Phoenix of Broward, Inc. v. McDonald's Corp.: What Does It Take To Have Standing Under the Lanham Act?

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I. OVERVIEW

Phoenix of Broward, Inc., a licensed owner of a Burger King restaurant franchise in Fort Lauderdale, Florida, filed suit against McDonald's Corporation "on behalf of itself and similarly situated Burger King franchisees" on February 22, 2006, for false advertising in violation of section 43(a) of the Lanham Act.[1] Phoenix alleged that between 1995 and 2001, McDonald's falsely represented that customers "had . . . fair and equal opportunity to win . . . high-valued prizes" and continued to do so even after discovering that the games were "rigged" and diverted prizes away from McDonald's customers.[2] Phoenix alleged that these false advertising campaigns enticed customers away from Burger King and "yielded an 'unnatural' spike in profits for McDonald's."[3] McDonald's moved to dismiss the claim on the grounds

1. Phoenix of Broward, Inc. v. McDonald's Corp., 489 F.3d 1156, 1160 (11th Cir. 2007); *see also* Lanham Act § 43(a), 15 U.S.C. § 1125 (2000 & Supp. 2007).

2. *Phoenix*, 489 F.3d at 1159-60.

3. *Id.* Between 1995 and 2001, McDonald's offered customers the opportunity to win low-value prizes, such as food and beverage items, and high-value prizes, such as cars and cash awards up to $1 million, by participating in promotional games such as "Monopoly Games at McDonald's" and "Hatch, Match, and Win." *Id.* at 1159. McDonald's ran an extensive marketing campaign for the games, advertising that every customer who played had an equal and fair opportunity to win both the high-value and low-value prizes and offering specific odds of winning certain prizes, including the high-valued ones. *Id.* at 1159-60.

In April 2000, the Federal Bureau of Investigation (FBI) began an investigation of McDonald's promotional games and, while the games were still ongoing, informed McDonald's that "there were problems with the random distribution of its game pieces." *Id.* at 1160. Despite this knowledge, McDonald's continued to promote the games and advertise that all customers had equal and fair odds of winning. *Id.*

On August 21, 2001, the FBI announced that McDonald's promotional games had been compromised by a group of employees, led by Jerome Jacobson, Director of Security of Simon Marketing, Inc., which was the company hired by McDonald's to organize the games. *Id.* These individuals fraudulently diverted many high-valued prizes away from McDonald's customers. *Id.* In describing the arrests, the U.S. Attorney General stated that the "'fraud scheme denied McDonald's customers a fair and equal chance of winning,'" and McDonald's Chairman and

that Phoenix had no prudential standing under the Lanham Act and, furthermore, that third-party criminal activity was an intervening cause of Phoenix's alleged injury.[4] The district court granted McDonald's motion and dismissed the action with prejudice on August 1, 2006.[5] Because the United States Court of Appeals for the Eleventh Circuit had not set out a standard for determining if a plaintiff has prudential standing to bring a false advertising claim under section 43(a), the district court studied the case law of other circuits and opted to employ the five-factor test set forth by the United States Court of Appeals for the Third Circuit, rather than the "categorical approach" used by several other circuits. Affirming the district court's decision, the Eleventh Circuit *held* that prudential standing doctrine is applicable to section 43(a) of the Lanham Act and that the five-factor test controls prudential standing in Lanham Act false-advertising claims, rather than a categorical test. *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156 (11th Cir. 2007).

II. BACKGROUND

Passed by Congress in 1946, the Lanham Act provides trademark owners with a federal cause of action for trademark infringement when their mark is used without authorization to promote a good or service.[6] Section 43(a) deals with false representations in advertising, stating that

> [a]ny person who . . . in commercial advertising or promotion, misrepresents the nature, characteristics, qualities . . . 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.[7]

The first issue considered by courts hearing cases involving the Lanham Act is whether the plaintiff has standing to bring the action. The United States Supreme Court has stated that standing jurisprudence consists of two elements: Article III standing, "which enforces the Constitution's case-or-controversy requirement," and prudential standing, "which embodies judicially self-imposed limits on the exercise

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Chief Executive Officer stated that the scheme was an "'inside game of fraud and deception.'" *Id.*

4. *Id.* at 1160-61.

