Case Note: Product Simulation: The Death Knell for the Misappropriation Theory - the Stiffel and Compco Cases

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In *Sears, Roebuck & Co. v. Stiffel Co.* the respondent, Stiffel Company, had developed a pole lamp which proved to be a commercial success. Stiffel then secured design and mechanical patents upon the vertical lamp. Soon after their introduction on the market, Sears, Roebuck & Company came out with a substantially identical lamp, which sold for a lower price than Stiffel’s lamp, Sears’ retails price being about the same as Stiffel’s wholesale price. Stiffel then brought an action against Sears in the United States District Court for the Northern District of Illinois, alleging that by copying its design Sears had infringed Stiffel’s patents and that Sears had engaged in unfair competition under Illinois law, since by selling copies of respondent’s lamp Sears had caused confusion in the trade as to the source of the lamps.

The district court first held that the patents granted Stiffel were invalid for want of invention. The court went on to find that the Sears lamp was a substantially identical copy of the Stiffel lamp, and that their similarity in design was likely to cause confusion between them, and that some confusion had already occurred. The court enjoined Sears from selling or attempting to sell the pole lamps and ordered an accounting to fix profits and damages resulting from the conduct of Sears. The court of appeals affirmed, holding that under Illinois law it was not necessary to show a “palming off” to prove unfair competition. Finding a likelihood of confusion as to the source of the lamps, the court held Sears liable under Illinois law for doing no more than copying and marketing an unpatentable article. The United States Supreme Court granted certiorari.

At this point it should be kept in mind that though the consumers might confuse the two products this does not suggest that consumers associated either lamp with a particular source, a necessary finding.

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2. The evidence at the trial court consisted of a showing that consumers had asked Stiffel whether its lamps differed from those of Sears and that in two cases, customers who had bought Stiffel lamps had complained on learning Sears was selling substantially identical lamps at a much lower price.
3. No review of this determination was sought in the Supreme Court, so the lamp must be considered, for the purposes of this decision, uncopyrighted and unpatented.
5. It is highly questionable whether the Court of Appeals correctly interpreted Illinois law in light of *Stevens-Davis Co. v. Mather & Co.*, 230 Ill. App. 45 (1923), which specifically held that “palming off” was an essential ingredient in unfair competition.
under the traditional theory, which would require a showing that Sears was passing off its goods as those of Stiffel.

In the companion case of Compco Corp. v. Day-Brite Lighting, Inc., the respondent, Day-Brite, a manufacturer of fluorescent lighting fixtures, had obtained a design patent on a reflector. Day-Brite also attempted to gain a mechanical patent but their application was denied. Short after Day-Brite introduced their fixture on the market, Compco's predecessor began manufacturing fixtures very similar to Day-Brite's. Day-Brite then instituted an action against Compco, charging that Compco had infringed their design patent and including an allegation which in effect claimed that Compco was "palming off" its fixture to purchasers as that of Day-Brite's and that in doing so, Compco had unfairly competed with Day-Brite.

The district court, as in the Stiffel case, held the design patent invalid and though the court did not find that Compco had engaged in any deceptive or fraudulent practices, it did find that Compco had engaged in unfair competition under Illinois law. The court, also as in the Stiffel case, ordered an accounting and enjoined such further conduct by Compco. The court of appeals affirmed, holding there was substantial evidence in the record to support the district court's finding of likely confusion between the two products and that this finding was sufficient to support the holding of unfair competition.

The Supreme Court of the United States reversed the decision of the court of appeals in both the Stiffel and Compco cases. The Court held that the Illinois unfair competition law, as interpreted by the court of appeals, encroached upon the federal patent and copyright law. The court noted that pursuant to article I, section 8, clause 8, of the Constitution, Congress had enacted extensive federal statutes in the patent and copyright area and that the federal policy behind these statutes could not be set aside by state law. In emphasizing the conflict between the goals of the federal statutes and the Illinois unfair competition law, Mr. Justice Black stated in Stiffel:

Thus the patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition. Obviously a State could not, consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give

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7 376 U.S. 234 (1964).
8 The sales of which Day-Brite complained had actually been made by the Mitchell Lighting Co., but at the time of the filing of the complaint Mitchell had been acquired by Compco.
9 As in Stiffel, no review was sought on this determination in the Supreme Court.
10 Day-Brite Lighting, Inc. v. Compco Corp., 311 F. 2d 26 (7th Cir. 1963).
11 This clause empowers Congress "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."
a patent on an article which lacked the level of invention required for federal patents. To do either would run counter to the policy of Congress of granting patents only to true inventions, and then only for a limited time. Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws. (Footnotes omitted.)

In applying this doctrine of preemption of the field through federal legislation, the Court further emphasized the discord and its practical ramifications:

To 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.

