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Recent Decisions

TRADE REGULATION — UNFAIR COMPETITION — IMITATION OF PRODUCTS

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964),
Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

In two recent Supreme Court cases, the question presented involved the relationship of state unfair competition laws to federal patent laws. The decisions appear to have been cases of "first impression" in that it was necessary for the Court to invoke federal policy respecting patent law in order to prevent states from granting perpetual protection to unpatented or unpatentable products. The source of this dominant federal policy is found in the Constitution wherein Congress is given the power "to promote the Progress of Science and useful Arts, by securing for limited times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."¹ Pursuant to this constitutional authority, Congress has enacted laws governing the use of patents and copyrights and the conditions under which they may be granted.² And when Congress has preempted the field, as is the case with patents and copyrights, it is fundamental that conflicting state law must yield to federal law and policy.³ Such reasoning was determinative in the cases here under discussion.

In *Sears, Roebuck & Co. v. Stiffel Co.*,⁴ the respondent, Stiffel Company, secured design and mechanical patents on a "pole lamp" which petitioner, Sears, subsequently copied and sold at a greatly reduced price. There were no identifying tags on the Sears lamp, although certain labels did appear on the cartons delivered to customers. In a suit for patent infringement, the district court held Stiffel's patents invalid for want of invention, yet found the lamps to be so alike as to give rise to confusion.⁵ In this finding the court enjoined Sears from selling pole lamps identical to or confusingly similar to Stiffel's lamp. The circuit court affirmed the district court's conclusion that there need only be a likelihood of confusion to sustain a holding of unfair competition.⁶ The Supreme Court reversed, holding that "because of the federal patent laws a state may not, when the article is unpatented and uncopyrighted,

1. U.S. CONST. art. I, § 8.

2. 17 U.S.C. §§ 1-216 (1958); 35 U.S.C. §§ 1-293 (1958).

3. *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173, 176 (1942).

4. 376 U.S. 225 (1964).

5. The decision of the federal district court has not been reported.

6. *Stiffel Co. v. Sears, Roebuck & Co.*, 313 F.2d 115 (7th Cir. 1963)

prohibit the copying of the article itself or award damages for such copying."⁷

A companion case, *Compco Corp. v. Day-Brite Lighting, Inc.*,⁸ was decided on facts remarkably similar to those in *Sears*. It was found that several companies were manufacturing similar fluorescent light fixtures having reflectors with cross ribs. However, respondent Day-Brite had extended the ribs down the sides of the fixture thereby preventing warp-age, and had obtained a design patent on the novel appearance. Petitioner Compco subsequently manufactured almost exact copies of the fixture and sold them in clearly marked containers. The district court held the design patent invalid, yet held that the petitioner's acts constituted unfair competition since the imitation was likely to cause confusion in the trade.⁹ The Seventh Circuit affirmed on the ground that Day-Brite's design identified Day-Brite to the trade thereby constituting a "protectable" right under Illinois law.¹⁰ The Supreme Court reversed, holding that a design not entitled to a design patent may be copied at will even though it identifies the maker to the trade. This decision was based on the ground that state laws prohibiting such copying are in conflict with federal patent and copyright laws.¹¹ The essence of this conflict is that states could grant perpetual protection to unpatentable products which federal law would declare to be in the public domain.¹²

Effect on Unfair Competition Laws.—Prior to these decisions, it was well settled that a design unprotected by a federal patent or copyright could be freely copied except for certain restrictions imposed by state laws of unfair competition.¹³ Claims of unfair competition often arise where one manufacturer has copied the design of another's product. State law, by the prevailing view, governs such a claim brought in a federal

7. *Sears, Roebuck & Co. v. Stiffel*, 376 U.S. 225, 232-33 (1964).

8. 376 U.S. 234 (1964).

9. The decision of the federal district court has not been reported.

10. *Day-Brite Lighting, Inc. v. Compco Corp.*, 311 F.2d 26 (7th Cir. 1962).

11. *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964)

12. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), where it is said: [T]o allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public. The result would be that while federal law grants only 14 or 17 years' protection to genuine inventions, States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards. This would be too great an encroachment on the federal patent system to be tolerated. *Id.* at 231-32.