5. *Id.* at 1161.

6. Lanham Act § 43(a), 15 U.S.C. § 1125; *see also* Christopher B. DeMers, *Limiting Lanham To Save Sherman: Narrowing the Application to the FTDA To Further the Goals of Federal Antitrust Law*, 13 FED. CIR. B.J. 691, 695-96 (2004).

7. Lanham Act § 43(a), 15 U.S.C. § 1125.

of federal jurisdiction."[8] Federal courts have consistently held that for Article III standing to exist, a plaintiff must allege that (1) he has suffered an actual or threatened injury, (2) the injury is fairly traceable to the challenged conduct of the defendant, and (3) the injury is likely to be redressed by a favorable ruling.[9] Even if Article III standing exists, prudential considerations may prevent standing.[10] Prior to the noted case, only the United States Courts of Appeals for the Third and Fifth Circuits had addressed prudential standing in cases involving section 43(a).[11] However, both courts held that Congress did not intend to abrogate prudential standing doctrine in passing section 43(a).[12] The words "any person" in the Lanham Act might suggest that Congress intended to put aside prudential standing in such cases, allowing anyone with Article III standing to sue. However, both the Third and Fifth Circuit courts found that the congressionally stated purpose of the Lanham Act, and the earlier laws that the act was passed to codify, indicate congressional intent "to limit standing to a narrow class of potential plaintiffs possessing interests the protection of which furthers purposes of the Lanham Act."[13]

The most controversial issue in cases involving section 43(a) appears to be choosing the appropriate test for prudential standing, and circuit courts are split with regards to the degree of true competition required between the plaintiff and the defendant. The Third and Fifth Circuits have followed a five-factor test, which takes into account the nature of the injury, directness of the injury, proximity of the party to the injurious conduct, speculativeness of damages, and the risk of duplicate damages.[14] The United States Courts of Appeals for the Seventh, Ninth, and Tenth Circuits have followed a "categorical test" that requires a plaintiff to show both that the commercial injury is based upon misrepresentation and that the injury harms the plaintiff's ability to

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8. Elk Grove Unified Sch. Dist. v. Newdow, 542 U.S. 1, 11-12 (2004) (internal quotation omitted) (citation omitted).

9. Primera Iglesia Bautista Hispana of Boca Raton, Inc. v. Broward County, 450 F.3d 1295, 1304 (11th Cir. 2006); *see also* Harris v. Evans, 20 F.3d 1118, 1121 (11th Cir. 1994) (en banc).

10. Wooden v. Bd. of Regents of Univ. Sys. of Ga., 247 F.3d 1262, 1273 n.12 (11th Cir. 2001).

11. Phoenix of Broward, Inc. v. McDonald's Corp., 489 F.3d 1156, 1162 (11th Cir. 2007).

12. Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc., 165 F.3d 221, 225 (3d Cir. 1998); Procter & Gamble Co. v. Amway Corp., 242 F.3d 539, 561-62 (5th Cir. 2001).

13. *Conte Bros.*, 165 F.3d at 223, 229.

14. *See id.* at 233.

compete with the defendant.[15] The United States Courts of Appeals for the First and Second Circuits have followed a less categorical approach focusing less on the degree of competition but, rather, emphasizing whether the plaintiff has a "reasonable interest" to be protected against the type of harm that the Lanham Act is intended to prevent.[16] The remaining circuit courts have not yet addressed the appropriate test for prudential standing.

