No. 12-873

In the Supreme Court of the United States

LEXMARK INTERNATIONAL, INC.,
Petitioner,

v.

STATIC CONTROL COMPONENTS, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

PETITIONER'S BRIEF ON THE MERITS

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QUESTION PRESENTED

Whether the appropriate analytic framework for determining a party's standing to maintain an action for false advertising under the Lanham Act is (1) the test set forth in *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983), as adopted by the Third, Fifth, and Eleventh Circuits; (2) the categorical test, permitting suits only by an actual competitor, employed by the Seventh, Ninth, and Tenth Circuits; or (3) the more expansive "reasonable interest" test, either as applied by the Sixth Circuit in this case or as applied by the First and Second Circuits in prior cases.

PARTIES TO THE PROCEEDINGS

The following were parties to the proceedings in the United States Court of Appeals for the Sixth Circuit:

1. Lexmark International, Inc., the petitioner on review, was the appellee and cross-appellant below.

2. Static Control Components, Inc., the respondent on review, was the appellant and cross-appellee below.

RULE 29.6 DISCLOSURE STATEMENT

Lexmark International, Inc. has no parent corporation, and there are no publicly held corporations that own 10% or more of its stock. Lexmark International, Inc. is a publicly traded corporation.

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The district court's order (Pet. App. 67-89) is unreported but available at 2006 U.S. Dist. LEXIS 73845 (E.D. Ky. Sept. 28, 2006). The Sixth Circuit's opinion and judgment (Pet. App. 1-66) is reported at 697 F.3d 387 (6th Cir. 2012). The Sixth Circuit's order denying rehearing en banc (Pet. App. 90-91) is unreported but available at 2012 U.S. App. LEXIS 23975 (6th Cir. Oct. 26, 2012).

JURISDICTION

A timely petition for writ of certiorari was filed on January 14, 2013. The petition was granted on June 3, 2013. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTE INVOLVED

15 U.S.C. § 1125(a)(1) provides:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—
>
> > (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her

> goods, services, or commercial activities by another person, or
>
> (B) 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,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

INTRODUCTION

In *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983) ("*AGC*"), this Court considered who may maintain a private damages action under the federal antitrust laws. The relevant statute defined the universe of plaintiffs in very broad terms: "[A]ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws" could sue. 15 U.S.C. § 15. And yet this Court recognized that was not the end of the analysis, for the statute's "larger context" made it clear that Congress expected that antitrust litigation "would be subject to constraints comparable to well-accepted common-law rules applied in comparable litigation." *AGC*, 459 U.S. at 533. And the common law imposed strict prudential requirements on would-be plaintiffs. *Id.* at 532-33. This Court thus adopted a prudential standing test of its own. The *AGC* test considers (among other things) the plaintiff's proximity to the conduct complained of, the directness of the injury, and whether that injury is "of a type that Congress sought to redress in providing a private remedy" for antitrust violations. *Id.* at 538.

The Court is now faced with the same question—who may sue?—in the context of a similar statutory provision. Section 43(a) of the Lanham Act codifies common law causes of action for certain anti-competitive conduct in commercial activities. The provision's text, like the one at issue in *AGC*, on its face suggests an extraordinarily broad universe of plaintiffs: "[A]ny person who believes that he or she is or is likely to be damaged" can recover from anyone who engages in false advertising or false association. 15 U.S.C. § 1125(a)(1). And yet as in *AGC*, courts have recognized that the language cannot be read in isolation; if it were, federal courts would be flooded with lawsuits from competitors, consumers, and other actors at each link of the commercial chain any time a business is accused of false advertising. The courts thus have done what this Court did in *AGC*: They have imposed prudential limitations on the statutory cause of action.

The question presented here is what prudential standing test should apply to the Lanham Act. This Court should adopt the *AGC* test as the Third Circuit, *see Conte Bros. Auto., Inc., v. Quaker State-Slick 50, Inc.*, 165 F.3d 221 (3d Cir. 1998) (Alito, J.), and two other circuits have previously done. As then-Judge Alito recognized in *Conte Brothers*, the *AGC* test maps nicely onto Section 43(a). Congress enacted Section 43(a) to "protect persons engaged in . . . commerce" against "unfair competition," 15 U.S.C. § 1127, and the *AGC* test ensures that Section 43(a) litigation is focused on such competitive injuries by asking whether the injury complained of is "of a type that Congress sought to redress." 459 U.S. at 538. Moreover, the unfair competition common law codified in Section 43(a) required plaintiffs to have suffered direct, proximate injuries, and the *AGC* test includes inquiries on both points thereby ensuring that the proposed plaintiffs are the most appropriate parties to pursue the unfair competition claims (or whether there are other parties closer to the conduct that would be more appropriate plaintiffs). The test thus ensures that "the private remedy" Congress created is given "its intended scope." *Id.* at 532. With decades of experience in how the *AGC* test has been applied, the test offers concrete guidance to litigants and courts alike.

In the alternative, this Court could adopt the categorical test favored by three other circuits, under which only actual competitors may bring Section 43(a) false advertising lawsuits. That test has the virtue of providing a bright line for courts and litigants. And it hews closely to the Act's purpose of protecting against "unfair competition." 15 U.S.C. § 1127.

Whichever of these tests the Court chooses, it should reject the lax prudential standing test adopted by the Sixth Circuit below: That a plaintiff may sue under Section 43(a) if he has "a reasonable interest to be protected against the alleged false advertising" and "a reasonable basis for believing that the interest is likely to be damaged." Pet. App. 38. That test veers from the Lanham Act's purpose. It is insolubly vague and will sow disuniformity in the federal courts. And, worst of all, it is toothless as a prudential standing test because it sets the same bar as Article III standing; any plaintiff who has alleged injury and causation also will have alleged a "reasonable interest." By failing to narrow the universe of plaintiffs, the Sixth Circuit's test is nothing more than a massively broad invitation to litigation, allowing practically anyone to sue any business for misrepresentation in federal court—with no amount-in-controversy requirement. That is not what Congress had in mind. The judgment of the Sixth Circuit should be reversed.

STATEMENT OF THE CASE

1. Lexmark manufactures laser printers and the toner cartridges required for its printers to operate. The primary printer market is highly competitive. Lexmark competes with other printer manufacturers such as Hewlett-Packard, Canon, and Xerox. Pet. App. 4-5.

The "aftermarket" for toner cartridges—that is to say, the buying and selling of cartridges that have run out of toner but can be used again—is also competitive, though in a different way. "Each [printer] company generally manufactures its printers to work with only its own style of cartridges, and each company's cartridges will work only with its brand of printers. Therefore, each company typically dominates the aftermarket for cartridges compatible with its brand of printers although the primary market for printers is well populated." *Id.* at 5. That does not mean, however, that there is no competition at all in the aftermarket. On the contrary, entities known as "remanufacturers" acquire used cartridges from Lexmark's customers, refill them, and sell them to owners of Lexmark printers. *Id.* at 3, 5.

Remanufacturers, in turn, obtain parts needed to refill cartridges from other companies. *Id.* at 5 & n.2.

That is where Respondent Static Control comes in. Static Control is not a remanufacturer; it does not remanufacture or sell cartridges itself. Rather, it makes the parts such as toner and microchips used to remanufacture cartridges. *Id.* at 7. Since Static Control sells only cartridge parts (and competes with other parts suppliers), and Lexmark does not sell cartridge parts at all but instead sells only complete cartridges, "Static Control and Lexmark are not actual competitors." *Id.* at 36.

