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Unfair Competition -- Law of Unfair Competition in North Carolina

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women who had never been pregnant. In practice, this was done. The fourth health department differed from the first three only in two respects. Although the department itself did not offer birth control programs, the county commissioners, by contract with a local hospital, did maintain a birth control clinic in which public health personnel were active. The second difference was that this clinic offered birth control only to women who either had a child or were married. All departments had eligibility tests for free services, ranging from certification of indigency by the local welfare department, to a sliding income scale set by the county commissioners, health and welfare departments, and local civil rights organizations.

Unfair Competition—Law of Unfair Competition in North Carolina

INTRODUCTION

Competition as the generating force of our economy has been protected by two bodies of legal prohibitions: (1) the Sherman Act,[1] the Clayton Act,[2] the Federal Trade Commission Act,[3] and state regulation of monopolies and restraints of trade,[4] having as their goal the prohibition of conduct which unreasonably suppresses or substantially lessens competition, and (2) legal controls which attempt to maintain a level of competition so that competitors measure up to notions of "fair play."[5] Although neither grouping is totally exclusive of the other since conduct which is unfair can also tend to lessen competition,[6] the dichotomy can be justified on the ground that the former treats of broader public interests while the latter—termed the law of unfair competition—deals primarily with conflicting interests between business competitors.

There is no precise definition of the term "unfair competition."[7]

[1] 26 Stat. 209 (1890), *as amended,* 15 U.S.C. §§ 1-7 (1964).

[2] 38 Stat. 730 (1914), *as amended,* 15 U.S.C. §§ 12-27 (1964).

[3] 38 Stat. 717 (1914), *as amended,* 15 U.S.C. §§ 41-58 (1964).

[4] N.C. GEN. STAT. §§ 75-1 to -16 (1965).

[5] *See* S. OPPENHEIM, UNFAIR TRADE PRACTICES 1 (1965).

[6] Court interpretation of section 5 of the Federal Trade Commission Act has read "unfair methods of competition" to include antitrust violations, *e.g.,* Fashion Originators' Guild of America v. FTC, 312 U.S. 457 (1941).

[7] *See* 1 H. NIMS, THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS § 1 at 14-15 (4th ed. 1947) [hereinafter cited as NIMS]. Other general references in the area of unfair competition include R. CALLMANN, THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS (2d ed. 1950) [hereinafter cited as CALLMANN] and W. DERENBERG, TRADE-MARK PROTECTION AND UNFAIR TRADING (1936).

Most courts and legislatures have admitted this by phrasing the concept in broad elastic language.[8] For example, the North Carolina Supreme Court has termed it as "that which a court of equity would consider unfair."[9] The concept had its origins in the sense of justice of the common law judges.[10] As with other common law torts, it is an evolutionary concept, the limits of which are still in dispute. While at first the courts only protected the plaintiff whenever the defendant attempted to "pass off" on the public his goods as those of the plaintiff, later protection prohibited the defendant from taking advantage of something which the plaintiff created, whether or not the defendant was passing off or confusing the public as to the source of the goods.[11] Unfair competition law has traditionally been justified on grounds that it maintains a level of honesty and fair dealing between competitors, protects the purchasing public by preventing a defendant from creating confusion, and protects the individual competitor's rights and interests.[12]

Specifically, unfair competition has been interpreted to mean infringement of trademarks and trade names, imitation of appearance and dress of the competitor's product, appropriation of values (e.g., trade secrets) created by the competitor, deceptive advertising, and disparagement of the competitor's product, title or business methods.[13] Of course, there is far from complete agreement that

[8] Section 5 of the Federal Trade Commission Act merely proscribes "unfair methods of competition", thus leaving it to the courts to arrive at a definition on a case by case basis. This approach is analogous to that prevailing at common law in the evolution of the tort of unfair competition. *See* FTC v. R. F. Keppel & Bros., 291 U.S. 304 (1934).

[9] Charcoal Steak House v. Staley, 263 N.C. 199, 204, 139 S.E.2d 185, 189 (1964), citing Carolina Aniline & Extract Co. v. Ray, 221 N.C. 269, 20 S.E.2d 59 (1942).

[10] 1 NIMS § 1 at 2.

[11] *See* 1 NIMS § 1 at 3.

[12] 1 NIMS § 6 at 36. But Callmann points out that "[b]ecause there is no clear concept of unfair competition, there is no clear theory of unfair competition." 1 CALLMANN § 4.1 at 71.

[13] *See* 1 NIMS § 1 at 14-15. An excellent summary of the concept of unfair competition is found in Nims:

> It is unfortunate that the body of law termed unfair competition was christened with that title. It is a misnomer. It is misleading because, except in those jurisdictions where absence of competition is recognized as a defense to a charge of unfair competition, these rules cover cases where there is no competition between the parties. To describe it with any accuracy is very difficult; for, though the common law of unfair competition may be a "limited concept," the acts to which these rules have been found to apply are ever changing in character as social and business conditions change. It applies to misappropriation as well as mis-

this listing is either inclusive or exclusive of unfair competition. For example, one authority contends that disparagement is a concept still within the law of libel and slander rather than unfair competition, and that false or misleading advertising has not as yet been recognized as within the doctrine of unfair competition.[14]

The scope of this comment will be a consideration of the doctrine of unfair competition as expressed in court opinions and statutes in North Carolina.

TRADEMARK AND TRADE NAME INFRINGEMENT

According to most authorities, protection against trademark and trade name infringement is considered part of the law of unfair competition and rests more or less on the original concept of "passing off" around which this tort originally evolved.[15] The basic assumption is that use by a defendant of a trademark or trade name which is "confusingly similar" to the plaintiff's trademark or trade name will confuse the purchasing public as to the source of the goods,[16] their sponsorship,[17] or otherwise dilute the distinc-

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> representation; to the selling of another's goods as one's own, to misappropriation of what equitably belongs to a competitor; to acts which lie outside the ordinary course of business and are tainted by fraud, coercion, or conduct otherwise prohibited by law. Most courts continue to confine it to acts which result in the passing off of the goods of one man for those of another, but this limitation is not universally accepted.

1 NIMS § 1 at 3.

[14] *See* 1 CALLMANN § 4.1 at 74.

[15] "Trade-mark infringement rests on a relatively narrow principle while the law of unfair competition is a broad concept with a widening scope. Trade-mark infringement is a phase of unfair competition, while unfair competition may exist independently of trade-mark infringement." 1 NIMS § 1 at 13. In fact, unfair competition began as a variety of misrepresentation emerging from trademark and trade name infringement. Originally labeled nominative torts, the various kinds of misrepresentation eventually blossomed into the tort of unfair competition, which later was extended beyond mere "passing off." *See* S. OPPENHEIM, UNFAIR TRADE PRACTICES 1-5 (1965).

[16] Confusion as to the source or origin of the product is inclusive of (1) "confusion of goods," which occurs whenever a purchaser, assuming that articles with like marks come from the same source, buys one product in the belief that he was purchasing another and (2) "confusion of business," which occurs whenever the purchaser assumes that the product, although different from the plaintiff's, originated with the plaintiff, and thus believes some connection exists between the plaintiff and the defendant. In both the plaintiff's good reputation is "at the mercy of the defendant." *See* 3 CALLMANN § 84.1 at 1628-29.

[17] *See* Triangle Publications, Inc. v. Rohrlich, 167 F.2d 969 (2d Cir. 1948), where an injunction was granted plaintiff, publisher of "Seventeen" magazine, against defendants' use of "Miss Seventeen" on girdles. The court, holding defendants guilty of unfair competition, said that "the wrong

tiveness of the plaintiff's name or mark by frequent, though not immediately confusing, use.[18] Protection has been grounded in North Carolina, as in most jurisdictions, on the rationale usually given for the general concept of unfair competition: protection of the plaintiff's property interest in the good will which the name or mark has built up, prevention of confusion in the interest of the buying public, and maintenance of competition on a level of honesty and fair dealing.[19] Some courts see trademark and trade name protection as analogous to patent or monopoly establishment and are restrictive in their protection.[20] Others consider the protection a necessity for the stimulation of competitive effort.[21]

For protection, the plaintiff must show that he has a valid trademark or trade name which the courts will protect, that it is used to identify his goods and distinguish them from others, that "confusing similarity" exists between his mark or name and the defendant's, and that the defendant uses the mark on goods and in a market such that the plaintiff needs protection.[22]

Establishment of a Valid Trademark or Trade Name

"Every manufacturer has the unquestionable right to distinguish the goods that he manufactures and sells by a peculiar mark or device, so that they may be known as his in the market, and he

of the defendant consisted in imposing upon the plaintiff a risk that the defendant's goods would be associated by the public with the plaintiff, and it can make no difference whether that association is based upon attributing defendant's goods to plaintiff or to a sponsorship by the latter when it has been determined that plaintiff had a right to protection of its trade name." 167 F.2d at 973. *See also* 3 CALLMANN § 84.2 at 1642-46.