The Court stressed that the states, under appropriate circumstances, could require labeling or other precautionary means to be utilized to prevent confusion as to the source of similar goods. The Court expressly stated that due to the federal patent laws, unpatented and uncopyrighted articles could be copied at will and that the states could not prohibit or award damages for such copying alone.

Mr. Justice Harlan, in his concurring opinion in Compco, urged that the states should have more leeway in the situations where the defendant has attempted to palm off his goods as those of another and that the copying itself should be allowed to be prohibited in those cases where the dominant purpose of the defendant is shown to be the predatory business practice of palmimg off.

The rubric of unfair competition is peculiarly American in its origin and scope. While the term is not normally used by the English courts, they have applied its principles under the heading of "passing off." In its outset, the doctrine of unfair competition in the United States was based on the tort principle that prohibits one from diverting the business of another by the fraudulent misrepresentation that his articles or goods are those of the other. This necessarily involved the requirement of a "palming off" or "passing off" by the tortfeasor. Such

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14 /d., at 231-32.
15 376 U.S. at 239.
16 RESTATEMENT, TORTS §760 (1939). See also OPPENHEIM, UNFAIR TRADE PRACTICES 44 (1950); POLLACK, TORTS 248 (14th ed. 1939).
was the holding of the early cases within this field.\textsuperscript{17} This concept of unfair competition has been extended to the imitation of labels, packages, color, dress, design, form, and appearance of articles. Generally, the courts have accepted imitation as inherent in the competitive process and have sanctioned the copying in the absence of passing off or other fraudulent practices.\textsuperscript{18}

In 1918, the United States Supreme Court handed down its decision in the landmark case of \textit{International News Serv. v. Associated Press.}\textsuperscript{19} A new theory thus became injected into the field of unfair competition which was subsequently to become known as the misappropriation theory.

In \textit{Associated Press}, the Court was concerned with the practice of the International News Service of copying news releases of Associated Press placed upon bulletin boards and published in first editions of Associated Press member newspapers. These releases were transmitted to the member newspapers of International News Service. As a result of this practice, western newspapers serviced by International News published these releases before or simultaneously with publication by western papers serviced by Associated.

In speaking generally of the nature of the action for unfair competition, Mr. Justice Pitney, who rendered the majority decision, stated that "obviously, the question of what is unfair competition must be determined with particular reference to the character and circumstances of the business."\textsuperscript{20}

The defendant argued that due to the publication of the news by the plaintiff, the news releases became the common possession of all. In rejecting this contention, Mr. Justice Pitney declared that "the fault in the reasoning lies in applying as a test the right of the complainant as against the public, instead of considering the rights of the complainant and defendant, competitors in business, as between themselves."\textsuperscript{21}

The defendant also urged that there could be no finding of unfair competition absent a showing of palming off. The Court answered this contention when it stated:

It is said that the elements of unfair competition are lacking because there is no attempt by defendant to palm off its goods as those of the complainant, characteristic of the most familiar,

\begin{itemize}
  \item \textsuperscript{17} Hanover Milling Co. v. Metcalf, 240 U.S. 403 (1916); Howe Scale Co. v. Wyckoff, Seams & Benedict, 198 U.S. 118 (1905); Goodyear Co. v. Goodyear Rubber Co., 128 U.S. 598 (1888).
  \item \textsuperscript{18} For extended discussions on the historical development of the law of unfair competition, see Chafee, \textit{Unfair Competition}, 53 Harv. L. Rev. 1289 (1940); Handler, \textit{Unfair Competition}, 21 Iowa L. Rev. 175 (1936).
  \item \textsuperscript{20} 248 U.S. at 236.
  \item \textsuperscript{21} Id. at 239.
\end{itemize}
if not the most typical, cases of unfair competition. . . . But we cannot concede that the right to equitable relief is confined to that class of cases. In the present case the fraud upon complainant's rights is more direct and obvious. Regarding news matter as the mere material from which these two competing parties are endeavoring to make money, and treating it, therefore, as quasi property for the purposes of their business because they are selling it as such, defendant's conduct differs from the ordinary case of unfair competition in trade principally in this that, instead of selling its own goods as those of complainant, it substitutes misappropriation in the place of misrepresentation, and sells complainant's goods as its own.\textsuperscript{22}

The Court, in concluding that as between themselves there was a property interest in the news, held that the appropriation of it amounted to unconscionable conduct resulting in unfair competition on the part of International News and that International News was attempting to reap where it had not sown.

The misappropriation theory, sometimes referred to as the "free ride" doctrine,\textsuperscript{23} provided an elastic principle for application in unfair competition cases. The general language of the Court could be interpreted as a means of providing protection to various products of one's labor, though unprotected by patent or copyright. It remained to be seen whether the maxim "he who reaps where he has not sown" recognized another cause of action in the product simulation field equally valid as that which is based on the doctrine of passing off.