2. Amid customer demand for more and cheaper remanufactured cartridges, Lexmark in 1997 announced what it called the "Prebate" program. Pet. App. 5. Under the program, customers who buy Lexmark cartridges marked "Prebate" receive a 20 percent up-front discount. In exchange, the customers agree to use each cartridge only once and to return it only to Lexmark for remanufacturing and recycling. *Id.* The Prebate program benefits Lexmark by providing a source of empty cartridges for Lexmark to remanufacture and allowing Lexmark to dispose of cartridges unsuitable for remanufacturing in an environmentally sensitive manner. (04RE1187, Trial Tr. 05/22/07, pp. 124-25).[1]

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[1] Lexmark abbreviates the record citations to the United States District Court for the Eastern District of Kentucky Civil Action Nos. 5:02-cv-00571 and 5:04-cv-00084 with the prefixes "02RE" and "04RE," respectfully. These two actions were consolidated on August 10, 2005. (04RE140, Opinion & Order, p. 9).

Notice of the Prebate terms and conditions appear in various places on the cartridge box, inside the cartridge box, and on the cartridge itself.[2] Pet. App. 5. Lexmark also offers regular cartridges not subject to the Prebate terms or the up-front discount. Those cartridges can be used more than once and disposed of or refilled as the customer sees fit. *Id.* at 6.

Except for the initial printer family that employed the Prebate program, a microchip is used on both Prebate and non-Prebate toner cartridges that interface with the printer once the cartridge is installed. (04RE1197, Trial Tr. 05/23/07, p. 25). This microchip enhances printer functioning. *Id*. The microchip on a Prebate cartridge also helps enforce the Prebate terms by disabling the cartridge after it has been used once. Pet. App. 6. To reuse a Prebate

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[2] A typical version of the license agreement reads as follows:

> RETURN EMPTY CARTRIDGE TO LEXMARK FOR REMANUFACTURING AND RECYCLING
>
> Please read before opening. Opening this package or using the patented cartridge inside confirms your acceptance of the following license agreement. This patented [Prebate] Program cartridge is sold at a special price subject to a restriction that it may be used only once. Following this initial use, you agree to return the empty cartridge only to Lexmark for remanufacturing and recycling. If you don't accept these terms, return the unopened package to your point of purchase. A regular price cartridge without these terms is available.

(04RE1008, Order, p. 5).

cartridge, the microchip must be replaced. *Id.* The microchip on a Lexmark's non-Prebate toner cartridge, in contrast, is a multiple use microchip—*i.e.*, the cartridge can be reused multiple times and will continue to function without the need to replace the microchip. *Id.* (04RE1197, Trial Tr. 05/23/07, p. 25).

Certain suppliers including Static Control, however, managed to copy Lexmark's Prebate microchip and began selling replacement microchips for use in Prebate cartridges. Countercl. ¶ 54, J.A. 37. That undercut the Prebate program and enabled remanufacturers to sell Prebate cartridges on the aftermarket, despite the Lexmark single-use license.

3. Lexmark invests heavily in its technology and protects that technology by developing its intellectual property rights. Pet. App. 6. Believing that Static Control was infringing these rights by selling replacement microchips for Prebate cartridges, Lexmark sued on patent and copyright theories. *Id.* at 6-8.

Static Control responded with counterclaims on various antitrust and unfair competition theories. Most relevant here, Static Control claimed that Lexmark had engaged in false advertising under Section 43(a) of the Lanham Act. Static Control alleged that Lexmark misled its own customers in connection with the Prebate program. Countercl. ¶¶ 33, 37, 38, 39, J.A. 28-31. And it alleged that Lexmark sent letters to remanufacturers warning them that they would infringe Lexmark's intellectual property rights by remanufacturing Prebate cartridges, including if they remanufactured cartridges using Static Control's products. *Id.* at ¶ 35, J.A. 29.

In support of its false advertising claim, Static Control alleged that sales have been diverted from Static Control to Lexmark—even though Lexmark and Static Control do not sell any competing products. *Id.* at ¶ 88, J.A. 44. Static Control further alleged, without factual support, that Lexmark's alleged false advertisements have "injured [Static Control's] business reputation." *Id*. Static Control did not allege that any of its customers—the remanufacturers —stopped purchasing microchips from Static Control or purchased microchips from someone else as a result of Lexmark's actions.

4. The district court dismissed Static Control's antitrust and Lanham Act counterclaims for lack of prudential standing, applying the *AGC* test to both. Pet. App. 82-83. With respect to the Lanham Act claim, the district court observed that "[m]ultiple courts" have applied the *AGC* test to analyze Lanham Act prudential standing and determined to follow suit. *Id.* at 83. The court then held that Static Control could not meet the *AGC* test.

That test, as summarized in *Conte Brothers*, examines: (1) The nature of the plaintiff's alleged injury, *i.e.* is it of the type Congress sought to redress; (2) the directness of the asserted injury; (3) the plaintiff's proximity to the alleged injurious conduct; (4) the speculativeness of damages; and (5) the risk of duplicative damages or complexity in apportioning damages. 165 F.3d at 233 (citing *AGC*, 459 U.S. at 538-544). The district court held that Static Control lacked prudential standing under the *AGC* test because the factors cut against it. Pet. App. 83. Among other things, Static Control was not a competitor of Lexmark. *Id.* at 79, 83. Static Control's alleged injuries were remote because "Lexmark's alleged intent is to dry up spent cartridge supplies at the remanufacturing level, rather than at [Static Control's] supply level, making remanufacturers Lexmark's alleged intended target" and because "the alleged injury being a byproduct of the supposed manipulation of consumers' relationships with the remanufacturers (or intermediate cartridge brokers)." *Id.* at 83. And, equally important, "more direct plaintiffs" were available—namely, the remanufacturers, one of which in fact had sued Lexmark in this very case on a Lanham Act theory challenging the Prebate program. *Id.*

5. The Sixth Circuit agreed that Static Control lacked prudential standing under the *AGC* test to bring a federal antitrust claim. Pet. App. 20-33. Among other things, the panel concluded that Static Control is not a competitor of Lexmark, that Static Control's alleged injuries were indirect, and that the existence of a class of "more direct victims"—the remanufacturers—doomed Static Control's case with respect to several *AGC* factors. *Id.*

The Sixth Circuit, however, took a different route when it came to the Lanham Act: It held that the *AGC* test is not the proper standing test for Section 43(a) claims. *Id.* at 34-38. The panel concluded that it was bound by an earlier Sixth Circuit case that had applied the so-called "reasonable interest" test to a false association claim under Section 43(a).[3] *Id.* at 37-38. Failing to even discuss prudential standing requirements, the panel held that Static Control had stated a claim under the reasonable interest test because it "alleged a cognizable interest in its business reputation and sales to remanufacturers and sufficiently alleged that these interests were harmed by Lexmark's statements to the remanufacturers that Static Control was engaging in illegal conduct." *Id.* at 38. The panel recognized that Static Control would not have had standing under the categorical "competitor" test applied by three circuits. *Id.* at 36. The panel did not apply the *AGC* test to Static Control's false-advertising allegations, however, because it felt bound by its prior precedent. *Id.* at 38 & n.10.

This Court granted *certiorari* to decide which prudential standing test applies.