[18] The fact that the plaintiff and the defendant are not competitors gives rise to this separate category; dilution is therefore not "passing off." Two kinds of non-competitive infringement (dilution) can occur: (1) where the non-competing goods are so related that one might assume they came from the same maker or sponsor and (2) where the non-competing goods are entirely unrelated, thus probably negating any possibility of confusion. 3 CALLMANN § 84.2. Of course, in either category, the parties may be potential competitors. But confusion occurs only when they become actual competitors. *See generally* Note, 36 N.C.L. REV. 105 (1957).

[19] *See e.g.,* Blackwell v. Wright, 73 N.C. 310 (1875).

[20] *See generally* Taggart, *Trade-Marks: Monopoly or Competition?,* 43 MICH. L. REV. 659 (1945); Timberg, *Trade-Marks, Monopoly, and the Restraint of Competition,* 14 LAW & CONTEMP. PROB. 323 (1949); Zlinkoff, *Monopoly versus Competition,* 53 YALE L.J. 514 (1944).

[21] *See, generally* Leeds, *Trademarks from the Government Viewpoint,* 44 CALIF. L. REV. 489 (1956); Rogers, *The Lanham Act and the Social Function of Trade-marks,* 14 LAW & CONTEMP. PROB. 173 (1949).

[22] *See* 3 RESTATEMENT OF TORTS § 717 (1938).

may thus secure the profits which their superior reputation as his may be the means of gaining."[23] But the particular way the product is distinguished can make a difference in whether or not the plaintiff has shown a valid mark or name, as well as in the degree of protection afforded. In the first place, if the manufacturer affixes his distinguishing mark to the commodity, this makes it a trademark as distinguished from a trade name.[24] But more significantly, if the manufacturer or plaintiff chooses a word or phrase that is generic, descriptive, geographical or personal, then for protection of the word or phrase the plaintiff must show that it has acquired a "secondary meaning" identifiable with plaintiff's product.[25] In *Charcoal Steak House v. Staley*[26] this distinction between a technical, arbitrary, or fanciful word or phrase and one which was generic, descriptive, geographical or personal was pointed out:

> At common law generic, or generally descriptive, words and phrases, as well as geographic designations, may not be appropriated by any business enterprise either as a trade-name or as a trademark. Such words are the common property and heritage of all who speak the English language; they are *publici juris* .... Notwithstanding this rule, equity will always protect a business from unfair competition and the public from imposition .... When a particular business has used words *publici juris* for so long or so exclusively or when it has promoted its product to such an extent that the words do not register their literal meaning on the public mind but are instantly associated with one enterprise, such words have attained a secondary meaning. This is to say, a secondary meaning exists when, in addition to their literal, or dictionary, meaning, words connote to the public a product *from a unique source.*[27]

[23] Blackwell v. Wright, 73 N.C. 310, 312 (1875).

[24] *See* Charcoal Steak House v. Staley, 263 N.C. 199, 139 S.E.2d 185 (1964); 3 RESTATEMENT OF TORTS § 718 (1938).

[25] *See generally* 3 CALLMANN §§ 69-74.3(d); 1 NIMS §§ 36-37 at 152-60.

[26] 263 N.C. 199, 139 S.E.2d 185 (1964).

[27] *Id.* at 201-02, 139 S.E.2d at 187. At common law the distinction between trademarks and trade names was that the former had reference to the fanciful, arbitrary, unique, distinctive, and nondescriptive while the latter had reference to the descriptive, generic, personal, corporate, or geographical. Trademarks were technical; trade names were non-technical. Today that distinction has disappeared for most purposes, but the basic concept which originated with the distinction remains vital. Thus, if the mark or name is non-technical, the plaintiff must show that it has acquired secondary meaning in order to have it protected. If it is a technical mark or name, it is valid per se without any further showing required of the plaintiff. *See* 3 CALLMANN § 66.1.

In the *Staley* case the court was faced with the question of whether the words "Charcoal Steak House" were entitled to protection from "Staley's Charcoal Steak House." Since the plaintiff had chosen a trade name which was descriptive of any restaurant specializing in steaks, and therefore non-technical, the plaintiff had the burden of showing that "Charcoal Steak House" had acquired a secondary meaning. Taking judicial notice of the frequent and common usage of "charcoal steak house," the court held that the plaintiff had failed this burden. In addition, it pointed out that even if the plaintiff had shown a secondary meaning, all the relief the plaintiff could expect, since the words were "public" in nature, was that the defendant so designate his restaurant that "reasonably intelligent" persons would not be misled. This the defendant had already done by using the prefix "Staley's." Thus, because the plaintiff used a non-technical name, his case was harder to maintain and his relief less than absolute. If the plaintiff had chosen an arbitrary or technical trade name, he would have been entitled to an absolute injunction against its use by the defendant.[28]

Illustrative of the common law approach is *Blackwell v. Wright*,[29] where the court held that the plaintiff's trademark, "genuine Durham smoking tobacco," was not entitled to protection from "original Durham smoking tobacco" because "Durham" was the name of a town and "smoking tobacco" was a term in general use (a generic term). In *Bingham School v. Gray*,[30] the plaintiff and the defendant were both descendants from the founder of the first "William Bingham School." Both used this name for their respective schools and the plaintiff sought to restrain the defendant from claiming that its school was a successor to the first school. Although concluding that each had a right to claim the successorship to the original school, the court stated the general proposition that one cannot have the exclusive right to appropriate the use of a surname for a trademark.[31]

Confusing Similarity

Traditionally, courts have used a "factor" approach in determining whether there is "confusing similarity" between the de-

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[28] *See* 3 CALLMANN § 66.1.
[29] 73 N.C. 310 (1875).
[30] 122 N.C. 699, 30 S.E. 304 (1898).
[31] *See* Zagier v. Zagier, 167 N.C. 616, 83 S.E. 913 (1914).

fendant's mark or name and the plaintiff's.[32] Although the only case in North Carolina which appears to have reached this specific issue made only a cursory analysis of the question, in all probability North Carolina would be in accord with the traditional approach. In *Blackwell*[33] the court concluded that "genuine" was dissimilar enough from "original" to preclude confusion; and that since the plaintiff used the whole figure of a bull while the defendant used only the head and both parties placed their respective names on their products, there had been a sufficient "set off."

North Carolina regards the prospective purchaser as "reasonably intelligent" and thus capable of making some distinctions.[34] As to intent, the cases indicate some confusion. Although the *Blackwell* court said that "it would seem to be immaterial whether an infringing trademark is adopted by fraud or mistake, for the injury is the same,"[35] dictum in *Charcoal Steak House v. Staley* noted that the evidence did not indicate any bad faith or intent to deceive on the part of the defendant, thus in effect implying that while good intentions will not help a defendant who adopts an infringing mark or name, bad intentions will aid the plaintiff's cause. In an analogous situation it has been noted that a malicious purpose to injure was not required for an action of unfair competition because of the presumption that "every one must be understood to have intended to do and abide by that which is the natural and probable conduct [sic] of his act deliberately done."[36]

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[32] The Restatement takes the following factors into consideration:

In determining whether the actor's designation is confusingly similar to the other's trade-mark or trade name, the following factors are important:

(a) the degree of similarity between the designation and the trade-mark or trade name in
  (i) appearance;
  (ii) pronunciation of the words used;
  (iii) verbal translation of the pictures or designs involved;
  (iv) suggestion;
(b) the intent of the actor in adopting the designation;
(c) the relation in use and manner of marketing between the goods or services marketed by the actor and those marketed by the other;
(d) the degree of care likely to be exercised by purchasers.

3 RESTATEMENT OF TORTS § 729 (1938). *See generally* 3 CALLMANN §§ 80 to -82.5.

[33] 73 N.C. 310 (1875).

[34] *Id.*

[35] *Id.* at 313.

[36] Yellow Cab Co. v. Creasman, 185 N.C. 551, 555-56, 117 S.E. 787, 789 (1923).