III. THE COURT'S DECISION

In the noted case, the Eleventh Circuit followed the framework promulgated in *Conte Bros. Automotive, Inc. v. Quaker State-Slick 50, Inc.* to analyze standing in cases involving section 43(a).[17] The court directly followed the Third and Fifth Circuits and found, based on the text of section 43(a) and the purpose of the Lanham Act stated in section 45, that Congress did not intend to abrogate prudential standing limitations when it enacted the Lanham Act.[18] Consequently, the courts found that prudential standing doctrine applies to section 43(a).[19] The court noted that "Congress is presumed to incorporate background prudential standing limitations unless the statute expressly negates such principles."[20] As in *Conte Bros.*, the court in the noted case rejected the notion that the use of the term "any person" in section 43(a) is an express abrogation of prudential standing and, instead, focused on the congressionally stated purpose of the Lanham Act in section 45, which "'makes clear that the focus of the [Lanham Act] is on anti-competitive conduct in a commercial context,'" thus limiting standing only to parties that have had competitive or commercial interests affected by the

15. Jack Russell Terrier Network of N. Ca. v. Am. Kennel Club, Inc., 407 F.3d 1027, 1037 (9th Cir. 2005); Johnny Blastoff, Inc. v. L.A. Rams Football Co., 188 F.3d 427, 438 (7th Cir. 1999) (holding that a plaintiff must demonstrate a competitive injury to have standing under the Act); Stanfield v. Osborne Indus., Inc., 52 F.3d 867, 873 (10th Cir. 1995) (holding that plaintiff must have been a competitor of the defendant and allege a competitive injury); L.S. Heath & Son, Inc. v. AT & T Info. Sys., Inc., 9 F.3d 561, 575 (7th Cir. 1993) (holding that "the plaintiff must assert a discernible competitive injury"); Waits v. Frito-Lay, Inc., 978 F.2d 1093, 1109 (9th Cir. 1992).

16. *See* Ortho Pharm. Corp. v. Cosprophar, Inc., 32 F.3d 690, 694 (2d Cir. 1994); Camel Hair & Cashmere Inst., Inc. v. Associated Dry Goods Corp., 799 F.2d 6, 11 (1st Cir. 1986).

17. 165 F.3d 221 (3d Cir. 1998).

18. Phoenix of Broward, Inc. v. McDonald's Corp., 489 F.3d 1156, 1162-63 (11th Cir. 2007).

19. *Id.*

20. *Id.* at 1162 (citing Bennett v. Spear, 520 U.S. 154, 163 (1997)).

defendant's conduct rather than conferring standing to the full extent implied by the plain language of section 43(a).[21]

Prior to the noted case, the Eleventh Circuit had not addressed the appropriate test for prudential standing under section 43(a).[22] However, after examining decisions of other circuit courts on the matter, the Eleventh Circuit chose to rely on the *Conte Bros.* five-factor test.[23] The court rejected the argument that direct competition should be the sole requirement for determining standing and that the *Conte Bros.* test extends prudential standing to parties not in direct or actual competition, thus making it more appropriate to adopt the categorical tests of other circuit courts.[24]

To support its position, the court cited to several First, Second, and Third Circuit decisions that either implied or directly expressed that parties not in direct or actual competition may still have prudential standing under section 43(a).[25] The court also rejected the argument that plaintiffs in direct competition who allege a competitive injury undoubtedly satisfy the *Conte Bros.* requirements, stating that the *Conte Bros.* test is designed "to determine whether the injury alleged is the type of injury that the Lanham Act was designed to redress—[specifically] harm to the plaintiff's 'ability to compete' in the marketplace and erosion of the plaintiff's 'good will and reputation' that has been directly and proximately caused by the defendant's false advertising."[26]

In applying the *Conte Bros.* test, the Eleventh Circuit court examined each of the five factors as they related to the noted case and held that the plaintiff did not have prudential standing. The first factor requires a determination as to whether the injury alleged is of a type Congress sought to redress in the Lanham Act.[27] The court held that Phoenix's allegations of the McDonald's false advertising of customers'