13. *E.g.*, *Day-Brite Lighting, Inc. v. Sandee Mfg. Co.*, 286 F.2d 596, 600 (7th Cir. 1960), *cert. denied*, 366 U.S. 963 (1961); *American Safety Table Co. v. Schreiber*, 269 F.2d 255, 272 (2d Cir.), *cert. denied*, 361 U.S. 915 (1959); *General Time Instruments Corp. v. U.S. Time Corp.*, 165 F.2d 853, 854 (2d Cir. 1948); 1 CALLMANN, UNFAIR COMPETITION & TRADE-MARKS § 16.2 (2d ed. 1950).

court.¹⁴ Because fraud is the essence of unfair competition, imitation per se is not sufficient to support a claim of unfair competition.¹⁵ Therefore, to establish a cause of action under unfair competition laws, the plaintiff must show some unfair practice beyond mere imitation of design.¹⁶ One such unfair practice is "palming off" which is an attempt by the copier of a design to sell his own goods as those of his competitor.¹⁷ Another unfair practice is the imitation of nonfunctional features¹⁸ which have acquired secondary meaning. Generally, a design has secondary meaning when it identifies the product's source to the public and purchasers are motivated to buy the product because of its source.¹⁹ A majority of courts will enjoin imitation only when the design involved is nonfunctional,²⁰ but in rare instances a functional feature may acquire secondary meaning and the imitator may be required to take reasonable steps to distinguish his copy from the original.²¹ However, these foregoing rules are not inflexible and are given various shades of meaning by the courts.²²

To what extent these rules have been affected by the *Sears* and

14. Prior to *Erie R.R. v. Tompkins*, 304 U.S. 64 (1938) federal law governed unfair competition claims brought in federal courts. Some courts have applied a combination of federal and state law. See generally *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*, 234 F.2d 538, 540 & n.1 (2d Cir. 1956).

15. *Day-Brite Lighting, Inc. v. Sandee Mfg. Co.*, 286 F.2d 596 (7th Cir. 1960), *cert. denied*, 366 U.S. 963 (1961); *Zangerle & Peterson Co. v. Venice Furniture Novelty Mfg. Co.*, 133 F.2d 266 (7th Cir. 1943).

16. 1 CALLMANN, *op. cit. supra* note 13, § 16.2 n.52.

17. *Zangerle & Peterson Co. v. Venice Furniture Novelty Mfg. Co.*, 133 F.2d 266, 270 (7th Cir. 1943); *Sinko v. Snow-Craggs Corp.*, 105 F.2d 450, 452-53 (7th Cir. 1939).

18. Nonfunctional features are those which are adapted mainly for identification and appearance as opposed to commercial necessity. *Paglier v. Wallace China Co.*, 198 F.2d 339, 343 (9th Cir. 1952).

19. *Lucien Lelong, Inc. v. Lander Co.*, 164 F.2d 395, 397 (2d Cir. 1947); *Zangerle & Peterson Co. v. Venice Furniture Novelty Mfg. Co.*, 133 F.2d 266, 270 (7th Cir. 1943). The application of the secondary meaning doctrine depends greatly upon whether the particular features in question are functional or nonfunctional. Some courts equate functionality with commercial success. Note, *Unfair Competition and the Doctrine of Functionality*, 64 COLUM. L. REV. 544, 568 (1964). Other courts adopt the rule that a feature is functional "if it affects their purpose, action or performance, or the facility or economy of processing, handling or using them" RESTATEMENT, TORTS § 742 (1938).

20. Pollack, *Unfair Trading By Product Simulation: Rule or Rankle?* 23 OHIO ST. L.J. 74, 76 (1962); Note, 72 HARV. L. REV. 1520, 1527 (1959).

21. *J. C. Penney Co. v. H. D. Lee Mercantile Co.*, 120 F.2d 949 (8th Cir. 1941); RESTATEMENT, TORTS § 741 (1938).

22. Prior to the Supreme Court's decisions in *Sears* and *Compco* the Seventh Circuit dispensed with the traditional requirement that there be a "palming off" in favor of a broader standard that merely a likelihood of confusion as to source need be shown to support a claim of unfair competition. *Day-Brite Lighting, Inc. v. Compco Corp.*, 311 F.2d 26 (7th Cir. 1962). The justification for this change, however, was derived from Illinois trade name cases. *Independent Nail & Packing Co. v. Stronghold Screw Prods., Inc.*, 205 F.2d 921, 926 (7th Cir. 1953); *Investors Syndicate of America, Inc. v. Hughes*, 378 Ill. 413, 421, 38 N.E.2d 754, 758 (1941); *Lady Esther, Ltd. v. Lady Esther Corset Shoppe, Inc.*, 317 Ill. App. 451, 454-55, 46 N.E.2d 165, 167 (1943). These cases are substantially distinguishable from product simulation cases, making it questionable whether a broadened standard should be applied to product simulation cases.