Statutory Regulation of Trademarks

The 1967 General Assembly revised the statute relating to trademarks.[37] Since the new article provides that "[n]othing herein shall adversely affect the rights or the enforcement of rights in marks acquired in good faith at any time at common law,"[38] the common law is still viable. This follows the usual North Carolina policy that statutory regulation of trademarks does not abrogate the common law.[39] Reflecting the common law, a trademark is defined as "any word, name, symbol, or device or any combination thereof adopted and used by a person to identify goods made or sold by him and to distinguish them from goods made or sold by others."[40] A "service mark" is the term used where services, and not commodities, are in question.[41]

The statute defines registrability by listing marks which cannot be registered.[42] The most significant provision is merely a codification of the common law rule prohibiting protection of a descriptive, geographical, or personal mark unless it could be shown to have acquired secondary meaning.[43] Presumptively, the word "distinctive" in the statute has essentially the same meaning as common law "secondary meaning." Five years' continuous use preceding registration is considered as evidence of the mark becoming "distinctive."[44] Nor can a mark be registered if it is "likely . . . to cause confusion or mistake or to deceive" another mark previously registered or used in this state.[45] Registration is deemed effective for ten years and is renewable.[46]

Statutory infringement occurs when one uses a copy or colorable imitation in selling or advertising his goods which is likely "to cause confusion or mistake or to deceive as to the source of origin of such goods or services;" or uses such copy on labels, wrappings, or advertising in the intended sale of his good in this state.[47] Under

[37] *See* N.C. GEN. STAT. §§ 80-1 to -14 (Supp. 1967).
[38] N.C. GEN. STAT. § 80-13 (Supp. 1967).
[39] *See* Allen v. Standard Crankshaft & Hydraulic Co., 210 F. Supp. 844 (W.D.N.C. 1962).
[40] N.C. GEN. STAT. § 80-1(f) (Supp. 1967).
[41] N.C. GEN. STAT. § 80-1(e) (Supp. 1967).
[42] *See* N.C. GEN. STAT. § 80-2 (Supp. 1967). .
[43] *See* N.C. GEN. STAT. § 80-2(5) (Supp. 1967).
[44] N.C. GEN. STAT. § 80-2(5) (Supp. 1967).
[45] N.C. GEN. STAT. § 80-2(6) (Supp. 1967).
[46] N.C. GEN. STAT. § 80-5 (Supp. 1967).
[47] N.C. GEN. STAT. § 80-11 (Supp. 1967).

a strict interpretation of this clause, the meaning of "source of origin" would doubtless exclude from coverage the concept of dilution which does not cause immediate or even remote confusion as to the source of origin. Similar language under the Lanham Act—"likely to cause confusion, or to cause mistake, or to deceive"—has been interpreted to exclude dilution.[48] Although North Carolina has not decided whether its common law allows a cause of action for dilution, it is probable that the better argument for such coverage should be based on the common law rather than North Carolina's statute requiring confusion as to origin. Thus, upon superficial analysis, the statute might be less inclusive than common law protection of trademarks.[49]

Unlike the Lanham Act,[50] North Carolina's statute does not speak in terms of giving the registrant a prima facie case for trademark validity (thus shifting the burden to the defendant) or constructive notice to the defendant; arguably, however, its effect will be the same. By definition, once a trademark is registered it presumptively does not infringe an already existing trademark, this being one of the requisities for registration; thus, the defendant most likely would have the burden of showing that his trademark was superior to the registrant's. Otherwise, there would seem to be little reason for the statute. Of course, the registrant-plaintiff would still have the burden of showing that his registered trademark had been infringed by the defendant, but the basis of his action—the validity of his own trademark—is clear unless the defendant can upset it.

However, the absence of statutory language giving the registrant a prima facie case or constructive notice of his claim may indicate legislative intent that the registrant bear the traditional burdens, *i.e.,* show that he has prior use of a technical trademark or secondary

[48] *See* Jean Patou, Inc. v. Jacqueline Cochran, 201 F. Supp. 861 (S.D.N.Y. 1962), *aff'd on other grounds,* 312 F.2d 125 (2d Cir. 1963).

[49] There is conflicting opinion as to the status of common law dilution. Callmann notes that dilution has found little favor in American courts since the doctrine of "passing off" is so firmly ingrained that it cannot be divorced from the doctrine of confusion. 3 CALLMANN § 84.2 at 1645. But others contend the doctrine is finding acceptance with more courts, especially where the plaintiff's mark or name is a celebrated one or is highly distinctive. *See* Day, *State Anti-Dilution Without A Statute,* 54 TRADEMARK REP. 590, 592 (1964). However, most states which have accepted dilution have done so by statute. *See, e.g.,* CONN. GEN. STAT. ANN. § 35-11i(c) (1963); GA. CODE ANN. § 106-115 (1956).

[50] *See* 60 Stat. 427 (1946), *as amended,* 15 U.S.C. §§ 1051-1151 (1964).

meaning ("distinctiveness"). Since the proceeding for registration is *ex parte* and no provision is made for other claimants to come in, it is not at all clear that traditional burdens should be shifted. Specifically, while the statute says that five years' continuous use preceding registration is evidence of the mark becoming distinctive with reference to proof of the validity of a non-technical trademark, it does not speak in terms of what effect registration has on technical trademarks. Arguably, therefore, the lack of any language in regard to the latter and the fact that five years' use is only *evidence* of distinctiveness suggest that the defendant should not have the burden of proving prior use or secondary meaning, that burden remaining on the registrant who is suing for infringement. This could be the reason the Lanham Act contained such express provisions.

The remedies provided by the North Carolina statute are cumulative. As with the common law, the registrant whose mark has been infringed may obtain an injunction and recover profits and damages resulting from wrongful use.[51] The statute also gives the court the power to destroy the copies or imitations used by the defendant.[52] If the court gives an injunction and/or orders any payment by the defendant, it "shall require the defendants to pay to said owner a penalty" of from two hundred to a thousand dollars.[53] The civil remedies do not affect the criminal law relating to the defendant's conduct.[54]

IMITATION OF THE COMPETITOR'S PRODUCT AND ITS APPEARANCE

Imitation of a competitor's product or its appearance concerns the most basic problem of unfair competition—"passing off."[55] The exact limitations of this tort are unclear, but as a general proposition imitation of the competitor's product may be unfair competition if the copied aspects of the product have acquired secondary meaning or serve to associate that product with that competitor.[56] Thus,

[51] N.C. GEN. STAT. § 80-12 (Supp. 1967).
[52] *Id.*
[53] *Id.*
[54] *Id.*
[55] *See generally* Comment, *Developments in the Law of Competitive Torts*, 77 HARV. L. REV. 888, 908-23 (1964) [hereinafter cited as *Developments*]; 1 NIMS §§ 116-40.
[56] *See* 1 NIMS § 134a.

the problem is quite analogous to trademark and trade name infringement.[57]

Broad language, typical of most of the law of unfair competition, is also a characteristic of this tort. *Yellow Cab Company v. Creasman*[58] is representative. There the plaintiff alleged that before it came to Asheville no one had used the color yellow on cabs. But the defendant, who had earlier turned down an opportunity to begin the Yellow Cab service in Asheville, began operating two cabs which had yellow bodies with black hoods, fenders, and tops which were very similar to the plaintiff's cabs. Plaintiff alleged it had built up good will and that its cabs came to be identified by their particular coloring and appearance. In upholding a preliminary restraining order, the court said that a manufacturer of a business could adopt and use a name, symbol, or device designed to designate and identify his product, and when by care and diligence the quality of his goods or services had acquired a patronage and good will of substantial value it would be protected from unfair competition of a rival who adopts such sign or symbol in apparent imitation as will likely mislead customers and the public as to the identity of the goods or service sold. The court then cited specific cases protecting the Yellow Cab Company from this kind of imitation. As to the defense imposed that yellow was a common color which could not be appropriated, the court avoided the issue and remanded the cause for the final hearing.

A better reasoned opinion concerning imitation is *Schmidt Man-*

[57] As pointed out in footnote 27 *supra,* the plaintiff is afforded immediate protection if he has a technical mark, and subsequent protection of a non-technical mark if he can show secondary meaning. In regard to copying of a competitor's product, the traditional view allows copying of functional features, whatever view the court may take as to what "functional" means. If the functional feature had acquired secondary meaning, the only protection afforded the plaintiff would be that the defendant distinguish his product from the plaintiff's by use of a label, mark, name, or otherwise. The copying of non-functional features is in the first instance prohibited on the ground that the plaintiff had already acquired something similar to secondary meaning in this non-functional part. *See* 1 NIMS §§ 34, 34a. Determining what is functional or non-functional is the headache of this tort. The courts have come to any number of inconsistent results. Generally, a feature may be functional if it contributes to economy in manufacturing, makes the product of which it is a part durable, useful, or effective. It is non-functional if nothing of substantial value in the good is lost when the feature in question is omitted. What classification an aesthetic feature is given is much in dispute. *See* 3 RESTATEMEN OF TORTS § 742 and comments (1938); Note, 64 COLUM L. REV. 544 (1964).