SUMMARY OF ARGUMENT

The Lanham Act's text and context confirm that Congress expected the federal courts to employ long-standing prudential standing limits in administering Section 43(a)'s false advertising cause of action. And the appropriate prudential standing test is the one this Court adopted in *AGC*. That is so for four reasons.

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[3] Courts generally refer to claims under Section 43(a)(1)(A), which creates a cause of action for passing-off one's goods as those of another, as "false association" claims. They refer to claims under Section 43(a)(1)(B), which creates a cause of action for false representations about one's goods or those of another, as "false advertising" claims. The two statutory subsections are quoted in full *supra* at 1-2. This case involves only a false advertising claim.

First, the Lanham Act's plain text provides that the Act is designed "to protect persons engaged in . . . commerce against unfair competition." 15 U.S.C. § 1127. The *AGC* test allows courts to hew to that purpose by asking in each Section 43(a) case whether the plaintiff's alleged injury is "of a type that Congress sought to redress." 459 U.S. at 538. *Second*, Section 43(a) was designed to codify a common law unfair competition tort with rigorous proximate cause requirements, and Congress intended that similar limits be engrafted onto Section 43(a) lawsuits. The *AGC* test implements that congressional design by ensuring that the plaintiff is close to the alleged injurious conduct and suffered direct damages. *Third,* the *AGC* test is properly calibrated to produce neither underenforcement nor overenforcement of the law against false advertising. *Finally*, the three decades of case law interpreting *AGC* will assist the lower courts in evaluating prudential standing under the Lanham Act.

The *AGC* test provides the best framework for assessing prudential standing because it is both principled and flexible. In the event this Court desires a bright-line rule, however, it should adopt the categorical "competitor" test favored by three circuits, under which only a competitor of the defendant can bring suit. The categorical test furthers Congress' intent to limit the Section 43(a) cause of action to commercial plaintiffs alleging a competitive injury. And it has the virtue of simplicity, resulting in greater consistency and predictability in judicial outcomes.

By contrast, the "reasonable interest" test adopted by the Sixth Circuit has none of those attributes. That test is vague enough to countenance any outcome, limited only by a given court's judicial temperament. It conflicts with Congress' expressed desire to limit Section 43(a) remedies to commercial plaintiffs who can show a strong competitive interest. It fails to reflect the common law limits on the unfair competition tort or to account for the background prudential standing requirements presumptively incorporated into every federal cause of action. And, worst of all, it lacks any discernible content because a plaintiff who has alleged Article III standing by definition will have alleged a "reasonable interest." The reasonable interest test accordingly does nothing to constrain a cause of action that, on its face, is broad enough to flood the federal courts with claims. It should be rejected.

ARGUMENT

I. THE LANHAM ACT INCORPORATES PRUDENTIAL STANDING LIMITATIONS.

The preliminary question is whether the Section 43(a) cause of action includes a prudential standing requirement at all. As the lower courts universally have recognized, the answer is yes.

1. Standing rules ensure that the plaintiff "is a proper party to invoke judicial resolution of the dispute and the exercise of the court's remedial powers." *Warth v. Seldin*, 422 U.S. 490, 517-518 (1975). The primary dimension of standing is the "irreducible constitutional minimum" requirement that the plaintiff "demonstrate that he has suffered injury in fact,' that the injury is 'fairly traceable' to the actions of the defendant, and that the injury will likely be redressed by a favorable

decision." *Bennett v. Spear*, 520 U.S. 154, 162 (1997) (quoting *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61 (1992)). But standing also has a prudential dimension, which consists of "judicially self-imposed limits on the exercise of federal jurisdiction . . . founded in concern about the proper—and properly limited—role of the courts in a democratic society." *Bennett*, 520 U.S. at 162 (quotation marks & citation omitted).

"[U]nlike their constitutional counterparts," prudential standing requirements "can be modified or abrogated by Congress." *Id.* However, in order to abrogate prudential standing requirements, Congress must "expressly negate" them. *Id*. at 163. "As a matter of statutory interpretation . . . Congress is presumed to incorporate background prudential standing principles" unless it says otherwise. *Conte Bros.*, 165 F.3d at 227 (citing *Bennett*, 520 U.S. at 162; *United Food & Commercial Workers Union v. Brown Group Inc.*, 517 U.S. 544, 557 (1996)).

2. Section 43(a) of the Lanham Act provides what appears on its face to be an extraordinarily broad cause of action for false advertising: "Any person who . . . 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, shall be liable in a civil action by *any person who believes that he or she is or is likely to be damaged by such act*." 15 U.S.C. § 1125(a)(1)(B) (emphasis added). However, as the Third Circuit observed in *Conte Brothers*, that broad language does not answer the prudential standing question, any more than the language of the Clayton Act did in *AGC*,

because this Court repeatedly has "held that Congress has not expressly negated background prudential standing doctrine merely by passing a statute the text of which admits of a broad interpretation." 165 F.3d at 227 (citing *Bennett*, 520 U.S. at 163-65; *AGC*, 459 U.S. at 535 & n.31). Instead, a court answering the prudential standing question must go on to consider "the text of § 43(a), the explicit language of the Lanham Act declaring its purpose, as well as the Lanham Act's legislative history" to determine what Congress intended. *Conte Bros.*, 165 F.3d at 227.

Those tools of interpretation confirm that Congress expected the federal courts to incorporate prudential standing principles into Section 43(a).

a. The statutory text demonstrates that the Act's false advertising prong is intended to protect a specific class of parties—those with a strong competitive interest. Congress provided in Section 45 that the Act's purpose is "to protect persons engaged in . . . commerce against unfair competition." 15 U.S.C. § 1127. That express statement "makes clear that the focus of statute is on anti-competitive conduct in a commercial context." *Conte Bros.*, 165 F.3d at 229. As one court has noted, "[i]f Congress had intended § 43(a) to apply to noncompetitive conduct, it would have stated that the purpose of the statute was to protect persons engaged in commerce from unfair trade or unfair business practices." *Shonac Corp. v. AMKO Int'l, Inc.*, 763 F. Supp 919, 934 (S.D. Ohio 1991). It did not do so.

Accordingly, while a "literal reading" of Section 43(a)—similar to the Clayton Act—could suggest that "the statute is broad enough to encompass every harm that can be attributed directly or indirectly to the consequences of" false advertising, *AGC*, 459 U.S. at 529, that language read in conjunction with Section 45 reveals that the proper universe of plaintiffs is more constrained. As *Conte Brothers* put it, Section 45 "evidences an intent to limit standing to a narrow class of potential plaintiffs possessing interests the protection of which furthers the purposes of the Lanham Act." 165 F.3d at 229. In light of that intent, it makes sense to conclude that Congress desired prudential standing limits to apply to the Lanham Act, even putting the *Bennett* presumption aside. After all, "[c]onferring standing to the full extent implied by the text of § 43(a) would give standing to parties . . . having no competitive or commercial interests affected by the conduct at issue," which would "ignore the purpose of the Lanham Act as expressed by § 45." *Id.*

b. The Act's legislative history underscores that textual analysis. Congress enacted the Lanham Act in 1946 to unify trademark provisions scattered throughout federal law and to codify the common law of unfair competition. *See* S. Rep. No. 1333, 79th Cong., 2d Sess. (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1275-77; *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 861 n.2 (1982) (White, J., concurring) ("[T]he purpose of the Lanham Act was to codify and unify the common law of unfair competition and trademark protection."); 5 McCarthy, *McCarthy on Trademarks and Unfair Competition* § 27:7 (4th ed. 2013) ("McCarthy") (the Lanham Act's drafters "felt that the Act should create a general federal law of unfair competition"). Section 43(a), in particular, was enacted in response to the abrogation of "federal general common law" in *Erie Railroad v. Tompkins*, 304 U.S.