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21. *Id.* at 1163 (quoting *Conte Bros.*, 165 F.3d at 229).
22. *Id.*
23. *Id.*
24. *Id.* at 1164-66.
25. *Id.* at 1165-67 (citing *Conte Bros.*, 165 F.3d at 232 (citing Serbin v. Ziebart Int'l Corp., 11 F.3d 1163, 1176-77 (3d Cir. 1993) (implying that parties "not in direct competition" may nonetheless "have standing to sue if they have a reasonable interest to be protected against false advertising")); PPX Enters., Inc. v. Audiofidelity, Inc., 746 F.2d 120 (2d Cir. 1984) (holding that owner of royalty from a recording had standing to sue a distributor of falsely labeled recordings); Camel Hair & Cashmere Inst., Inc. v. Associated Dry Goods Corp., 799 F.2d 6, 11 (1st Cir. 1986) (holding that manufacturers of the cashmere fibers and fabrics of coat, but not of finished coats themselves, had standing to sue retailers of coats falsely labeled as containing more cashmere than they had).
26. *Phoenix*, 489 F.3d at 1167 (citing *Conte Bros.*, 165 F.3d at 234-36).
27. *Id.* at 1168-69.

fair and equal opportunity to win prizes, McDonald's unnatural spike in profits, and Phoenix's counterpromotion costs incurred collectively amount to an assertion by Phoenix that its commercial interests were harmed by McDonald's false advertising, which is precisely the type of harm the Lanham Act was intended to redress.[28] The court rejected the argument that the defendant did not act in an anticompetitive manner because it was a victim of criminal fraud perpetrated by a third party, stating that section 43(a) provides a strict liability tort cause of action.[29] The court also rejected the argument that a plaintiff must allege that its reputation has been adversely affected by the false advertising in order to have prudential standing, stating that the Lanham Act not only intends to protect against unfair negative consequences to a competitor's reputation but also intends to protect commercial interests that have been harmed by a competitor's false advertising.[30] Because the plaintiff in the noted case alleged such a harm, the court found this factor to weigh in favor of prudential standing.[31]

The second factor in the *Conte Bros.* test requires an examination of the "directness with which the defendant's conduct affected the plaintiff."[32] While the court noted that the Fifth Circuit held that the second factor was satisfied when a defendant's false advertisements about its own products influenced customers to purchase those products instead of the plaintiff's, it stated that the causal chain alleged by Phoenix was more attenuated than that in the Fifth Circuit cases.[33] Phoenix not only alleged that McDonald's misrepresented customers' chances to win high-value prizes, but also alleged that as a result of this false advertising, customers who would have eaten at Burger King (and not one of the numerous other fast food competitors) instead dined at McDonald's. This caused Burger King to lose sales, because if there had been no false advertising, those customers would have eaten at Burger King even though they still had a fair opportunity to win low-value

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28. *Id.* at 1168.

29. *Id.* ("It is well-settled that no proof of intent or willfulness is required to establish a violation of Lanham Act § 43(a) for false advertising." (citing Vector Prods., Inc. v. Hartford Fire Ins. Co., 397 F.3d 1316, 1319 (11th Cir. 2005)).

30. *Phoenix*, 489 F.3d at 1168-69 (citing *Conte Bros.*, 165 F.3d at 234).

31. *Id.* at 1169.

32. *Id.* (internal quotations omitted).

33. *Id.* (citing Logan v. Burgers Ozark Country Cured Hams Inc., 263 F.3d 447, 461 (5th Cir. 2001) (citing Procter & Gamble, Co. v. Amway Corp., 242 F.3d 539, 563 (5th Cir. 2001) (holding the second factor in favor of standing where "one competitor directly injur[es] another by making false statements about its own goods and thus influenc[es] customers to buy its product instead of the competitor's product"))).

prizes.[34] The court held that by accepting Phoenix's allegations as true, the link between McDonald's alleged false advertising and the decrease in Burger King's sales is tenuous, and the second factor counseled against prudential standing.[35]