[58] 185 N.C. 551, 117 S.E. 787 (1923).

ufacturing Company v. Sherrill Industries, Incorporated.[59] The federal district court was both more specific and more analytical in its use of the traditional common law concepts. The plaintiff was the manufacturer of various textile loom products, using a high molecular weight polyethylene plastic trademarked "Polydur" as its component element. The plaintiff's product was green in color and came to be identified because of the plaintiff's personal selling, advertising, overcoming of industry suspicion of plastics as a component for loom parts, and the use of green as the color of its product. The defendants manufactured similar products, using as its component element the trademark "Hi-Moly." The defendants had used all of the colors other manufacturers had used before finally adopting the color green for its product. The court denied the plaintiff relief. The plaintiff's contention was that it had acquired, if not a secondary meaning in the color, at least some distinctiveness in its product because of the color. The court examined *Yellow Cab,* however, and concluded that it could be distinguished because the issue in *Yellow Cab* was brought up on a preliminary restraining order and there was no actual confusion here as in *Yellow Cab* since the defendant had its trademark on its product. Even if the *Yellow Cab* case stood for the proposition that one could acquire a secondary meaning in a color, the court failed to see how the plaintiff had shown this, pointing out that purchasers merely regarded the green color as signifying a good product and not necessarily signifying that it came from the plaintiff. Furthermore, the court in *Schmidt* went on to point out that even if the plaintiff had acquired secondary meaning, the remedy would only require the defendant to distinguish his product from the plaintiff's, which was what the trademark already on the defendant's product in fact did.

Recent United States Supreme Court decisions cast doubt on *Yellow Cab,* although the holding in *Schmidt* seems to remain good law. In *Sears, Roebuck & Company v. Stiffel Company*[60] and *Comp-*

[59] 249 F. Supp. 480 (W.D.N.C. 1965).

[60] 376 U.S. 225 (1964). In *Sears,* Sears, Roebuck and Co. copied Stiffel's pole lamp and marketed it. There was evidence of confusion in the market. The United States Supreme Court reversed the finding below that Sears had violated state unfair competition laws. The Supreme Court's reasoning was that the dominant federal policy in regard to patents and copyrights would be thwarted if state unfair competition law could prevent the copying of an article not patentable or the copying of something not

co Corporation v. Day-Brite Lighting, Incorporated[61] the Supreme Court preempted much state unfair competition law regarding imitation. Specifically, the cases held that state unfair competition law cannot enjoin the copying and selling of unpatented or uncopyrighted products even if the copied features had acquired a "secondary meaning," there was confusion present as to the source of the goods, or the copied features were "non-functional" and thus easily differentiated by the defendant. The Supreme Court in effect swept away "the whole body of decisional law that, with respect to product imitation, struggled with questions of functionality."[62] Thus, the common law distinction between functional and non-functional features, whereby protection was given functional features only if they had acquired secondary meaning and immediate protection was given non-functional features, was removed as a judicial problem. Consequently, courts will no longer have to grapple with questions such as whether the neck of a bottle or the leg of a chair is functional or non-functional.

Since *Yellow Cab* was probably indicative of this functional-non-functional approach, at least that aspect of *Yellow Cab's* proposition has been removed. Since *Schmidt* did not afford protection against imitation and in fact cited *Sears* and *Compco,* it is still effec-

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copyrightable. While the result of state protection would be a perpetual monopoly, federal protection is limited to a term of years. The Court concluded by holding that unless the article in question were patented or copyrighted, state unfair competition law could not prevent the copying of it. The Court, however, would still allow states to prevent confusion caused by labeling, imitation of dress and appearance, and trademark infringement.

[61] 376 U.S. 234 (1964). In *Compco* the defendant copied the plaintiff's fluorescent lighting fixture. The court below had found both "likelihood of confusion" and actual confusion. Plaintiff was granted relief. The Supreme Court reversed. Although the Court intimated that the defendant had labeled its lighting fixture and thus prevented confusion, it held that state unfair competition law could not prevent copying if there was no patent or copyright present. Even if the configuration of the plaintiff's had acquired, like a trademark, secondary meaning, it could be copied at will by the public unless patented. Again, the state law of unfair competition was free to prevent confusion whenever the defendant copied labels, trademarks, or the dress and appearance of the plaintiff's product.

[62] Brown, *Product Simulation,* 64 COLUM. L. REV. 1216, 1221 (1964). Courts had come to any number of inconsistent results in attempting to differentiate the functional from the non-functional features of a product. As pointed out in footnote 57 *supra* the distinction at common law had significant consequences regarding the degree of proof and the relief afforded. The Supreme Court evidently wanted to do away with this troublesome distinction and the pre-emption technique was a way to achieve this result. *Id.* at 1220-21.

tive. However, the Court in *Sears* left the states free to "protect businesses in the use of their trademarks, labels, or distinctive dress in the packaging of goods so as to prevent others, by imitating such markings, from misleading purchasers as to the source of the goods.[63] The Supreme Court did not preempt state unfair competition law protecting a businessman's good will which he had built up through identification. Only if the question was the copying of the product itself would federal law of patent and copyright control. Thus, the decision should not be considered applicable to the question of distinctive packaging and dress of goods.[64] Consequently, if the plaintiff in *Yellow Cab* could show that the distinctive configuration and coloration were merely aspects of dress of his service used for customer identification, then state law of unfair competition would be able to afford relief since he had shown the traditional elements for a good cause of action.

No attempt has been made toward an intensive analysis of *Sears* and *Compco* and their effects on state law of unfair competition. The problems they create have not as yet been settled and are beyond the scope of this comment.[65] But the questions created by these decisions should be born in mind whenever the problem of copying and state unfair competition law are at hand.

INTERFERENCE WITH A COMPETITOR'S CONTRACTUAL RELATIONS

While the good will which a businessman has built up through trademark, trade name, or product differentiation is considered more or less an intangible property interest, the protection usually given a businessman who has had his contractual relationships interfered with has approached the protection given for tangible property and personal security.[66] The wrong here is unlike that of "passing off" because the interference is not with some prospective advantage but with a realized advantage. Thus, protection is easier to justify and should be more readily afforded.[67]

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[63] 376 U.S. at 232.

[64] *See* Leeds, *Product Simulation,* 64 COLUM. L. REV. 1179, 1180 (1964).

[65] For a more detailed consideration of this problem, *see* Treece, *Patent Policy and Preemption: The Stiffel and Compco Cases,* 32 U. CHI. L. REV. 80 (1964); Treece, *Protectibility of Product Differentiation: Is and Ought Compared,* 18 RUTGERS L. REV. 1019 (1964); *Unfair Competition After Sears and Compco,* 15 COPYRIGHT L. SYM. 1 (1967); Comment, *Unfair Competition Protection After Sears and Compco,* 40 N.Y.U.L. REV. 101 (1965).

[66] *See* Developments 959.

[67] *See* generally 2 CALLMANN §§ 32-35.2; 1 NIMS §§ 162-184; PROSSER,

The basic requirements for an action for inducing breach of contract are (1) the existence of a valid contract between the plaintiff and a third party which the defendant, (2) with knowledge of the contract and (3) without legal justification, (4) intentionally induces the third party not to perform, (5) causing the plaintiff damage.[68] While there is some conflict in decisions in North Carolina, it seems the better and more persuasive position that North Carolina allows such an action.[69]

The most significant problem under North Carolina decisions in this area concerns the question of justification. Some cases have stated that competition is a justification and therefore a defense to an action for inducing breach of contract.[70] This is contra to the general rule.[71] Since justification is established only when the defendant is protecting an interest equal in value to the plaintiff's,[72] presumptively the defendant should fail in his defense because the plaintiff's contractual rights are superior to the defendant's prospective advantage.

However, it is suggested that a closer analysis of the cases will indicate that, at a minimum, North Carolina does not consider competition a justification in all situations. In *Bryant v. Barber*[73] the plaintiff alleged that he had a contract with various persons to transport them to and from Camp Lejeune and that the defendants induced them to breach their contract with the plaintiff and ride

TORTS § 128 (3d ed. 1964) [hereinafter cited as PROSSER]; Harper, *Interference With Contractual Relations,* 47 NW. U.L. REV. 873 (1953); Sayre, *Inducing Breach of Contract,* 36 HARV. L. REV. 663 (1923); 32 N.C.L. REV. 110 (1953); Note, 18 STAN. L. REV. 1406 (1966).

[68] Childress v. Abeles, 240 N.C. 667, 84 S.E.2d 176 (1954).

