

## AFTERMARKET COMPETITORS GIVEN A BOOST BY THE SUPREME COURT

*By James R. Meyer and Rachel E. Branson*

The Supreme Court of the United States recently decided that a supplier of replacement parts to printer remanufacturers can rely on U.S. Trademark Law to maintain a suit for unfair competition. In what began as a copyright infringement action in 2002, Static Control filed a countersuit against Lexmark alleging unfair competition under the Lanham Act that traveled through the appeals process up to the Supreme Court. The Lanham Act contains the federal laws that regulate trademark law. Among other activities, the Act prohibits unfair competition through false advertising.

In *Lexmark International, Inc. v. Static Control Components, Inc.* (572 U.S. \_\_\_) (2014), the Court broke new ground because, traditionally, a company bringing such a complaint under the Lanham Act needed to be a direct competitor. Section 43(a) of the Lanham Act gives a right of action to “any person who believes that he or she is or is likely to be damaged” by another’s false representation in commercial advertising or promotion. Previously, the phrase “any person” was generally understood to mean “any *direct* competitor.” In this case, the Court found that Static Control suffered commercial injury due to Lexmark’s actions and broadened the definition of who is considered a competitor under the Lanham Act.

Lexmark is a printer manufacturer who tried to protect the aftermarket for its printer cartridges by creating a program that incentivized customers to return empty printer cartridges back to it to be refilled. As part of its efforts, Lexmark added a microchip to new cartridges that disabled the cartridge after it ran out of toner. As designed, in order for customers to reuse the cartridge, the microchip and the toner would have to be replaced by Lexmark.

Static Control is not a direct competitor to Lexmark. Static Control is a world leader in making and selling replacement parts for printer cartridges to Lexmark’s competitors, or remanufacturers. Remanufacturers recycle used printer cartridges by replacing parts and refilling toner, which gives consumers the option to buy from

them or Lexmark. Static Control developed a microchip that mimicked the Lexmark microchip; making it possible for printer cartridge remanufacturers to refurbish and resell Lexmark cartridges.

When Lexmark learned of Static Control’s microchip, Lexmark wrote a letter to printer remanufacturers (i.e., Static Control’s customers), asserting that Static Control was breaking the law by selling the microchip and that it was illegal to purchase Static Control’s products for use in refurbished printer cartridges. Static Control countersued alleging that Lexmark’s letter to remanufacturers misrepresented the “nature, characteristics and qualities” of Static Control’s products and services.

Lexmark’s disparaging statements to Static Control’s customers went right to the core of Static Control’s business. If Lexmark was able to shut Static Control out of the aftermarket for replacement parts, it would have been detrimental to Static Control’s business and would have frustrated the business model of printer remanufacturers. For Static Control, this was “bet the company litigation,” hence, the ongoing proceedings between the parties for almost 12 years.

Tapping into an existing customer base by refurbishing goods and parts is a common business model used by many industries from auto parts to office supplies. So much so, that remanufacturing has become a significant component of the American economy. With the Court’s holding, remanufacturers and those that supply parts to remanufacturers have received a layer of protection in the marketplace. The Court has expanded the potential plaintiffs that can bring suit over false assertions about its business.

Manufacturers should now think twice before disparaging any person that has a commercial interest in its stream of commerce. If the outcome in this case had been different, consumers could be looking at a potential monopoly of printer suppliers and new monopolies

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in other industries where manufacturers want to limit aftermarket competition. The outcome of the Lexmark case upholds the idea that competition is good for both businesses and consumers. For businesses, competition tests product claims of competing manufacturers. For customers, competition keeps prices low. ♦

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