The third factor requires an examination of the proximity of the plaintiff to the allegedly harmful contact, which involves a determination as to whether there is an identifiable class of persons with a self-interest in vindicating the public interest since the existence of such a class "diminishes the justification for allowing a more remote party . . . to perform the office of a private attorney general."[36] The district court in the noted case held, and McDonald's asserted, that an identifiable class with a self-interest motivating a suit against McDonald's is the consumers who were denied a fair chance to win high-valued prizes.[37] However, the Eleventh Circuit rejected this argument saying that this can be said of any false advertising claim and would make the Lanham Act useless because circuit courts have unanimously denied Lanham Act standing to consumers.[38] Furthermore, the court noted that other circuit courts using the *Conte Bros.* test generally considered whether other commercial entities would be more appropriate plaintiffs, not consumers.[39] Phoenix alleged that McDonald's misrepresentations lured customers away from Phoenix and its affiliated Burger King franchisees, causing them to lose sales.[40] The court held that if these allegations were accepted, there is no identifiable class that is more proximate to the claimed injury than franchisees such as Phoenix, weighing the third factor in favor of prudential standing.[41]

The fourth factor of the *Conte Bros.* test requires a court to examine the speculative nature of alleged damages.[42] Phoenix argued that its damages were not speculative because "it would be relatively

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34. *Phoenix*, 489 F.3d at 1169.

35. *Id.*

36. *Id.* at 1170 (internal quotations omitted) (quoting Joint Stock Soc'y v. UDV N. Am., Inc., 266 F.3d 164, 182 (3d Cir. 2001)).

37. *Id.*

38. *Id.* (citing Made in the USA Found. v. Phillips Foods, Inc., 365 F.3d 278, 281 (4th Cir. 2004); Conte Bros. Auto., Inc. v. Quaker State-Slick 50, Inc., 165 F.3d 221, 229 (3d Cir. 1998) (reiterating precedent holding that consumers lack standing under the Lanham Act and stating that a contrary conclusion would "ignore the purpose of" the Act); Barrus v. Sylvania, 55 F.3d 468, 470 (9th Cir. 1995) (holding that consumers lack standing to bring false advertising claims under the Lanham Act because they cannot allege either a commercial or competitive injury)).

39. *Id.* at 1170-71.

40. *Id.* at 1171.

41. *Id.*

42. *Id.*

straightforward to calculate its damages as an appropriate share of all profits associated with sales generated by the fixed promotional games based on market share."[43] However, the court disagreed noting that only some high-valued prizes were stolen with customers still having a fair opportunity to win low- and mid-valued prizes and emphasizing that the fast food market includes many competitors (not just McDonald's and Burger King), and it would require too much speculation to assign Burger King a certain percentage of McDonald's sales during the run of the games.[44] For these reasons, the court held that the fourth factor weighed against prudential standing.[45]

Finally, the fifth factor requires an assessment of the risk of duplicate damages or complexity of apportioning damages.[46] The court emphasized that giving Phoenix prudential standing in the claim would also allow all other fast food competitors to sue under section 43(a), and to do so would overburden the federal courts and make for serious complexities in apportioning damages.[47] The court rejected Phoenix's argument that the risk of duplicative damages should be assessed by examining either "'the plaintiff's position in the distribution chain relative to the defendant'" or "'whether the injury is directly related to the market' in which they compete" as some courts applying the *Conte Bros.* test have done; rather, the court noted that courts applying the *Conte Bros.* test have also assessed the risk of duplicative damages by examining "the number of potential claimants in the same position in the distribution chain as the plaintiff and . . . in the same market as the plaintiff."[48] Citing the decisions *Joint Stock Society v. UDV North America, Inc.* and *Procter & Gamble, Co. v. Amway Corp.*, the Eleventh Circuit concluded that the fifth factor weighed against prudential standing.[49]

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43. *Id.* (internal quotations omitted).
44. *Id.*
45. *Id.* at 1172.
46. *Id.*
47. *Id.*
48. *Id.*
49. The court in *Joint Stock Society v. UDV North America, Inc.*, 266 F.3d 164, 184-85 (3d Cir. 2001),

> considered both the number of potential claimants occupying the same position in the distribution chain as the plaintiffs (manufacturers) and the number of potential claimants in the same market as the plaintiffs (manufacturers who had not entered the U.S. market) to conclude that the fifth factor weighed against prudential standing.