[69] Decisions expressing doubt are Bruton v. Smith, 225 N.C. 584, 36 S.E.2d 9 (1945); Coleman v. Whisnant, 225 N.C. 494, 35 S.E.2d 647 (1945); Holder v. Atlantic Joint-Stock Land Bank, 208 N.C. 38, 178, S.E. 861 (1935); Elvington v. Waccamaw Shingle Co., 191 N.C. 515, 132 S.E. 274 (1926); Swain v. Johnson, 151 N.C. 93, 65 S.E. 619 (1909); Biggers v. Matthews, 147 N.C. 299, 61 S.E. 55 (1908). A more recent case came to the conclusion that North Carolina did allow the action, Childress v. Abeles, 240 N.C. 667, 84 S.E.2d 176 (1954). Older authority for allowing the action are Jones v. Stanly, 76 N.C. 355 (1877) and Haskins v. Royster, 70 N.C. 601 (1874) (purportedly the first case to recognize the action in North Carolina; *see* 32 N.C.L. REV. 110 (1953)).

[70] *E.g.,* Childress v. Abeles, 240 N.C. 667, 84 S.E.2d 176 (1954); Bruton v. Smith, 225 N.C. 584, 36 S.E.2d 9 (1945); Swain v. Johnson, 151 N.C. 93, 65 S.E. 619 (1909).

[71] 2 CALLMANN § 33; PROSSER § 123 at 970.

[72] *See* PROSSER § 123 at 967-970.

[73] 237 N.C. 480, 75 S.E.2d 410 (1953).

with defendants instead. On appeal the Supreme Court of North Carolina sustained the trial court's continuance of the temporary restraining order. Similarly, *Winston v. Williams & McKeithan Lumber Company*[74] held that competition was no justification where the plaintiff alleged that he had a contract with owners of land for its sale and the defendant induced the owner to sell to him.

The case of *Bruton v. Smith*[75] points out a possible distinction between the situation where the defendant through fraud or threats of physical force prevents the willing promisor from performing and where the defendant induces the breach by giving the promisor-third party a more attractive offer. The *Bruton* case involved the same factual situation as *Winston,* but the court in *Bruton* held that competition was a valid defense. Although both *Winston* and *Bruton* involved a breach induced by a more attractive proposal, the latter case could stand for the proposition that that competition is a justification where the breach is persuasively induced. But it is doubtful if the court intended such a result since the *Winston* case, coming after *Bruton,* did not allude to such a proposition.[76] It is suggested that the conflict of authority on this point was due to carelessness on the part of the court and, therefore, the better position would be one that reaches the soundest result. On this basis, the manner in which the defendant causes the breach should be immaterial.[77] No matter how the breach is induced, the plaintiff's realized expectations have been interfered with. In the interest of maintaining a level of honesty and fair dealings between competitors and of protecting secured interests, the manner in which the breach was procured should be irrelevant to the issue of competition as a justification, although it might be relevant to the issue of damages.

Perhaps the clearest North Carolina case indicating that compe-

[74] 227 N.C. 339, 42 S.E.2d 218 (1947).

[75] 225 N.C. 584, 36 S.E.2d 9 (1945).

[76] As the concurring opinion in *Bruton* points out, the existing rule regarding contracts for the sale of real property required the contract to be registered before it would be given protection in an action of this sort. Thus, the concurring opinion would deny relief on this ground, specifically pointing out that a good cause of action would lie for inducing the breach of the contract in the case. 225 N.C. 584, 36 S.E.2d 9 (1945) (concurring opinion). But it must be noted that the concurring justice did not have the defense of justification in mind. Justification is distinguishable from a valid cause of action in that a plaintiff may have a good cause but will be denied relief because the defendant is justified.

[77] *See* 2 CALLMANN § 34.3.

tition is not a justification is *Sineath v. Katzis.*[78] The plaintiff bought a laundry and dry-cleaning establishment from the owner-defendant. In the sales agreement, the owner-defendant agreed, as part of the consideration for the sale, not to engage in the same occupation for a period of fifteen years within a particular county. The plaintiff alleged that the defendant breached his covenant not to compete[79] by running a laundry with other defendants who aided and assisted the owner-defendant in its establishment. Not mentioning competition as a possible justification, the court held that "a stranger to the covenant (not to compete) may properly be enjoined from aiding the covenantor in violating his covenant or receiving any benefit therefrom."[80] Because the defendants participating in causing the breach knew of the owner-defendant's covenant not to compete, they were properly enjoinable. Since the contract in question was clearly anti-competitive, it gave the court an excellent opportunity to state that competition was a justification for inducing a breach of contract. But no mention of this was made by the court. Inferentially, one can argue that because the court missed its best opportunity to elevate the doctrine of competition as a justification for inducing breach of contract, statements and holdings expressing this view must not be given too much weight.

The *Sineath* case, however, is subject to criticism. While logically competition should not be a justification for inducing a breach of contract, it is suggested that certain contracts be denied enforcement in order to promote competition. Thus, a breach can be induced without making the defendant liable since the contract was void in the first place. In the *Sineath* case the contract was clearly anti-competitive and arguably could have been denied enforcement on the grounds that it was a violation of the state's anti-monopoly laws. Or validity could have been denied under North Carolina's traditional "reasonableness" test regarding contracts not to compete. In any event, contracts which tend to monopolize or give rise to anti-competitive market conditions should be denied enforcement, thus removing any liability a competitor might incur in inducing

[78] 218 N.C. 740, 12 S.E.2d 671 (1941).

[79] On the subject of covenants not to compete in North Carolina, see Note, 38 N.C.L. Rev. 395 (1960).

[80] 218 N.C. 740, 755, 12 S.E.2d 671, 681 (1941). Orkin Exterminating Co. v. O'Hanlon, 243 N.C. 457, 91 S.E.2d 222 (1956) and Wilson Radio Co., Inc. v. Overman, 239 N.C. 537, 80 S.E.2d 266 (1954) are in accord with *Sineath.*

their breach. Contracts which are only part of ordinary business activity should be protected from third-party interference.[81]

In summary, while North Carolina has recognized a cause of action for inducing breach of contract and has held that competition is not a justification, some decisions present an inconsistent line of authority. These cases are inconsistent with the modern view affording protection for both interference with prospective advantage and interference with contractual relations.[82] A position which af-

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[81] A recent example of this suggested dichotomy arose in a suit by a telephone company to restrain the defendants from distributing plastic telephone directory covers to customers of the telephone company. The telephone company alleged the defendants were interfering with its contractual relations, as well as engaging in unfair competition. The federal district court, sitting in diversity with no North Carolina precedent, held that the telephone company's tariff filed with the North Carolina Utilities Commission, prohibiting the use of covers on the phone book, constituted a contract between the telephone company and its customers. Without really going into an analysis of this contract, the court held it was not an "unreasonable extension of the telephone monopoly" and that defendants' attempts to distribute covers was tortious conduct. Citizens Tel. Co. v. Tel. Service Co., Inc., 214 F. Supp. 627 (W.D.N.C. 1963). Although the case may be criticized for its lack of analysis concerning the contract, and its apparent unconcern that it was in fact extending the telephone company's monopoly, it can be rationalized on grounds that this directory service was so integral a part of the general telephone service that it should be controlled by public utility authorities.

[82] An example of North Carolina's confusion and variance from modern authority is found in Coleman v. Whisnant, 225 N.C. 494, 35 S.E.2d 647 (1945). The plaintiff, an employee of the defendant, had patented an attachment for hosiery machines and had assigned the employer an interest in the patent. Whenever the plaintiff attempted to contract with other parties for the use of this attachment, the defendant-employer would threaten suit against those with whom the plaintiff negotiated, thus preventing the plaintiff from entering into contracts. While the court allowed the plaintiff a remedy for the defendant's interference with the plaintiff's prospective advantage, *i.e.* possibility of making contracts, the court was somewhat fuzzy in regard to the plaintiff's action for inducing a breach of contract. It said that the plaintiff could have a remedy if the defendant "maliciously" procured a breach of contract with intent to injure plaintiff or gain something from the plaintiff, but could not have a remedy if the defendant induced the breach of a "single contract" since the plaintiff could sue on the contract itself. Whether the court intended to put significance on the defendant's intention when he induced the breach or on the fact that only one breach was induced is unclear since there was nothing else going to this issue. Of course, all this discussion is dicta and its relevance in future litigation is questionable, but it is suggested that the intent of the defendant should be irrelevant because the plaintiff has been wronged and should be given a remedy. Furthermore, the modern trend seems to be away from the superficial analysis usually given the nebulous concept of intent. As to the possibility that the court's basis was the fact that the plaintiff could sue on the contract, it is suggested that the defendant should be held liable on a rationale of keeping competitor's conduct within reasonable limits. In any event, that the plaintiff could sue on the contract seems an untenable basis for the court

fords relief for interference with prospective advantage but not for interference with contractual relations is hard to maintain since the harm is more obvious whenever contractual relations are interfered with than when prospective advantage is denied.

