Fifth, Eighth and Eleventh Circuits.

AGC interpreted the standing provision of Section 4 of the Clayton Antitrust Act, 15 U.S.C. § 15, whose language had come from the Sherman Antitrust Act of 1890. That decision acknowledged the broad language of the statute but nevertheless determined that Congress did not intend such a broad range of plaintiffs to be empowered to bring antitrust claims. Instead, *AGC* set forth several factors to be considered before granting a party standing—such court-derived limitations on standing are known as ''prudential'' limitations.

Justice Antonin G. Scalia immediately questioned the analogizing of the Lanham Act to the Sherman Act, noting that unlike the Sherman Act, the Lanham Act ''goes well beyond'' the common law.

When Loy began reciting the *AGC* factors, Justice Sonia M. Sotomayor stopped him after the very first one, ''Is this the type of injury Congress intended to address?''

''Tell me why the answer to that question doesn't end this case here,'' Sotomayor demanded. ''You're disparaging the goods of a person. You're saying that it's illegal to use that person's products. It seems to me that's the essence of the Lanham Act as it's now written.''

In response to a query by Justice Samuel A. Alito Jr., Loy conceded that other toner cartridge makers did have standing under the Lanham Act. Based on that, Alito wanted to know why standing should be denied here.

''But it's not a very big step from the manufacturer of the cartridge that competes to the manufacturer of the chip, which is really . . . an essential component of the cartridge that competes,'' Alito said.

According to Loy, wherever the court drew the line, there would always be a party that believed it should be on the other side.

Breyer then introduced his ice cream parlor analogy, an analogy that later in the proceeding he said he regretted introducing:

> Suppose that Bailey's sells ice cream sundaes, and the defendant has said the chocolate sauce in Bailey's ice cream sundaes is poisonous. Now, the chocolate sauce does not compete with the defendant because he's an ice cream parlor, but nonetheless he is directly affected by the statement that he is suing about. He is, therefore, different from the other suppliers who might have supplied Bailey's with cushions, heat, electricity. But shouldn't at least that supplier of chocolate sauce have the standing to bring the claim against the ice cream parlor that competes with Bailey?

Loy replied that in such a case, a defamation claim would be available under state law, but Breyer wanted to know why the Lanham Act would deny any recourse. Loy repeatedly cited to Section 45 of the Lanham Act, 15 U.S.C. § 1127, which includes in a statement of the statute's intent, a clause stating that the law had been enacted ''to protect persons engaged in . . . commerce against unfair competition.''

Should the scope of standing be broadened to include component manufacturers, Loy asked, why shouldn't a company that made the labels for Static Control's cartridges also have standing to bring a claim?

''Well, the answer to your question, if you're asking, is 'no,' '' Breyer replied, ''because . . . the statement that is sued about has nothing to do with labels. So the people who have nothing to do with the statement wouldn't have standing.''

Sotomayor then returned to the question of why the issue of Congress's intent was not the sole issue when determining whether a party had standing under the Lanham Act. Why, she asked, should the other *AGC* factors also be applied?

Loy replied that congressional intent ''should always be a question.'' And this time Justice Elena Kagan joined Sotomayor's line of questioning: ''If that's the question, the *AGC* test strikes me as not the answer to that question. I mean, we don't usually say 'what was Congress's intent, how broad did Congress mean for

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this cause of action to go?,' and then sort of devise a five-part test with a lot of things that aren't mentioned in the statute.''

According to Loy, standing should be limited, because the Lanham Act offers extraordinary remedies, such as treble damages and attorneys' fees, and also because a showing of intent is not required to make a case for false advertising under Section 43(a).

Loy criticized as too expansive, the ''zone of interest'' test as put forward by Static Control, as well as the ''reasonable interest'' test, which was applied by the appeals court in the instant case, and which has been adopted by a few other circuits.

Kagan and Scalia then revisited their discomfort with the entire concept of ''prudential standing.''

''When should there be prudential standing requirements in a statutory right of action?'' Kagan asked. ''In other words, Congress passes a lot of statutory rights of action. And let's say that almost never . . . does Congress talk about prudential standing one way or the other. Do you think that every time Congress passes a right of action, the courts are supposed to engage in a kind of free-form inquiry about what kind of prudential standing rule should apply to that particular right of action?''

Following Loy's response that sometimes prudential standing limitations are required, she asked, ''And you just sort of know them when you seen them, or it's a reaction to what are perceived to be very broad statutes? . . . When do we know that we should be off on a prudential standing jag?''

Alito jumped in to offer a suggestion: ''Maybe the answer is when we just can't believe that Congress really meant the literal words of the statute to be interpreted without some limiting principle. So here, Congress says 'any person' and any person surely includes people who purchase printer cartridges. So, if we don't think that . . . Congress really meant for every single person who purchases a printer cartridge to be able to file a claim in federal court . . . then that would be a situation where some consideration of prudential standing would have to take place.''