Compco decisions will remain a problem of interpretation for lower courts. Most troublesome to manufacturers now seeking protection under state law is the sweeping statement²³ in the *Compco* opinion to the effect that the actual acts of copying and selling unpatented or uncopyrighted products may not be enjoined under state law even though any of the following elements are present: (1) the copied design is "nonfunctional" and the article could be made in some other way; (2) the copied design has "secondary meaning" which identifies the maker to the trade; and (3) "confusion" may arise among purchasers. These elements are now to be used only as relevant evidence in applying state law requiring labeling. Not so clear, however, is the present status of palming off which was at one time regarded as the essence of unfair competition. Palming off clearly remains as a basis for imposing liability for failure to comply with a labeling law, although it is not clear after *Sears* and *Compco* whether it survives as a basis for prohibiting or imposing liability for the actual acts of copying and selling. It is apparent that even palming off may not survive in this latter instance since "neither these facts nor any others" can furnish such a basis.²⁵ Nevertheless, as Justice Harlan points out in his concurring opinion in *Compco*,²⁷ when copying has been undertaken with the dominant purpose of palming off and deceiving customers, a state should not have to tolerate such "predatory business practices."²⁶ Theoretically, in cases of palming off, liability should be imposed not for the acts of copying and selling, but for the accompanying fraud, and the originator should be permitted to protect the interest of consumers against deception, not his own interest.

23. In *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), the court said: A State of course has power to impose liability upon those who, knowing that the public is relying upon an original manufacturer's reputation for quality and integrity, deceive the public by palming off their copies as the original. That an article copied from an unpatented article could be made in some other way, that the design is "nonfunctional" and not essential to the use of either article, that the configuration of the article copied may have a "secondary meaning" which identifies the maker to the trade, or that there may be "confusion" among purchasers as to which article is which or as to who is the maker, may be relevant evidence in applying a State's law requiring such precautions as labeling; however, and regardless of the copier's motives, neither these facts nor any others can furnish a basis for imposing liability for or prohibiting the actual acts of copying and selling." *Id.* at 238.

24. The issue as to the present status of "palming off" remains obscure in light of the *Compco* decision. On the one hand, the Supreme Court is apprehensive to allow an expanding doctrine of "palming off" to encroach upon an area of exclusive federal protection. On the other hand, it is plausible that "palming off" survives as a limited basis for imposing prohibitions against copying and selling in only the most extreme cases where there has been outright fraud or deception beyond mere customer confusion.

25. *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 239 (1964) (concurring opinion).

26. 334 F.2d 751 (7th Cir. 1964).

27. *Id.* at 757

Lower courts have by no means agreed as to the ultimate effect of *Sears and Compco*. In subsequent cases of unfair competition, several decisions have reached inconsistent conclusions as to the scope of state protection in this area. A recent case decided on facts similar to those in *Sears and Compco* is *Aerosol Research Co. v. Scovill Mfg. Co.*²⁶ There, the defendant copied and sold plaintiff's unpatented spray tips. The district court's conclusion that defendant's acts were sufficient to constitute unfair competition was reversed by the Seventh Circuit which held that there was no evidence that defendant had "palmed off its spray tips as the plaintiff's — nor is there evidence of any intent or attempt to deceive or mislead customers as to their origin."²⁷ This view has been adopted by a majority of courts²⁸ in light of *Sears and Compco*, and by negative inference it appears that "palming off" has survived as a basis for establishing unfair competition.

The California courts, however, have adopted an extreme position, holding that *Sears and Compco* deny any state relief whatsoever against copying²⁹ or interference with customers,³⁰ and that plaintiffs must rely solely on the federal patent laws for protection.³¹ Although

28. In *International Biotical Corp. v. Federated Dep't Stores, Inc.*, 229 F. Supp. 528 (E.D.N.Y. 1964), the court refused to rule on infringement because the patent involved had not been adjudicated, yet came to the conclusion that it was not unfair competition for defendant to copy and sell plaintiff's heat lamp. The court agreed with the exceptions to *Sears and Compco* that relief is limited to situations where defendant has misled consumers or has participated in a deceptive practice such as palming off. *Kingsway, Inc. v. Werner*, 233 F. Supp. 102 (E.D. Mo. 1964) involved trademark infringement as well as product simulation where the defendant copied plaintiff's chessmen and used a similar trademark. Recovery for unfair competition was denied because there was no evidence presented that defendant palmed off its chessmen. *Spangler Candy Co. v. Crystal Pure Candy Co.*, 143 U.S.P.Q. 94 (N.D. Ill. 1964), involved package simulation rather than product simulation. The court was of the opinion that *Sears* was not entirely applicable to package simulation cases and concluded, after a thorough discussion of Illinois unfair competition law, that plaintiff's package was not entitled to protection without a showing of palming off. It was emphasized that the interest to be protected is that of the consumer who would be deceived by palming off, and the original manufacturer or designer comes into court to protect the consumer's interest, not his own. In *Mastro Plastics Corp. v. Emenee Indus., Inc.*, 141 U.S.P.Q. 311 (N.Y. Sup. Ct. 1964) (on motion to dismiss in light of *Compco*), no claim of unfair competition could be based on merely copying an article unless there had been palming off or other unfair practice. In *Wolf & Vine, Inc. v. Pioneer Display Fixture Co.*, 142 U.S.P.Q. 112 (N.Y. Sup. Ct. 1964), although plaintiff's models had been copied down to the last detail, the court held that relief must be denied in the absence of palming off.