DISPARAGEMENT OF PRODUCT, TITLE OR BUSINESS METHODS

Disparagement is the publication of derogatory matter about the plaintiff's title, property or business in general of a kind calculated to prevent others from dealing with the plaintiff, or to otherwise interfere with his relations with others to his disadvantage.[83] The tort grew out of "slander of title" which allowed an owner of land recovery for a defendant's interference with the owner's prospective sale of his land by falsely and maliciously stating that the owner did not have good title.[84] Although the law of defamation has influenced the development of this tort,[85] there are significant differences between the two. The basic distinction is that if the publication concerns the credit or integrity of the business, a cause of action for defamation will lie; if it concerns the quality of the business' product or service, a cause of action for disparagement will lie.[86] Several important differences can follow from the legal classification of the cause of action: (1) a plaintiff in disparagement must prove actual damage, while damage is presumed in defamation that is slanderous per se or libelous; (2) a plaintiff in disparagement

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to grasp since the harm is more obvious in inducing a breach than in preventing the formation of a contract. Liability, if found on the question of prospective advantage, should also be found on the question of inducing breach of contract.

[83] *See generally* 2 CALLMANN §§ 39-47; 2 NIMS §§ 25-271; PROSSER § 122; *Developments* 893-905; Comment, 7 VILL. L. REV. 271 (1962).

[84] *See Developments* 893. *See also* footnote 88 *infra*.

[85] *See* PROSSER § 122 at 938-40. Although many courts have treated disparagement in the same manner as libel and slander and have refused to enjoin the publication in the interest of free speech, the North Carolina Supreme Court has indicated it would enjoin slanderous statements affecting the plaintiff's business

> where it appears necessary for the protection of plaintiff's business and property rights, and it is alleged that the systematic circulation of false statements seriously affecting these rights will work irreparable and continuing injury . . . .

Burke Transit Co. v. Queen City Coach Co., 228 N.C. 768, 772, 47 S.E.2d 297, 299 (1948). An interesting question is whether the United States Supreme Court would equate disparagement with false advertising and therefore hold that it was non-protected commercial speech or with defamation and protected under some rationale of free speech analogous to New York Times Co. v. Sullivan, 376 U.S. 254 (1964).

[86] *Developments* 893.

must affirmatively prove the falsity of the defendant's statement while there is a presumption of falsity in personal slander; and (3) a plaintiff in disparagement must show "malice" which is not required in defamation.[87]

If disparagement did grow out of "slander of title," it has not grown very much in North Carolina. Two early North Carolina cases stand for the proposition that a cause of action lies for "slandering title."[88] They outline the conventional elements which the plaintiff must show for a good cause of action. The limit of the growth of this tort in North Carolina appears to be *Carolina Aniline & Extract Company v. Ray*.[89] The plaintiff had sold its plant to the defendant, bought new equipment and began operations elsewhere. The defendant wrote letters to plaintiff's customers explaining the purchase and stating that it would "manufacture identically the same products under our [defendant's] trade names."[90] The defendant went on to compare prices and products and listed its lower prices on each comparison. At trial the plaintiff was not allowed to put in evidence that because it had a new plant with new equipment its goods were superior to the defendant's. On appeal, the court held that the trial court should have allowed the evidence in order to determine if the products were identical. If they were not, the defendant would be guilty of unfair competition. Evidently the plaintiff was required to show falsity and actual damage. The problem of showing "malice" was not mentioned.

The rationale behind *Carolina Aniline* is unclear. But it is suggested that it conforms to two of the traditional reasons for allowing a cause of action in unfair competition—maintaining notions of fair play within the competitive framework and protecting the public. Such a rationale seems implicit since the court said that unfair competition was not confined to the "passing off" situation, but existed whenever the public "is likely to be deceived."[91] Thus, because the defendant was making statements of opinion in an attempt to induce customers away from the plaintiff, the defendant

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[87] PROSSER § 122 at 943-45; Cardon v. McConnell, 120 N.C. 461, 27 S.E. 109 (1897).

[88] Cardon v. McConnell, 120 N.C. 461, 27 S.E. 109 (1897) and McElwee v. Blackwell, 94 N.C. 261 (1886) (concerning slander of title to a trademark).

[89] 221 N.C. 269, 20 S.E.2d 59 (1942).

[90] *Id.* at 271, 20 S.E.2d at 60 (1942).

[91] *Id.* at 272, 20 S.E.2d at 61 (1942).

should be required to act in good faith and make truthful statements.[92] If untruthful statements were made, the public would be deceived as to the quality of both plaintiff's and defendant's goods—the latter being thought of as being equal to the plaintiff's when they were not, the former being thought of as only equal to the defendant's when they were in fact superior. Thus, it is clear that the plaintiff could suffer damage from the comparison if the statement were untrue.

One could analyze the case from the perspective of false advertising, which occurs whenever a competitor makes a false statement concerning his own goods.[93] Although a false statement may by implication impugn the competitor's goods, the mere diversion of trade alone is sufficient for this action. The common law remedy for false advertising is not very satisfactory. Relief was initially granted only if the plaintiff could show the loss of particular customers who bought the defendant's product assuming it was the plaintiff's.[94] Subsequent decisions have granted the plaintiff relief where he could show that his goods were of the same quality as the defendant's and were the only goods in the market or where the plaintiffs were a "consolidated monopoly."[95] Thus, in most circumstances, the plaintiff would be well advised to concentrate on disparagement rather than false advertising for his relief.

Most questions involved in disparagement have not been answered in North Carolina. As a matter of fact, the court in the

[92] *See* 2 CALLMANN § 42.1.

[93] On the subject of false advertising, *see generally Developments at* 905-908; *See also* Handler, *False and Misleading Advertising,* 39 YALE L.J. 22 (1929). Note, 56 COLUM. L. REV. 1019 (1956).

[94] *See* American Washboard Co. v. Saginaw Mfg. Co., 103 F. 281 (6th Cir. 1900).

[95] *See* Ely-Norris Safe Co. v. Mosler Safe Co., 7 F.2d 603 (2d Cir. 1925), *rev'd on other grounds,* 273 U.S. 132 (1927). But compare Learned Hand's dissent in California Apparel Creators v. Wieder of California, Inc., 162 F.2d 893 (2d Cir. 1947) where a class suit was purportedly brought by the plaintiffs on behalf of all manufacturers and dealers of wearing apparel in California. While the majority held that a particular loss could not be shown by these plaintiffs, relying on *Ely-Norris,* Hand thought that some of the manufacturers and dealers in California were injured by the New York corporate defendants' use of the word "California" in their advertising. Thus, Judge Hand would have extended a remedy to those who possibly might not need it rather than deny it to those who did need it. Where it has been more certain that the plaintiffs were all the producers in the market in question, thus making them a "consolidated monopoly," relief has been granted, Grand Rapids Furniture Co. v. Grand Rapids Furniture Co., 127 F.2d 245 (7th Cir. 1942), *cert. denied,* 321 U.S. 771 (1944).

cases above did not actually label the action by any of the traditional phrases such as disparagement or injurious falsehood. But it is suggested that North Carolina has accepted the basic concept.

Three traditional problem areas have appeared in other jurisdictions. (1) To what extent is the defendant privileged to disparage his competitor's goods? The general understanding is that disparagement is subject to all the privileges and defenses a defendant would have in a case of personal defamation or other interferences with economic relations. Thus, some courts would allow the defendant to compare his goods with the plaintiff's as long as the defendant did not make any specific unfavorable reference to the plaintiff's goods.[96] Under the *Ray* case, it is doubtful if North Carolina would allow such "boasting" by the defendant. (2) Assuming malice is a requisite for this action, what is a sufficient showing of malice? Is it enough that the plaintiff can show that the defendant acted without justification or privilege, thus imposing strict liability on the defendant for innocent falsehood as in defamation?[97] Logically, since a valid privilege or justification absolves the defendant of liability notwithstanding any kind of "malice" the defendant might have, the issue of malice properly arises only where the court is not concerned with privilege or justification. In this context, only where the defendant has acted out of ill will or with intent to injure the plaintiff has a sufficient showing of malice been found.[98] (3) In regard to damages, what kind of proof is required of the plaintiff? The more conservative view requires that the plaintiff show loss of particular customers. The more modern approach requires the plaintiff to show the loss of particular customers only when it would be reasonable to place such a burden on the plaintiff.[99] In the *Ray* case for example, the plaintiff might be required to show the loss of particular customers since the plaintiff had an established trade with certain customers with whom the defendant interfered and plaintiff could therefore show their loss.