64, 78 (1938). *See Conte Bros.,* 165 F.3d at 235 ("[t]he statute . . . was designed primarily to resurrect the federal tort of unfair competition after it was consigned to the post-*Erie* ashheap.").

At common law, standing to sue for unfair competition and false advertising was strictly limited. The "primary obstacle" to standing was the rigorous application of the requirement that the plaintiff show an actual injury that was proximately caused by the defendant. McCarthy § 27:1. Proximate cause was understood to require "proof of specific customers diverted from specific plaintiffs through the actions of these defendants." *Cal. Apparel Creators v. Wieder of Cal., Inc.*, 162 F.2d 893, 900-01 (2d Cir.), *cert. denied*, 332 U.S. 816 (1947)("To recover damages or to receive protective relief against the actions of these defendants, plaintiffs must therefore show not only a representation by defendants which is false and deceitful in the sense of luring customers to their doors wrongfully, but also that plaintiffs have lost their own rightful custom thereby."). As a result, plaintiffs in false advertising cases had to be not just direct competitors, but direct competitors who were the only alternative source of the good at issue. *See Mosler Safe Co. v. Ely-Norris Safe Co.*, 273 U.S. 132, 134 (1927).

As noted by the Third Circuit in *Conte Brothers*, "[t]here is no indication that Congress intended in . . . the Lanham Act . . . to abrogate the common law limitations on standing to sue." 165 F.3d at 230. On the contrary, the Lanham Act retained the common law's focus on *competitive injury* to *commercial parties*. That is clear not just in the text of Section 45 but also in the legislative history. The 1946 Senate report, for example, repeatedly states that the statute is designed to remedy competitive injuries. *See* 1946 U.S.C.C.A.N. at 1275 (goal of Lanham Act is "to foster fair competition") ("There is no essential difference between trade-mark infringement and what is loosely called unfair competition"). This focus on competition is again echoed in the history accompanying the most recent substantive amendments to the Act in 1988.[4] *See* S. Rep. No. 100-515, 100th Cong., 2d Sess. (May 12, 1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5603 (describing "actionable false advertising claims" under the Act as an example of "unfair competition"); *id*. at 5604 (characterizing "competition between the parties" as a "traditional trademark infringement question").

c. The 1988 legislative history also is significant for two other reasons. First, the Senate Report *expressly endorsed* prudential standing limitations on Section 43(a). The Report stated that "[i]t is the committee's intention that . . . standing under Section 43(a) . . . should continue to be decided on a case-by-case basis, and that the amendments it made to the legislation with respect to these issues should not be regarded as either limiting or extending applicable decisional law." 1988 U.S.C.C.A.N. 5577, 5604. That is an unambiguous endorsement of prudential limits on the false advertising cause of action because by 1988 the federal courts had long since attached such limits to Section 43(a). Indeed, the Ninth Circuit had held just

[4] These amendments involved a rewriting of Section 43(a). The key elements of this rewriting included dividing the statute into two subsections reflecting the two distinct "prongs" of false association and false advertising. *See* McCarthy § 27:10.

a year earlier that prudential standing limitations applied and had denied standing to a plaintiff who "failed to show injury by a competitor." *Halicki v. United Artists Commc'ns, Inc.*, 812 F.2d 1213, 1214 (9th Cir. 1987). And other circuits by that time had developed their own prudential standing tests for Section 43(a) claims, also narrowing standing to commercial plaintiffs suffering an anti-competitive injury. *See*, *e.g.*, *Colligan v. Activities Club of N.Y., Ltd.*, 442 F.2d 686, 692 (2d Cir. 1971) (refusing to allow consumer suits and finding that "Congress' purpose in enacting § 43(a) was to create a special and limited unfair competition remedy"); *John Wright, Inc. v. Casper Corp.*, 419 F. Supp. 292, 325 n.18 (E.D. Pa.), *aff'd in part, rev'd in part*, 587 F.2d 602 (3d Cir. 1978) ("The cause of action belongs to members of the commercial class, *i.e.*, competitors.") (citations omitted).

Second, Congress in 1988 expressly rejected an amendment to Section 43(a) that would have broadened the universe of potential plaintiffs. The House bill "contained language expressly giving consumers the right to sue for a violation of § 43(a)." McCarthy § 27:39. But "the provision was deleted in a House-Senate Conference Committee." *Id.* That rejection demonstrates that Congress did not want Section 43(a)'s "any person who believes that he or she is or is likely to be damaged" language, standing alone, to define the universe of potential plaintiffs. If it had, then Congress should have welcomed the amendment as a way to correct court decisions limiting prudential standing to commercial competitors.

In short, Congress in enacting and amending Section 43(a) did not "expressly negate[ ]" the background presumption that its causes of action incorporate prudential standing limits. *Bennett*, 520 U.S. at 163. Quite the contrary, Congress endorsed such limits, both explicitly and otherwise. The only remaining question is what those prudential standing limits should be.

II. THE *AGC* TEST IS THE BEST FRAMEWORK FOR ANALYZING STANDING UNDER THE LANHAM ACT.

A. This Court Should Adopt The *AGC* Test.

In *Conte Brothers*, the Third Circuit held the *AGC* test up against Section 43(a) and concluded that the *AGC* test "provides appropriate flexibility in application to address factually disparate scenarios . . . while at the same time supplying a principled means for addressing standing under . . . § 43(a)." 165 F.3d at 236. That conclusion was correct. Of the three prudential standing approaches employed by the lower courts, the *AGC* test best matches the Lanham Act's text, history, and purpose.

1. In *AGC*, this Court addressed the standing of private plaintiffs to bring suit under Section 4 of the Clayton Act, which contains language as expansive as that in Section 43(a): "[A]ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue[]." 15 U.S.C. § 15. The Court declined to read that text in isolation, observing that if it did so the cause of action would be "broad enough to encompass every harm that can be attributed directly or indirectly to the consequences of an antitrust violation." *AGC*, 459 U.S.

at 529. Instead, the Court examined the statute's context and history to determine "whether Congress intended such an open-ended meaning." *Id.* at 530. It concluded that the answer was no. "The repeated references to the common law" in the legislative history "ma[de] it clear that Congress intended the Act to be construed in the light of its common-law background." *Id.* at 531. And that common law background featured a "number of judge-made rules [that] circumscribed the availability of damages," including "doctrines such as foreseeability and proximate cause, directness of injury, [and] certainty of damages[.]" *Id.* at 532-33.

The Court thus turned to identifying the relevant prudential standing considerations. First, it was "appropriate to focus on the nature of the plaintiff's alleged injury" to determine whether it was " 'of a type that Congress sought to redress in providing a private remedy for violations of the antitrust laws.' " *Id.* at 538 (quoting *Blue Shield of Va. v. McCready*, 457 U.S. 465, 483 (1982)). That factor cut against the *AGC* plaintiff's standing because the antitrust statutes were "enacted to assure customers the benefits of price competition . . . in the relevant market" and the plaintiff "was neither a consumer nor a competitor in the market in which trade was restrained." *AGC*, 459 U.S. at 538-39.