Phoenix, 489 F.3d at 1172-73. In *Procter & Gamble Co. v. Amway Corp.*, "the Fifth Circuit concluded that the fifth factor counseled against standing for Procter & Gamble in part because

In determining whether Phoenix had prudential standing to bring its claim against McDonald's, the court weighed all the *Conte Bros.* factors.[50] With the first and third factors weighing in favor of prudential standing and the second, fourth, and fifth factors weighing against, the court held that Phoenix did not have prudential standing to bring a section 43(a) claim against McDonald's.[51] Although Phoenix alleged a competitive harm to their commercial interests, direct competition with McDonald's, and a close proximity to the alleged injury, the court denied prudential standing under the Lanham Act "because of the attenuated link between the alleged injury and McDonald's alleged misrepresentations, the speculative nature of the claimed damages, the potential complexity in apportioning damages, and the significant risk of duplicative damages."[52]

IV. ANALYSIS

Though the decision in the noted case is a significant one for those involved in Lanham Act suits in the Eleventh Circuit, ultimately it just serves to emphasize the circuit split on the issue of prudential standing in Lanham Act cases. With the Seventh, Ninth, and Tenth Circuits holding that only direct competitors have standing under the Lanham Act; the First and Second Circuits holding that it is not direct competition but, rather, whether the harm is one intended to be protected under the Lanham Act that determines standing; the Third and Fifth holding that there must be a five-factor analysis; and the United States Courts of Appeal for the Fourth, Sixth, and Eighth Circuits remaining undecided on the proper test to determine standing, the Eleventh Circuit's decision to adopt the five-factor analysis that the Third and Fifth Circuits apply is not any more surprising than a decision to adopt the tests of any of the other circuit courts. However, what is surprising, and already troubling to trademark and false-advertising attorneys, is the fact that the Eleventh Circuit used the test to deny prudential standing to a direct competitor.[53] By following the reasoning in the noted case, a direct competitor may be denied standing in a Lanham Act false-advertising case simply because

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'every competitor in the market could sue' the defendant if Procter & Gamble were allowed standing." 242 F.3d 539, 564 (5th Cir. 2001); *Phoenix*, 489 F.3d at 1172-73 (emphasis omitted).

50. *Phoenix*, 489 F.3d at 1173.

51. *Id.*

52. *Id.*

53. *See* Lawrence Weinstein & Alexander Kaplan, *Barring Direct Competitor from Standing To Claim False Advertising: 'Phoenix' Ruling on Standard Under the Lanham Act Adds to the Uncertainty*, 238 N.Y.L.J. 6 (2007) (expressing concern with the decision).

he is one of many competitors who may have been harmed by the misrepresentations; further, this seems to imply that a company with multiple competitors could falsely advertise provided it did not single out any specific competitor.[54]

It is highly unlikely that the Eleventh Circuit intentionally left such a dangerous gap in its reasoning, and it seems equally unlikely that any courts in the future would insist on such a one-dimensional interpretation of the Eleventh Circuit decision. Furthermore, the court emphasized that its decision was based solely on the facts of this particular case, admitting that its decision may have differed had the specifics of McDonald's advertising been different in any way, and this disclaimer may serve to protect future misapplications of this decision.

Ultimately, even accepting this decision as flawless does not change the fact that circuit courts are entirely split on the issue of how to determine prudential standing in Lanham Act cases. Barring a change of heart and sudden agreement between the circuits, the issue will probably remain uncertain until the Supreme Court grants certiorari on a Lanham Act appeal.

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54. *Id.*

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