29. The recent case of *Duplex Straw Dispenser Co. v. Harold Leonard & Co.*, 229 F. Supp. 401 (S.D. Cal. 1964), involved an action for infringement of a design patent and unfair competition. The design patent on a straw dispenser was held invalid and although copying the device may have prompted the cry of "foul," the court said that copying thereof is not prohibited by law.

30. In *Jerrold Stephens Co. v. Alladin Plastics, Inc.*, 229 F. Supp. 536 (S.D. Cal. 1964), a declaratory judgment was rendered for plaintiff to the effect that the design patent on certain plastic chairs was invalid. Defendant counterclaimed for unfair competition based upon an interference with his customers. The court held that *Sears and Compco* settle the proposition that when a party depends upon federal patent law, it cannot recover under state law for unfair competition.

31. An extreme position was taken in *Titelock Carpet Strip Co. v. Klasner*, 142 U.S.P.Q.

the specific problem of "palming off" has not been dealt with in California since *Sears* and *Compco*, it is doubtful that relief would be granted in such a case. Moreover, since California has no labeling law requiring the imitator to distinguish his copy from the original, even the interest of the consumer against deception is apparently afforded no protection.

Effect on Copyright Laws.—Fortunately, *Sears* and *Compco* have not had such a devastating effect on copyright litigation. Despite the fact that the cases did not specifically involve copyrights, observations were made in both opinions as to the relation between federal copyright law and a state's prohibition against copying.³² In the absence of federal copyright protection, one must rely on common law protection afforded to unpublished works. The distinction between protection afforded unpublished works under a common law copyright and the protection afforded an unpatented article under state unfair competition laws is emphasized in *Edgar H. Wood Associates v Skene*.³³ Reference is made there to the holding in *Compco* that federal policy allows one to freely copy whatever the patent and copyright laws leave in the public domain, but the court goes on to say that unpublished works have not been left in the public domain since a state's control over them has been preserved by the Copyright Act.³⁴ Generally, any original unpublished work which embodies "some creative intellectual or artistic contribution" falls within the scope of protection.³⁵

The decisions in the instant cases have clearly established that recovery for unfair competition in product simulation cases should be denied even though the elements of secondary meaning, nonfunctional features,

405 (Cal. Super. Ct. 1964), when defendant not only copied plaintiff's machine down to the last detail, but also, as plaintiff's former employee, gained access to plaintiff's premises for the purpose of collecting scrap parts when he in fact intended to reconstruct a machine. The court held that plaintiff must rely solely upon patent law for any protection against copying.

32. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 228-29, 232-33 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964)

33. 197 N.E.2d 886 (Mass. 1964). The same effect was reached in *Columbia Broadcasting Sys., Inc. v. Documentaries Unlimited, Inc.*, 42 Misc. 2d 726, 248 N.Y.S.2d 812 (Sup. Ct. 1964), where the court ruled that an unauthorized use of an "off the air" recording of a network radio announcer's report of President Kennedy's assassination constituted an infringement of a common law copyright. The court said there was an appropriation of the announcer's distinctive personality which is a valuable property right.

34. 17 U.S.C. § 2 (1958) provides:

Nothing in this title shall be construed to annul or limit the right of the author or proprietor of an unpublished work, at common law or in equity, to prevent the copying, publication, or use of such unpublished work without his consent, and to obtain damages therefor.

35. Ringer, *The Unauthorized Duplication of Sound Recordings*, in U.S. COPYRIGHT OFFICE, COPYRIGHT LAW REVISIONS 11 (Study No. 26, 1961). This study also points out an important distinction between unfair competition and common law copyright. The concept of unfair competition only protects against *unfair use* in business, whereas a common law copyright protects against *any unauthorized use*.