The Court next gave effect to the "common-law background," *id.* at 531, by examining two considerations related to proximate cause: "[T]he directness or indirectness of the asserted injury" and the speculativeness of the plaintiff's damages claim. *Id.* at 540, 542. These considerations, too, cut against the *AGC* plaintiff because the plaintiff's injuries "were only an indirect result of whatever harm may have been suffered" by others and because "nothing but speculation informs the [plaintiff's] claim of injury by reason of the alleged unlawful coercion." *Id.* at 541, 543.

Finally, the Court looked to two considerations relevant to manageability: Whether there were more direct victims in the relevant market who could be expected to sue, and whether allowing the would-be plaintiff to bring suit created a "risk of duplicate recoveries" or "complex apportionment of damages." *Id.* at 541-42, 544. The Court answered both questions in the affirmative, and that too cut against prudential standing. The Court explained that "[d]enying the [plaintiff] a remedy on the basis of its allegations in this case is not likely to leave a significant antitrust violation undetected or unremedied." *Id.* at 542. "The existence of an identifiable class of persons whose self-interest would normally motivate them to vindicate the public interest in antitrust enforcement diminishes the justification for allowing a more remote party . . . to perform the office of a private attorney general." *Id.* By contrast, *allowing* such indirect plaintiffs a remedy would "burden[ ] the courts" by forcing them to apportion damages among directly and indirectly affected entities. *Id.* at 545. The plaintiff accordingly lacked standing, and its complaint was dismissed.

2. The *AGC* test, in short, considers five questions to determine who is a proper plaintiff:

> (1) The nature of the plaintiff's alleged injury: Is the injury of a type that Congress sought to redress in providing a private remedy . . . ?

> (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.
>
> (5) The risk of duplicative damages or complexity in apportioning damages.

Conte Bros., 165 F.3d at 233 (quotation marks & citations omitted) (summarizing *AGC*). That test should apply to Section 43(a) prudential standing just as it does to Clayton Act prudential standing. It is the appropriate test because it implements Congress' directives, and it is well-calibrated to root out false advertising without expanding the federal cause of action beyond manageable limits.

a. The *AGC* test's first inquiry—whether "the injury [is] of a type that Congress sought to redress in providing a private remedy for violations of the antitrust laws"—is a good fit with Section 43(a) because it allows courts to honor Congress' express description of the provision's proper scope. Congress explained in the adjacent Section 45 that "the intent" of the Act was "*to protect persons engaged in . . . commerce against unfair competition.*" 15 U.S.C. § 1127 (emphasis added). That provision "makes clear that the focus of [the] statute is on anti-competitive conduct in a commercial context." *Conte Bros.*, 165 F.3d at 229. Moreover, as set forth *supra* at 16-20, the legislative history is to the same effect: It demonstrates that Section 43(a) "was designed primarily to resurrect the federal tort of unfair competition" and its attendant strict requirements for standing. *Id.* at 230, 235. Given that congressional design, allowing Section 43(a) lawsuits by plaintiffs who are not commercial actors, or who lack strong "competitive . . . interests," would "ignore the purpose of the Lanham Act." *Id.* at 229. The *AGC* test avoids that result by examining a plaintiff's allegations and its place in the relevant market to ensure that they fall "within the area of congressional concern." *AGC*, 459 U.S. at 539 (citation omitted).

b. The *AGC* test's second and fourth factors—the directness of the asserted injury and the speculativeness of the damage claim—likewise hew to the concerns of Section 43(a) because they give content to common law limits on analogous causes of action. As set forth *supra* at 16-18, Section 43(a) codified the common law tort of unfair competition. *See* McCarthy § 27:7; *Conte Bros.,* 165 F.3d at 235. In doing so, Congress was "legislat[ing] against the background of [the Court's] prudential standing doctrine, which applies unless it is expressly negated." *Bennett*, 520 U.S. at 163. And the common law cause of action that Congress codified contained prudential limitations that opened the courthouse doors only to plaintiffs who could plausibly allege (i) an injury arising directly from the alleged unfair competition and (ii) a damages theory that did not depend on effects beyond the relevant market. Specifically, under pre-*Erie* federal common law a plaintiff only had standing to assert a claim for false advertising when the defendant palmed off his goods as those of the plaintiff, or when the plaintiff was the only other source of the goods involved, so that proof of the alleged injury would not require speculation as to whether customers might have obtained the goods in question from someone other than the plaintiff but for the defendant's false advertising. *Am. Washboard Co. v. Saginaw Mfg. Co.*, 103 F. 281 (6th Cir. 1900); *Ely-Norris Co.*, 273 U.S. 132.

The *AGC* test examines these same factors. It accordingly keeps the Section 43(a) cause of action rooted in the common law the statute was designed to codify.

c. Finally, the *AGC* test's third and fifth factors—the plaintiff's proximity to the conduct complained of, and the risk of duplicative damages or complexity in apportioning damages—are appropriate inquiries under Section 43(a) because they ensure that the federal false advertising cause of action provides a calibrated level of enforcement without overburdening the federal courts.

The "proximity" factor examines whether there is "an identifiable class of persons" closer to the alleged bad acts "whose self-interest would normally motivate them to vindicate the public interest in . . . enforcement." *AGC*, 459 U.S. at 542. If there is, allowing the would-be plaintiff to sue is inappropriate for two reasons. First, it is unnecessary; the entities closer to the defendant's actions in the relevant market can be entrusted "to perform the office of a private attorney general." *Id.* Second, it produces overenforcement of false advertising claims. As one commentator explained, if *everyone* in the causal chain, from direct competitors to retailers to consumers, were allowed to sue whenever a business allegedly engages in false advertising, the result would be excess lawsuits, excess financial punishment, and a business community chilled from saying anything in advertisements that could possibly be construed as false. Kevin M. Lemley, *Resolving the Circuit Split on Standing in False Advertising Claims and Incorporation of Prudential Standing in State Deceptive Trade Practices Law: The Quest for Optimal Levels of Accurate Information in the Marketplace*, 29 U. Ark. Little Rock L. Rev. 283, 289 (2007). That would produce "a net reduction of information in the market, causing it to fall below optimal levels." *Id.; see also id.* at 311 ("The corrective action would cause more harm to the market than the misinformation."). The proximity inquiry of the *AGC* test strikes the right balance by ensuring that *some* market actors can challenge anti-competitive false advertising while sidestepping the problems that would occur if *every* market actor could do so.

The fifth factor guards against a similar problem: Ensuring that the federal courts are not overburdened by lawsuits that devolve into " 'massive efforts to apportion the recovery among all potential plaintiffs' " who could claim to be affected by false advertising. *AGC*, 459 U.S. at 544 (quoting *Ill. Brick Co. v. Illinois*, 431 U.S. 720, 737-38 (1977)). After all, "[h]owever appealing this attempt to allocate the overcharge might seem in theory, it would add whole new dimensions of complexity" to these federal lawsuits "and seriously undermine their effectiveness." *Id.* (quoting *Illinois Brick*, 431 U.S. at 738). That concern, too, is as pressing in the Section 43(a) false advertising context as it was in the antitrust context presented by *AGC*. "[R]ecognizing the right of every potentially injured party in the distribution chain to bring a private damages action . . . could result in an enormous number of relatively insignificant cases being litigated in the federal courts." *Conte Bros.*, 165 F.3d at 235. "For example . . . every corner grocer in America alleging that his sales of one brand of chocolate bars have fallen could bring a federal action against the manufacturer of another brand for falsely representing the chocolate content of its product." *Id.* If that were permissible, "the impact on the federal courts could be significant." *Id.* The *AGC* test's fifth factor, like the third, guards against such an outcome.