In the first significant decision to arise after the \textit{Associated Press} case, the misappropriation theory was dealt a serious blow. In \textit{Cheyney Bros. v. Doris Silk Corp.}\textsuperscript{24} the United States Court of Appeals for the Second Circuit was asked to enjoin the copying of plaintiff's fashion designs, commonly known as "design piracy." The plaintiff based his claim for relief upon the \textit{Associated Press} decision, claiming a quasi property right in his designs, which were the result of his hard work and effort. Judge Learned Hand, obviously influenced by Mr. Justice Brandeis' dissent in \textit{Associated Press}, refused to grant such relief. Almost mirroring the ultimate reflections of the Supreme Court in the \textit{Stiffel} and \textit{Compco} cases, Judge Hand stated:

\begin{quote}
Of the cases on which the plaintiff relies, the chief is \textit{International News Service v. Associated Press}. . . . Although that concerned another subject matter—printed news dispatches—we agree that, if it meant to lay down a general doctrine, it would cover this case; at least, the language of the majority opinion goes so far. We do not believe that it did. While it is of course true that law ordinarily speaks in general terms, there are\end{quote}

\textsuperscript{22} Id. at 241-42.


\textsuperscript{24} 35 F. 2d 279 (2d Cir. 1929), \textit{cert. denied}, 281 U.S. 728 (1930).
cases where the occasion is at once the justification for, and the limit of, what is decided. This appears to us such an instance; we think that no more was covered than situations substantially similar to those then at bar. The difficulties of understanding it otherwise are insuperable. We are to suppose that the court meant to create a sort of common law patent or copyright for reasons of justice. Either would flagrantly conflict with the scheme which Congress has for more than a century devised to cover the subject-matter.25

In later decisions, Judge Hand continued to deny the applicability of the doctrine to situations other than that of news items.26

Mr. Chief Justice Hughes, in Schechter Poultry Corp. v. United States, reaffirmed the principle of the Associated Press case when he declared:

'Unfair competition,' as known to the common law, is a limited concept. Primarily, and strictly, it relates to the palming off of one's goods as those of a rival trader.... In recent years, its scope has been extended. It has been held to apply to misappropriation as well as misrepresentation, to the selling of another's goods as one's own,—to misappropriation of what equitably belongs to a competitor.28

Despite this reaffirmation, a subsequent Supreme Court case cast considerable doubt upon the expansion of the "free ride" doctrine. In Kellogg Co. v. National Biscuit Co., the Court was concerned with the infringement of a claimed trade name. The Court held that the term "Shredded Wheat" was generic and that the plaintiff had not shown that the term in the minds of the consuming public was connected with the producer and not the product. This reasoning is consistent with the traditional theory requiring a palming off. In meeting the plaintiff's contention that the defendant was sharing in the good will of a product created by its expense, time, and effort the Court said:

To share fully in the goodwill, it must use the name and the pillow-shape. And in the goodwill Kellogg Company is as free to share as the plaintiff....

Kellogg Company is undoubtedly sharing in the goodwill of the article known as 'Shredded Wheat,' and thus is sharing in a market which was created by the skill and judgment of plaintiff's predecessor and has been widely extended by vast expenditures in advertising persistently made. But that is not unfair. Sharing in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all—and in

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25 Id. at 280.
28 Id. at 531.
29 305 U.S. 111 (1938).
the free exercise of which the consuming public is deeply interested. There is no evidence of passing off or deception on the part of the Kellogg Company; and it has taken every reasonable precaution to prevent confusion or the practice of deception in the sale of its product. (Footnote omitted.)

In the course of its decision, the Court did not cite the Associated Press case, nor consider the question of the rights of the parties between themselves as opposed to the public, nor did it enter into any discussion as to whether Nabisco had gained any quasi property rights in the product.

Those courts which have specifically rejected the misappropriation theory have done so due to their fear of creating a new species of property interests and a new series of monopolies. This fear has overridden any emotive reaction to the reprehensible conduct of one reaping the fruits of another's labor. The preservation of free competition has been foremost in their mind and, as before stated, they have accepted imitation as inherent in the competitive process. Those courts which specifically negated the application of the misappropriation theory only to news and similar cases, have done so on the basis that the doctrine is consonant with the value of the preservation of free competition and that in its application it serves to further this value rather than mitigate against it.

Due to the narrow interpretation generally placed upon the Associated Press case, there have been very few decisions for plaintiffs in cases other than those concerning news, except where factors other than mere "appropriation" were involved. Relief has been largely confined to cases involving news dispatches, broadcasting, artistic performances, and related activities.

Some infusion of the misappropriation theory can be detected in cases which have ostensibly been decided under the traditional theory of unfair competition.