Scalia tried to bring the conversation back to basics: ''What is prudential standing?'' he asked. ''I don't really understand. Is it anything other than . . . statutory standing?''

He was not satisfied with Loy's response and continued to question the premise.

''I'm uncomfortable with the notion that . . . in my prudence I give standing here and I deny standing there. It's up to me,'' he said. ''Unless prudential standing means statutory standing, so that I look to the statute to see whom it was intended to empower to bring lawsuits, I am very uncomfortable with the whole notion.''

Loy said he would be fine with changing the term of art to ''statutory standing.''

Respondent Advocates 'Zone of Interests' Test. Arguing for Static Control, Jameson R. Jones of Bartlit Beck Herman Palenchar & Scott, Denver, proposed that standing under Section 43(a) be governed by the ''zone of interest'' test, which has been applied to other federal claims, such as in *Elk Grove Unified Sch. Dist. v. Newdow*, 542 U.S. 1 (2004), which said—quoting from *Allen v. Wright*, 468 U.S. 737 (1984)—that standing ''encompasses . . . the requirement that a plaintiff's complaint fall within the zone of interests protected by the law invoked.''

Alito asked how the zone of interests test would apply if Lexmark's allegedly false statements had not mentioned Static Control's components. Jones replied that Static Control would still have standing because the statements regarding ''the legality of remanufacturing Lexmark's printer cartridges . . . are about Static Control's products and the legality of using them.''

There was implicit in Jones's reply that not every component supplier of service provider profiting downstream from the sale of remanufactured cartridges would have standing, and Alito tried to find where the line would be drawn.

''I don't understand how you get from the zone of interest to the limiting principle that you are suggesting, which is that the zone of interest includes only those businesses, other than the direct competitor, whose products are targeted by the false statements,'' Alito said.

Scalia also prodded Jones on this point: ''I'm still left with a lack of understanding of how the disparagement of the composite product is automatically a disparagement of your chip,'' he said.

Jones said that the reference to Static Control was implicit in this case.

So then Alito asked about a situation in which there was not even any implicit reference to Static Control.

Jones responded by saying that the context would be important: ''In many circumstances where the false advertising is not about a product, those products will have multiple different uses, such as commodity products that are supplied, gears and springs, for example, that may have many different uses. The false statements here would not be about those products. And those manufacturers can sell their gears to many other different users that require gears. Static Control's microchips here only work for remanufacturing Lexmark printer cartridges.''

Alito then re-introduced Breyer's ice cream parlor hypothetical in which a defendant has said that the chocolate sauce was toxic: ''If the effect of that is to drive out of business a little company that manufactures ice cream that's used there, that company would not have standing?''

In that case, Jones said, if only the chocolate sauce was the subject of the allegedly false statements, then the ice cream manufacturer would probably not have standing. Bailey's ice cream parlor, which was also explicitly referenced in the hypothetical defamatory statement, would also have standing, he said.

Breyer then said he was ''sort of sorry I used that hypothetical.'' Scalia quipped: ''I am too, because I'm sick of it.''

However, Breyer said that should he accept Jones's formulation, he wanted to know how it could be related to the various tests for prudential standing that were under discussion, including the *AGC* test, the reasonable interest test.

Jones said that the tests used so far at the circuit level ''don't necessarily encompass this situation as well as they could'' and that's why Static Control was advocating the zone of interest standard.

Breyer indicated that he was troubled by one aspect of the zone of interest test. The standard was set forth in *Association of Data Processing Service Organizations, Inc. v. Camp*, 397 U.S. 150 (1970), which said that standing would be permitted if the plaintiff were ''arguably within the zone of interests to be protected'' by the relevant statute. It was the presence of the word ''arguably'' that was problematic, because in the case of the Lanham Act, it would seem to create a cause of action for a consumer.

''Isn't it arguably in part to protect consumers?'' Breyer asked.

Referring to the text and history of the Lanham Act, Jones said that it would be clear that commercial actors, not consumers, were intended as the parties to be given a cause of action.

Scalia also objected to the breadth created by the word ''arguably,'' and Jones conceded that Static Control would not object to removing that qualifier from the test.

Scalia offered his own solution: '' 'Arguably' could refer to factual matters. That is, you are within the zone of interest if certain facts are established. And if you don't establish those facts, you are not. That's how I've always understood the 'arguably.' I don't think it means 'close enough for government work.' It doesn't mean that.''

Kagan stepped in to say that ''just a couple of years ago we made clear that 'arguably' was to be taken very seriously, and essentially established a kind of buffer zone so that . . . we weren't going to be too strict about it.''

However, she said, that was in the context of the Administrative Procedure Act of 1946, which could be distinguished from the Lanham Act context, which creates ''a particular right of action. And rather than create any kind of buffer zone around it, we should just ask how is it sensible to interpret that right of action.''

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