3. The *AGC* test, in short, fits as seamlessly with the Lanham Act as it does with the Clayton Act—perhaps not surprising, considering the two statutes use similar language, are designed to combat similar ills, and were drafted in light of the same common law background. *See Gilbert/Robinson, Inc. v. Carrie Beverage-Mo., Inc.*, 989 F.2d 985, 991 (8th Cir. 1993) ("Like the antitrust laws, the Lanham Act seeks to promote a fair and efficient marketplace, and it is therefore not surprising that [the concept of antitrust injury] has shaped judicial application of Lanham Act remedies."); *Conte Bros.*, 165 F.3d at 230 (The acts "were drafted against the backdrop of common law doctrine similar to today's prudential standing doctrine that limited the eligible plaintiff class."). That is why three circuits in recent years have adopted the *AGC* test as the prudential standing test for Section 43(a) suits. *See Conte Bros.*, 165 F.3d at 233; *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156, 1162-64 (11th Cir. 2007); *Procter & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 562-63 (5th Cir. 2001). And it is why use of the *AGC* test to measure Section

43(a) prudential standing "has the imprimatur of two prominent commentators in the area"—the McCarthy treatise and the Restatement (Third) Unfair Competition. *Conte*, 165 F.3d at 233.[5]

These conclusions make sense. The *AGC* test gives full effect to the Lanham Act's plain text. It "provides a flexible yet principled means of determining the existence of prudential standing for disparate factual scenarios, thereby allowing courts to foreclose standing on one set of facts while recognizing standing when presented with a slightly (but materially) different set of facts." *Phoenix of Broward*, 489 F.3d at 1173. And it offers the added advantage of a built-in body of precedent; 30 years of case law applying *AGC* in the antitrust context would provide guideposts to judges and litigants grappling with Section 43(a) prudential standing issues. This Court should adopt the *AGC* test as the prudential standing test for Section 43(a) false advertising litigation.

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[5] *See* McCarthy § 27:32 n.1 ("In the author's opinion, some limit on the § 43(a) standing of persons remote from the directly impacted party should be applied by analogy to antitrust law, such as use of the criteria listed in *Associated General Contractors* . . ."); Restatement (Third) Unfair Competition, § 3, cmt. f (1995) ("In determining whether an asserted injury is sufficiently direct to justify the imposition of liability, the Supreme Court's analysis of similar issues under federal antitrust law may offer a useful analogy.").

B. In The Alternative, This Court Should Adopt The Categorical "Competitor" Test.

In the alternative, this Court should adopt the bright-line prudential standing test applied by three other circuits: "[T]o have standing for a [Section 43(a)] false advertising claim, the plaintiff must be a competitor of the defendant and allege a competitive injury." *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 873 (10th Cir. 1995); *accord L.S. Heath & Son v. AT&T Info. Sys.*, 9 F.3d 561, 575 (7th Cir. 1993); *Halicki*, 812 F.2d at 1214 (9th Cir.).

The categorical "competitor" test is not as flexible as the *AGC* test, and it could occasionally produce overenforcement—for example, if a distant or nominal competitor is granted prudential standing, even though many more direct competitors are well-positioned to bring the same claim. *See* Lemley, *supra*, at 289. However, it does have at least three advantages. First, it is consistent with Congress' stated intent to provide a remedy for commercial plaintiffs injured by "unfair competition." 15 U.S.C. § 1127. *See Stanfield*, 52 F.3d at 873 ("A false advertising claim implicates the Lanham Act's purpose of preventing unfair competition."). Second, like any bright-line test, it "provide[s] a simple, administrable rule for district courts," *Taniguchi v. Kan Pac. Saipan, Ltd.*, 132 S. Ct. 1997, 2006 (2012), and would produce greater consistency and predictability in judicial outcomes.

Finally, the categorical "competitor" test has a virtue that the *AGC* test also offers but the Sixth Circuit's "reasonable interest" test, discussed below, manifestly does not: It constrains a universe of plaintiffs that otherwise would be overbroad. The Ninth Circuit recognized as much in adopting the categorical test. It wrote: "If Section 43(a) is not confined to injury to a competitor in the case of a false designation, it becomes a federal statute creating the tort of misrepresentation, actionable as to any goods or services in commerce affected by the misrepresentation." *Halicki*, 812 F.2d at 1214. Limiting prudential standing to competitors avoids that burdensome result.

C. The "Reasonable Interest" Test Is Inconsistent With The Act's Text And Purpose And Provides No Guidance To Courts.

Whichever of these tests the Court adopts, it should reject the Sixth Circuit's expansive "reasonable interest" test. That test does not sufficiently reflect the intent of Congress to limit the statutory remedy to commercial parties seeking redress of a competitive injury. It does not constrain the universe of potential plaintiffs. And its amorphous contours provide virtually no guidance to courts, thereby inviting inconsistent outcomes and rendering the law unpredictable and unprincipled.

1. Some version of the reasonable interest test is used in at least three circuits. *See* Pet. App. 34-38; *see also Camel Hair & Cashmere Inst., Inc. v. Associated Dry Goods Corp.*, 799 F.2d 6, 11-12 (1st Cir. 1986); *PPX Enters., Inc. v. Audiofidelity, Inc.*, 746 F.2d 120, 125 (2d Cir. 1984). As articulated by the Sixth and Second Circuits, a plaintiff has prudential standing to advance a Section 43(a) false advertising claim if the plaintiff

"can demonstrate '(1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising.' " Pet. App. 36 (quoting *Famous Horse, Inc. v. 5th Ave. Photo Inc.*, 624 F.3d 106, 113 (2d Cir. 2010)).

2. This approach suffers from numerous fatal flaws.

a. To begin with, it does not conform to the statutory text. Congress made clear that Section 43(a) is supposed to "protect persons engaged in . . . commerce against unfair competition." 15 U.S.C. § 1127. Therefore, the "focus of the statute is on anti-competitive conduct in a commercial context." *Conte Bros.*, 165 F.3d at 229. Both the *AGC* test and the categorical test conform to that congressional command—the *AGC* test by asking whether the alleged injury is of the type Congress intended to remedy, the categorical test by asking whether the plaintiff is a competitor of the defendant (and thus a potential victim of unfair competition).