Although most of the issues regarding disparagement are unresolved in North Carolina, a plaintiff might be well advised to

[96] *See* PROSSER § 122 at 949.

[97] The affirmative answer to this question has been given by Jeremiah Smith in his famous article, Smith, *Disparagement of Property*, 13 COLUM. L. REV. 12, 121 (1913).

[98] *See* PROSSER § 122 at 944-45.

[99] *Id* at 945-47.

consider a cause of action for defamation.[100] Even if the torts of disparagement and defamation are considered distinct, both can arise in a competitive situation. For example, in *Badame v. Lampke*[101] a competitor of the plaintiff told the plaintiff's customer that the plaintiff engaged in "shady deals." The court followed the per se rule of liability for slanderous statements reflecting on the plaintiff's trade or profession, thus permitting recovery without proof of special damage.

Although North Carolina has not resolved a particular fact situation by making a distinction between defamation and disparagement, the label given the plaintiff's cause may have serious consequences regarding the degree of proof required and damages. Because "it is not always easy to distinguish between personal defamation of the plaintiff and disparagement of his property or business,"[102] as where the business is a sole proprietorship, and because there is probably as much a problem proving damages in one situation as in the other, it has been suggested that the distinction between these two torts is unsatisfactory.[103] It is thus hoped that future North Carolina law will not take the traditional common law approach of analysis by pigeon hole, but will attempt to adjust the conflicting claims of competitors by sound analysis of their interests.

MISAPPROPRIATION OF A COMPETITOR'S VALUES

The doctrine of misappropriation concerns the protection of intangibles having potential commercial value. Since commercial intangibles are myriad, presumptively this doctrine would be inclusive of most of the law of unfair competition. But technically, the doctrine has a specified and more narrow coverage:

> When considering those commercial values which are protected by statute, such as trade-marks, patents, copyrights, or those which are misappropriated by commonly recognized unfair practices, such as breach of contract or trust in trade secret cases, the courts have not had particular difficulty. But it is otherwise

[100] North Carolina allows, as do most states, a corporation to sue in defamation for statements reflecting on its credit, good will, and relations with its employees. R. H. Boulingny, Inc. v. United Steelworkers of America, 270 N.C. 160, 168, 154, S.E.2d 344, 352 (1967).
[101] 242 N.C. 755, 89 S.E.2d 466 (1955).
[102] PROSSER § 122 at 940.
[103] *Developments* 895.

> when the absence of a statutory or common-law right is used as a cloak for the misappropriation of business values; such as is the case in the appropriation of advertising devices, designs or business systems.[104]

Those intangibles not identified with either statutory or traditional common law protection have been protected under the common law concept of misappropriation.[105] The doctrine had its beginnings around the turn of the century,[106] reaching its high water mark in *International News Service v. Associated Press.*[107] There the defendant was systematically copying Associated Press's news bulletins from bulletin boards and early editions of newspapers carrying the Associated Press service. The defendant sold this news to its own customers, enabling it to compete with Associated Press in later time zones. The United States Supreme Court affirmed the injunction of the trial court prohibiting the copying "until its commercial value as news to the complainant and all its members had passed away."[108]

To the defendant's argument that, once published, the news became public property, the court replied:

> 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 complainant and defendant, competitors in business, as between themselves. . . . In doing this defendant, by its very act, admits that it is taking material that has been acquired by complainant as the result of organization and the expenditure of labor, skill, and money, and which is salable by complainant for money, and that defendant in appropriating it and selling it as its own is endeavoring to reap where it has not sown, and by disposing of it to newspapers that are competitors of complainant's members is appropriating to itself the harvest of those who have sown. Stripped of all disguises, the process amounts to an unauthorized interference with the normal operation of complainant's legitimate business precisely at the point where the profit

[104] 1 CALLMANN § 8.3. *See generally* 2 CALLMANN §§ 51-62.3; Callmann, *He Who Reaps Where He Has Not Sown: Unjust Enrichment in the Law of Unfair Competition,* 55 HARV. L. REV. 595 (1942); Sell, *The Doctrine of Misappropriation in Unfair Competition,* 11 VAND. L. REV. 483 (1958); *Developments* at 932-59; Note, 6 SYRA. L. REV. 317 (1955).

[105] *Developments* 933.

[106] *E.g.,* Prest-O-Lite Co. v. Davis, 209 F. 917 (S.D.Ohio 1913); Fonotipia Ltd. v. Bradley, 171 F. 951 (E.D.N.Y. 1909); F.W. Dodge Co. v. Construction Infor. Co., 183 Mass. 62, 66 N.E. 204 (1903).

[107] 248 U.S. 215 (1918).

[108] *Id.* at 245.

> from those who have earned it to those who have not; with special advantage to defendant in the competition because of the fact that it is not burdened with any part of the expense of gathering the news. The transaction speaks for itself, and a court of equity ought not to hesitate long in characterizing it as unfair competition in business.[109]

In effect, the court expanded the concept of unfair competition beyond "passing" or "palming off" to the theory of unjust enrichment.[110] The court disregarded the traditional grounds upon which unfair competition gave relief: where the defendant was "passing off" or did acts which the court considered unfair under the traditional concepts of fraud and force. More than any case before it, recognition was given to the concept that unfair competition is based on a relationship between competitors instead of some general property right.[111] Thus, the case altered unfair competition by placing particular emphasis on "unfairness" and affording relief unavailable by other legal means.[112]

The genius of the decision is also its handicap. Because it is so innovative and unlimited,[113] many courts have accepted it only grudgingly[114] or rejected it altogether.[115] It would appear that either the courts are unwilling to get into the problem of adjusting interests or are unable to do so because they are still struggling with an outmoded analysis based on a traditional and very limited view of property.[116]

But where the concept has been followed, four general theories of protection have appeared.[117] Some courts base protection in

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[109] *Id.* at 239-240.

[110] Callmann, *He Who Reaps Where He Has Not Sown: Unjust Enrichment in the Law of Unfair Competition,* 55 HARV. L. REV. 595, 597 (1942).

[111] *Id.*

[112] Sell, *The Doctrine of Misappropriation in Unfair Competition,* 11 VAND. L. REV. 483, 486 (1958).

[113] *See* Note, 47 HARV. L. REV. 1419 (1934).

[114] *E.g.,* RCA Mfg. Co. v. Whitman, 114 F.2d 86 (2d Cir. 1940), *cert. denied,* 311 U.S. 712 (1940); Cheney Bros. v. Doris Silk Corp., 35 F.2d 279 (2d Cir. 1929), *cert. denied,* 281 U.S. 728 (1930); Desclee & Cie., S.A. v. Nemmers, 190 F. Supp. 381 (E.D. Wis. 1961).

[115] *E.g.,* Addressograph-Multigraph Corp. v. American Expansion Bolt & Mfg. Co., 124 F.2d 706 (7th Cir. 1941) (Illinois law); Triangle Publications, Inc. v. New England Newspaper Publishing Co., 46 F. Supp. 198 (D. Mass. 1942) (Massachusetts law).

[116] *See* Sell, *The Doctrine of Misappropriation in Unfair Competition,* 11 VAND. L. REV. 483, 498 (1958).

[117] This analysis is found in *Developments* 935-37.

terms of property rights, but this is a circular position since property rights can only result from legal protection. Because many irrelevant connotations arise with the term "property," this view is probably misleading in the misappropriation area. A second group of courts rationalizes the protection on the basis of contract rights whenever possible.[118] A third group of cases seems to grant protection on the basis of the general equitable-moral principle that "one should not reap where he has not sown." This approach, being vague and somewhât arbitrary, can explain why other courts have not been disposed to accept the doctrine. Finally, some decisions can be rationalized on the ground that the court is considering the economic impact of the defendant's actions on both the plaintiff and society in general. These courts try, although not expressly, to balance the defendant's interest in free access against the plaintiff's interest in having enough protection so that he can and will continue to invest in and play the competitive game.

The application of the doctrine has resulted in groupings of various kinds: the broadcasting cases, dress design cases, product design cases, phonograph cases, printing cases and business organization cases.[119] Only the phonograph type case seems to have arisen in North Carolina.