One such case is American Safety Table Co. v. Schreiber in which the court was confronted with the copying of the plaintiff's collar pressing machines by the defendant and its marketing of these machines

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30 Id. at 121-22.
31 Handler, supra note 18.
through an advertising plan patterned after that of the plaintiff. It is interesting to note that all machines marketed by the defendant were marked with the defendant's name plate. Though the majority of the court held the simulation of the plaintiff's product privileged per se, they held the defendant's conduct actionable due to its connection with fraudulent marketing practices.

Although we have not concluded that at the production level the mere simulation of plaintiff's machine was actionable under the conditions of our competitive economy, the high degree of similarity between the litigants' machines is still a material factor in evaluating the second part of Amco's claim of unfair competition, that dealing with defendants' alleged fraudulent marketing.

... For Schreiber & Goldberg, even though the possibilities of confusion as to source attributable to its copying Amco's machine were to be tolerated, are certainly under a duty not to aggravate the potentialities for confusion by questionable marketing techniques.36

The court continued by stating:

It is not necessary that the source be the primary motivation for purchase. In fact, we are content on this point to accept the forecast of Schreiber & Goldberg that the confusion as to source would be as important as they intended it to be. ... Nor are we, in view of the deliberate plan to poach unjustifiably on Amco's goodwill, disposed to debate in detail the probabilities of confusion.37

The majority specifically did not find that the defendant had "palmed off" its goods as those of the plaintiff's, an essential requirement under the traditional theory. Mere copying connected with alleged fraudulent marketing amounted to unfair competition. The marketing would normally only be found fraudulent if it was used to confuse the public as to the source of the goods, a finding which the court did not make.

Judge Clark, in a vigorous dissent, noted the revolutionary character of the decision. Decrying the lack of specific findings by the majority on the essential elements of unfair competition and the use of such emotive words as "poach," "deceitful," "fraudulent," and "cunningly contrived pirating," Judge Clark clearly pointed out the essence of the court's decision: "Fraudulent marketing," as the court here defines it—or rather declined to find it—seems to amount to no more and no less than the defendants' unquestionably privileged copying of plaintiff's machine."38

At least two states, in applying their unfair competition laws, have approved of the rationale of the Associated Press case in product simu-

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36 Id. at 275.
37 Id. at 276.
38 Id. at 280.
lation cases. Perhaps this trend, viewed as alarming by those supporting the traditional theory, led to the Supreme Court’s action in *Stiffel* and *Compco*.

In *Haeger Potteries, Inc. v. Gilner Potteries* the district court, in applying the California law, issued an injunction against the defendant, prohibiting him from copying the ash tray produced by the plaintiff. Though emphasizing that confusion of the public is the gist of unfair competition and impliedly finding that the public was misled as to the source of the defendant’s ashtray, though the defendant’s name appeared on the bottom of its copy, the court stated:

> Copying of the product of another, as defendant is doing here, in precise detail as to design, shape and color, and in every other respect than quality, is nothing less than piracy. And where as here myriad variations are available to the misappropriator, his very act of copying strongly impels the inference that he intends to reap commercial gain by trading on the goodwill of the first comer....

... Our moral standards are well sustained and the public interest in free competition is advanced where a court of equity forbids the immoral act of misappropriation by exact copying of the goods or services of another [citing *Associated Press*].

In *Dior v. Milton* the Supreme Court of New York was faced with the recurring problem of design piracy. In holding for the plaintiff, the court might have rested its decision on breach of contract or fraud. Or, since it apparently decided that no publication had taken place, it might have based its decision on common law copyright. Instead the court leaned heavily upon the decision in the *Associated Press* case, took pains to show that unfair competition has been extended beyond cases of “palming off,” and spoke extensively of misappropriation. The court declared:

> To hold that the protection of plaintiff’s property is lost at just the point at which the property becomes valuable and needs protection would be tantamount to holding that the property rights are not entitled to protection at all....

... There is no reason apparent to this court why the rights of the plaintiffs should receive less protection than those of the sponsor of sporting events and the disseminator of news.

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40 *Id.* at 270-71. It is interesting to note that in *Kellogg Co. v. National Biscuit Co.*, *supra* note 29, the Supreme Court held trading on the goodwill of the first comer a necessary concomitant of free competition, absent a “palming off.”
43 *Dior v. Milton*, *supra* note 41, at 458, 460.
Stiffel and Compco now have made it clear that the misappropriation theory as applied to cases involving article duplication is to be rejected. Thus ends a battle of interpretation which has raged since the rendering of the Associated Press decision over forty years ago. The decisions can be explained as being consistent with traditional notions of protection against “passing off,” while impliedly rejecting the free ride or misappropriation doctrine. By applying the doctrine of pre-emption of the field by congressional enactment of federal patent and copyright laws, the Supreme Court has brought uniformity to this area of state law and rung the death knell for the misappropriation theory as applied to product simulation.

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