The reasonable interest test does not. Instead, it offers a vague formulation that anyone with any alleged causal connection to the defendant's alleged conduct can meet, regardless of whether they suffered a competitive injury, how far upstream or downstream they may be in the chain of commerce, or whether they are commercial actors at all. Take, for example, the Third Circuit's hypothetical in *Conte Brothers* about a chocolate manufacturer that misrepresents the chocolate content of its product. *See supra* at 27. That manufacturer's direct competitors could sue, of course, on the theory that their sales declined as a result of the false advertising. But corner grocers across the nation also could sue, arguing that they have a reasonable interest in maximizing their chocolate sales and that their interest was damaged when the market learned that one manufacturer was offering misleading information about its product. And consumers, too, could sue, arguing that they have a reasonable interest in purchasing high-quality chocolate bars at the lowest price and that this interest was damaged when the defendant's false advertising convinced them to eschew less expensive products. And so on. The reasonable interest test thus "give[s] standing to parties . . . having no competitive . . . interests affected by the conduct at issue." *Id.* And that "ignore[s] the purpose of the Lanham Act as expressed by § 45"—to provide a remedy for commercial actors who suffer competitive injuries. *Id.* Indeed, the reasonable interest test as articulated by the Sixth Circuit is facially inconsistent with the one prudential standing principle on which the circuits *do* agree: That consumers do not have standing under the Act.[6] The reasonable interest test cannot be reconciled with congressional intent.

b. The reasonable interest test is inappropriate for a second reason too: It is effectively indistinguishable from the analysis for Article III standing and is therefore not actually a test for prudential standing at

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[6] At least eight circuits have so held. *See Colligan*, 442 F.2d at 692 (2d Cir.); *Serbin v. Ziebart Int'l Corp.*, 11 F.3d 1163, 1177 (3d Cir. 1993); *Made in the USA Found. v. Phillips Foods, Inc.*, 365 F.3d 278, 281 (4th Cir. 2004); *Procter & Gamble*, 242 F.3d at 563-64 (5th Cir.); *L.S. Heath*, 9 F.3d at 575 (7th Cir.); *Barrus v. Sylvania*, 55 F.3d 468, 470 (9th Cir. 1995); *Stanfield*, 52 F.3d at 873 (10th Cir.); *Phoenix of Broward,* 489 F.3d at 1170-71(11th Cir.).

all. The Article III standing test requires a plaintiff to allege that he has suffered an injury-in-fact that is fairly traceable to the defendant's conduct. *Lujan*, 504 U.S. at 560. But that is precisely what the reasonable interest test boils down to. A plaintiff who alleges "a reasonable interest to be protected against the alleged false advertising" and "a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising," Pet. App. 36, is simply alleging that he or she has been harmed and that that injury can be traced to the defendant.

A review of decisions applying the reasonable interest test demonstrates that the test is, in practice, devoid of any content. In this case, for example, the Sixth Circuit applied the test as follows: "Static Control alleged a cognizable interest in its business reputation and sales to remanufacturers and sufficiently alleged that these interests were harmed by Lexmark's statements to the remanufacturers that Static Control was engaging in illegal conduct. This is sufficient to state a claim" under the reasonable interest test. *Id.* at 38. But those allegations simply amount to assertions of injury-in-fact and causation. Likewise, the First Circuit in *Camel Hair* wrote that under the reasonable interest test it is not "sufficient for the plaintiff merely to establish a falsehood in the defendant's advertising or marketing; the plaintiff must also show a link or 'nexus' between itself and the alleged falsehood." 799 F.2d at 11-12. But a "nexus" between the plaintiff's alleged injury and the defendant's conduct is nothing other than the Article III requirement of causation—*i.e.*, that the injury is "fairly traceable" to the defendant's actions. *Lujan*, 504 U.S. at 560.[7]

c. Because the reasonable interest test adds nothing to the analysis, it fails to constrain the broad Section 43(a) cause of action—its third fatal flaw. As *Conte Brothers* observed, "recognizing the right of every potentially injured party in the distribution chain to bring a private damages action . . . could result in an enormous number of relatively insignificant cases being litigated in the federal courts." 165 F.3d at 235. This Court was unwilling to endorse such an outcome in the antitrust context, holding that "Congress did not intend the antitrust laws to provide a remedy in damages for all injuries that might conceivably be traced to an antitrust violation." *AGC*, 459 U.S. at 534 (quoting *Hawaii v. Standard Oil Co.*, 405 U.S. 251, 263 n.14 (1972)). So too here. As the Ninth Circuit has observed, absent a prudential limit with real bite, the Section 43(a) false advertising cause of action is transformed into a federal tort of misrepresentation —and one with no amount-in-controversy requirement.

[7] Lower courts sometimes apply the reasonable interest test more strictly. For example, the Second Circuit has "frequently stressed the importance of competition between litigants in evaluating Lanham Act claims[.]" *Famous Horse*, 624 F.3d at 112. Accordingly, the Second Circuit has "tended to require a more substantial showing where the plaintiff's products are not obviously in competition with defendant's products[.]" *Ortho Pharm. Corp. v. Cosprophar, Inc.*, 32 F.3d 690, 694 (2d Cir. 1994). However, the Second Circuit has never explained how, in principle, that "more substantial showing" requirement lines up with the reasonable interest test. (It does not.) In any event, the Sixth Circuit in this case applied the reasonable interest test *simpliciter*, without adding any such gloss.

Halicki, 812 F.2d at 1214. Congress did not intend such a sprawling pathway into federal court, *see supra* at 14-20, and accordingly there is no call for the federal courts to saddle themselves with such a burden.

Nor does rejecting the toothless reasonable interest test leave all other would-be plaintiffs with no remedy; it simply does not provide them with a federal statutory cause of action. As one commentator has observed, consumers would "still have traditional [state law] causes of action—breach of contract, fraud, breach of warranties, and the like." Lemley, *supra*, at 312. And "[c]ommercial parties that lack false advertising standing may have claims for tortious interference with contract, business expectancy, or other business torts." *Id.* "The Lanham Act was designed to coexist with state laws, and it was never meant to preempt state law causes of action." *Id.* There is no need to stretch Section 43(a) beyond what Congress intended.

d. Finally, to the extent the reasonable interest test does any work at all, it is so vague and open-ended as to practically guarantee inconsistent outcomes. What constitutes "a reasonable interest to be protected against the alleged false advertising"? Pet. App. 38. With a test that nebulous, the answer can and will turn on a given district judge's personal predispositions, or on the judge's impression of the merits. This Court should reject a test that encourages such result-driven judicial decisionmaking. Far from providing a workable framework, the Sixth Circuit's approach fails to even offer a basis for principled rulings from one case to the next.

For all of these reasons, the reasonable interest test should be rejected.

III. RESPONDENT STATIC CONTROL LACKS PRUDENTIAL STANDING UNDER THE *AGC* TEST.

Applying the *AGC* test, Static Control's Section 43(a) false advertising claim should be dismissed for lack of prudential standing.[8]

1. Static Control's Lanham Act claim is based on general allegations that Lexmark made misleading statements about Prebate to Lexmark's own customers, Countercl. ¶¶ 33, 37, 38, 39, J.A. 28-31; and that Lexmark sent letters to remanufacturers asserting that they would infringe Lexmark's intellectual property rights by remanufacturing Prebate cartridges, including if they remanufactured cartridges using Static Control's products. *Id.* at ¶ 35, J.A. 29.

Static Control's only factual allegation alluding to particular "advertisements" appears in paragraph 35 of its counterclaim. That paragraph alleges that "Lexmark sent letters to most of the companies in the toner cartridge remanufacturing business upon introducing Prebate" in which Lexmark allegedly claimed that "remanufacturing Prebate-labeled toner cartridges violates Lexmark's intellectual property

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[8] The claims also would fail if this Court were to adopt the categorical "competitor" test. Both the district court and the Sixth Circuit found that Static Control was not a competitor of Lexmark. Pet. App. 36, 79. Static Control accordingly is not a proper plaintiff under the categorical test. *See Stanfield*, 52 F.3d at 873.

rights" and that if remanufacturers "used [Static Control's] products to remanufacture Lexmark toner cartridges," the remanufacturers "would violate the law." *Id.*

In further support of its false advertising claim, Static Control alleged that sales have been diverted from Static Control to Lexmark even though they do not sell the same products. *Id.* at ¶ 88, J.A. 44. And Static Control alleged without factual support that Lexmark's alleged false advertisements have "injured [Static Control's] business reputation." *Id*.