In *Waring v. Dunlea,*[120] a diversity action in federal district court, Fred Waring sought to enjoin defendant-radio station from playing his recordings. On the record was the notice that it was to be used only on the Ford Motor Program and only by a distributee of Waring. The defendant radio station was not a distributee and did not confine its broadcast to the Ford Motor Program. The court answered in the affirmative its own question as to whether the plaintiff had a "distinct and separable property right" in his unique rendition of music. The court thought the modern trend was toward expanding personal property rights. As the plaintiff's performance was not considered a publication, the court gave protection.

Although the court seemed to be fenced in by the traditional

[118] *E.g.,* Cable Vision, Inc. v. KUTV, Inc., 211 F. Supp. 47 (D. Idaho 1962), *cert. denied,* 379 U.S. 989 (1965).

[119] Regarding the respective groupings, "[R]elief is almost always granted in news cases resembling INS, and often in cases involving broadcasting, records and business organizations. Protection is less often afforded to designs not safeguarded by statute, and almost never extended to highly abstract concepts." *Developments* 937.

[120] 26 F. Supp. 338 (E.D.N.C. 1939).

approach toward competition since it made reference to property interests, it also discussed what it considered to be the best public policy: protection of the individual artist and his restrictive covenants in order to provide a stimulus for further creation. The court concluded that to allow the defendant to benefit from the plaintiff's work would be an unfair trade practice, thus echoing the equitable principal established in *International News Service.*

Actually, *Waring v. Dunlea* is only a rehash of *Waring v. WDAS Broadcasting Station, Incorporated.*[121] The problem there was essentially the same and the Pennsylvania court concluded that Waring had common law rights in his performance, that there was no public policy reason why the restriction on the records should not be enforced, and finally, that the plaintiff was entitled to protection from the defendant's appropriation under the rationale expressed in *International News Service.*

Whether the district court in the North Carolina version of the *Waring* cases was speaking of North Carolina law and whether the pronouncements the court made are to be considered binding as part of North Carolina's jurisprudence are now a moot questions.[122] Just after the decision came a legislative reversal of *Waring v. Dunlea.* The statute abolished "all asserted common-law rights to further restrict or to collect royalties on the commercial use made of such recorded performances" and deemed that "any asserted intangible rights" passed to the buyer of the record.[123] In common law terminology, the legislature in effect declared the restrictions to be restraints on alienation or thought that the performer had lost his rights through publication. Any value the performer had was not based on the restrictions, but would be realized through sale of the record.[124]

It has been suggested that in any misappropriation case the plaintiff must not only show that the defendant is appropriating his intangible property, but also that more public good than harm will result from protection of this property.[125] Such a position leaves

[121] 327 Pa. 433, 194 A. 631 (1937).

[122] The district court did not make reference to whose law it was applying nor did it refer to a single North Carolina case, but its decision should have been based on North Carolina law since *Erie v. Thompkins,* 304 U.S. 64 (1938), had been decided earlier.

[123] N.C. GEN. STAT. § 66-28 (1965).

[124] *Id.*

[125] *See Developments* 941.

courts free to make broad policy considerations and to come ultimately to conclusions which reflect whether the court is more concerned with the protection of property rights and regulation of competitive behavior than with the prevention of extending protection so far that a virtual monopoly is established. Both views have their merit and neither should be considered as an all or nothing proposition, i.e., protection should be afforded business interests to the extent that such protection does not shade into judicial establishment of a superior position in the competitive structure. Thus, to indicate whether the legislative determination not to give effect to the restrictions placed on records is either good or bad from a policy viewpoint does not say much because either result is somewhat arbitrary and line-drawing. Suffice it to say that North Carolina's legislative policy indicates it has drawn the line against protection in favor of freer use of recordings. Since this freer use of records has not harmed the record industry, it can be argued that public interests have been served.

From another viewpoint, the legislation poses the possibility that the common law protection of intangible property interests may be abolished in favor of new statutory standards or by leaving the party to protection under federal laws—patent, trademark, or copyright.[126] In fact, the North Carolina legislation leaves the performer to his federal rights. Although there is some question whether legislation can cover the variety of intangible interests possessed by businesses today, it can at least make clearer the limits of protection and remove conflicting authority.[127]

STATUTORY REGULATION OF UNFAIR TRADE PRACTICES

North Carolina's legislative approach to the regulation of business practices has been ad hoc and lacking in overview. Because the penalties provided for unfair trade in the legislative sense are criminal and not civil, the provisions are concerned with specific industries and are detailed as to what an unfair trade practice is. This approach is only tangential to the focus of attention given in this comment because the legislature is not adjusting the conflicting interests of competitors. Rather, the legislation either provides a

[126] This is basically the position taken by the United States Supreme Court in *Sears* and *Compco*. See footnotes 60 and 61 *supra*.

[127] *See* Comment, *Unfair Competition Protection After Sears and Compco*, 40 N.Y.U.L. REV. 101, 152-153 (1965).

standard of conduct supposed to keep the public from being imposed upon or defrauded[128] or imposes regulations on industries clothed with public responsibilities.[129] Most of the legislation appears to be only infrequently used, but an interesting question is what significance a conviction for a statutory violation would have in a civil action based on some notion of unfair competition.

Notwithstanding the penal approach, two provisions provide for civil remedies. One already discussed is that concerning trademarks.[130] The other provision is the Fair Trade Act.[131] Of doubtful public benefit, this exemption from the federal antitrust law allows manufacturers to impose a minimum price below which the retailer or wholesaler cannot sell. It is unfair competition for a person to "willfully and knowingly" advertise, offer for sale, or sell the product in question below the resale price established in the contract between the manufacturer and the retailer or wholesaler.[132] Any one damaged thereby can sue for damages arising out of this breach of contract.[133]

The statute in effect eliminates much competitive behavior. This is contrary to the position taken in both state and federal antitrust law as well as unfair competition. Under the most rudimentary principle of unfair competition, that which is not "unfair" is not actionable.[134] Thus, the cutting of prices, disregarding any malicious intent to drive the competitor out of business, has long been deemed the gist of the game played by businessmen. Take this away and very little is left upon which to base a competitive economy.

SUMMARY OF UNFAIR COMPETITION IN NORTH CAROLINA

The law of unfair competition in North Carolina is not unlike that found elsewhere: it is often vague, assuming instead of analyt-

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[128] *See* N.C. GEN. STAT. §§ 66-73 to -75 (1965) (detailed regulation of the diamond industry); N.C. GEN. STAT. §§ 119-1 to -13 (1964) (regulating the sale of lubricating oils, auto fuels, and other lubricants).

[129] *See* N.C. GEN. STAT. §§ 58-54.1 to -54.13 (1965) (regulating insurance practices); N.C. GEN. STAT. § 66-58 (1965) (regulation of government in private enterprise); N.C. GEN. STAT. § 106-266.21 (1966) (prohibiting the sale of milk below cost to injure or destroy competition); and N.C. GEN. STAT. §§ 106-496 to -501 (1966) (regulation of handling of farm products).

[130] See notes 37 to 48 *supra.*

[131] N.C. GEN. STAT. §§ 66-50 to -57 (1965).

[132] N.C. GEN. STAT. § 66-56 (1965).

[133] *Id.*

[134] *See* Carolina Motor Service, Inc. v. Atlantic Coast Line R.R., 210 N.C. 36, 185 S.E. 479 (1936) where the court said in traditional language that any loss resulting from lawful competition was *damnum absque injuria.*

ical, but generally capable of giving a traditional form of relief. This traditional common law approach has been the subject of well deserved criticism in that its "pigeon hole" type of analysis prevents the court from adjusting economic interests of competitors and society generally. A review of North Carolina cases reveals the basic common law approach toward unfair competition: emphasis on traditional property concepts, "passing off," and alleged elasticity of coverage within the doctrine of unfair competition. Thus, the general criticism made of the common law is applicable.

Furthermore, even if one can find favor with the common law concepts, the court has not made any significant strides in improving its analysis under the common law. The older cases seem just about as well reasoned as the more recent ones. In most cases the court has merely stated the rule it thought applicable without delving into the larger interests involved. Thus, North Carolina law cannot be classified as promoting either a policy which protects the interests of businessmen or one giving particular concern to the establishment of monopolies.

The court can legitimately be criticized for its failure to overrule outdated precedent, to distinguish prior cases, and generally to indicate just what its exact position on many matters of unfair competition is. Perhaps all the *ipso facto* approaches and the inconsistencies result from a lack of a commercial sophistication like that found in New York or Pennsylvania. Whatever the reason, most of the intricate problems of unfair competition have not arisen in North Carolina. Thus, it is unclear just how the court would stand on more than just rudimentary problems. But the North Carolina court should not feel any restraint on its judgment, and it is hoped future developments reflect an adjustment to competitive and market needs.

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