2. These allegations reveal that Static Control lacks prudential standing to advance a Section 43(a) false advertising claim under the *AGC* test. If this Court applies the *AGC* test in the first instance, rather than remanding, it should dismiss Static Control's Lanham Act claim for lack of standing.[9]

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[9] The claim also fails as a matter of law on other grounds. For example, Lexmark's alleged statements were true and the claim fails for lack of "falsity." Prior to trial, the district court held that the Prebate program is valid under both contract and patent law consistent with the holding in *Arizona Cartridge Remanufacturers Association, Inc. v. Lexmark International, Inc.*, 421 F.3d 981, 988 (9th Cir. 2005). (04RE1008, Order, pp. 20-28). After trial, the district court interpreted *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), as a change in the law of patent exhaustion and held that the Prebate program was unenforceable under patent law. (04RE1443, Order, pp. 15-20). The district court, however, left in place its conclusion that the Prebate program is valid under contract law. *Id*. at 19-20. Moreover, at trial the district court ruled that Lexmark established direct infringement by the remanufacturers and that Static Control had itself directly infringed one of Lexmark's patents. (04RE1203,

a. *Nature of the injury*. The first *AGC* question is whether the alleged injury is "of a type that Congress sought to redress in providing a private remedy[.]" *Conte Bros*., 165 F.3d at 233. Static Control's alleged injury does not meet that description. Section 43(a)'s false advertising cause of action seeks to protect commercial parties from "unfair competition." 15 U.S.C. § 1127. And Static Control is not in "competition" with Lexmark, as both the district court and the Sixth Circuit found, because it is a mere parts supplier in the toner cartridge aftermarket. Pet. App. 36, 79. Static Control's alleged injuries accordingly are not the sort of competitive injuries at which Congress took aim. The first *AGC* inquiry weighs against prudential standing.

b. *Directness of the injury*. The second *AGC* criterion likewise weighs against prudential standing because Static Control's alleged injuries "were only an indirect result of whatever harm may have been suffered" by consumers and remanufacturers. *AGC*, 459 U.S. at 541. Lexmark directed the challenged communications at its customers and at remanufacturers, according to Static Control's allegations. Countercl. ¶¶ 33, 35, 37, 38, 39, J.A. 28-31. And, as the Sixth Circuit observed, "[t]he more-direct

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Order, pp. 2-3; 04RE1245, Order, p. 7; 04RE1362, Civil Minutes-Trial, p. 1). And the allegations could not support a false advertising claim in any event because the alleged communications are not "commercial advertising or promotion." 15 U.S.C. § 1125(a)(1)(B). *See ISI Int'l, Inc. v. Borden Ladner Gervais, LLP*, 316 F.3d 731, 733 (7th Cir. 2003) (letters to customers asserting intellectual property rights are not "commercial advertising or promotion").

victims" of the alleged anti-competitive acts "are the end users, who according to the allegations had to pay more for their cartridges," and "the remanufacturers, who were unable to compete in the market for Lexmark-compatible toner cartridges after Lexmark's Prebate program undercut their prices and reduced supply." Pet. App. 26. Thus "Static Control's injuries as a result of the Prebate program are clearly a byproduct" of injuries allegedly suffered by others closer in the causal chain. *Id.* (citation omitted). Static Control's alleged injuries, in other words, are "derivative." *Id.* They do not satisfy the "directness" criterion.

c. *Proximity to alleged bad acts.* The third criterion also militates against prudential standing because there is an "identifiable class of persons"—the remanufacturers—who are closer to Lexmark's alleged anti-competitive conduct and could be expected to bring suit. *AGC*, 459 U.S. at 542. And at least one of those remanufacturers *in fact sued* Lexmark in this case on a Section 43(a) theory related to the Prebate program. Pet. App. 81-82. Accordingly, it is clear that "[d]enying [Static Control] a remedy on the basis of its allegations in this case is not likely to leave a significant [Lanham Act] violation undetected or unremedied." *AGC*, 459 U.S. at 542. That "diminishes the justification for allowing a more remote party such as [Static Control] to perform the office of a private attorney general." *Id.*

d. *Speculative damages.* "Partly because it is indirect, and partly because the alleged effects on [Static Control] may have been produced by independent factors," Static Control's "damages claim is also highly speculative." *AGC*, 459 U.S. at 542. As the district court explained, Static Control's alleged damages "could possibly arise from independent market decisions of remanufacturers and end users of cartridges." Pet. App. 80. And Static Control did not allege that any remanufacturer was unable to perform its contract with Static Control or that Static Control was forced to accept a lower price for any of its components as a result of the alleged false advertising.

Moreover, remanufacturers are under no duty to obtain additional supplies from Static Control. And Static Control's counterclaim contains no factual allegations to support its speculation that but for Lexmark's actions, remanufacturers would have purchased additional supplies from Static Control rather than from one of the "[o]ther suppliers" alleged in Static Control's counterclaim. Countercl. ¶ 54, J.A. 37. Thus, even if one could assume that the alleged communications persuaded some remanufacturers not to remanufacture Prebate cartridges, it would "require too much speculation to conclude that an ascertainable percentage" of those hypothetical losses were passed on to Static Control. *Phoenix of Broward*, 489 F.3d at 1171. The fourth *AGC* criterion, too, cuts against prudential standing.

e. *Duplicative recovery/complex apportionment.* Finally, Static Control has the short end of the fifth *AGC* criterion. That is so because if it could sue, then by definition so could multiple entities that are both closer to, and further away from, Lexmark's alleged conduct, and "the District Court would face problems of identifying damages and apportioning them among directly victimized" remanufacturers and "indirectly affected" suppliers such as Static Control. *AGC*, 459 U.S. at 545.

In *Conte Brothers*, the Third Circuit explained that "recognizing the right of every potentially injured party in the distribution chain to bring a private damages action would subject defendant firms to multiple liability for the same conduct and would result in administratively complex damages proceedings." 165 F.3d at 235. The same result would follow from recognizing the right of every supplier to sue on the facts in this case.

The problem of duplicative recovery and complex apportionment is further complicated in this case because Static Control is a supplier to the remanufacturers, and thus Static Control's damages—*i.e.*, its expected profits—"are among the remanufacturers' costs." (Static Control's First Brief, pp. 45-46, United States Court of Appeals for the Sixth Circuit, 09-6287). While Static Control would seek to inflate the amount of its projected sales to remanufacturers to increase its damages claim, the remanufacturers would seek to minimize Static Control's hypothetical sales (which are their costs) to maximize their projected profits, which would be the measure of *their* Lanham Act damages claim. The courts (and Lexmark) would be faced with inconsistent factual allegations in separate actions, injecting complexity to the apportionment of damages. That is precisely the sort of burdensome exercise the fifth *AGC* criterion is designed to prevent. *See AGC*, 459 U.S. at 545.

CONCLUSION

For these reasons, the Sixth Circuit's decision should be reversed and Static Control's Lanham Act claim should be dismissed.

Respectfully submitted,

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