

June 2014

Unfair Competition

Beatrice R. Rapoport

Follow this and additional works at: <https://scholarship.law.stjohns.edu/lawreview>

Recommended Citation

Rapoport, Beatrice R. (1933) "Unfair Competition," *St. John's Law Review*: Vol. 8 : No. 1 , Article 16.
Available at: <https://scholarship.law.stjohns.edu/lawreview/vol8/iss1/16>

This Note is brought to you for free and open access by the Journals at St. John's Law Scholarship Repository. It has been accepted for inclusion in St. John's Law Review by an authorized editor of St. John's Law Scholarship Repository. For more information, please contact selbyc@stjohns.edu.

advantage.²⁵ Fault would arise from a breach of duty or an act of negligence proximately resulting in loss.²⁶

In *American Surety Co. v. Empire Trust Co.*²⁷ the Court held that the question of whether plaintiff's assignee was estopped by reason of negligence was for the jury. On appeal, however, the Court of Appeals, speaking through Lehman, J., says: ²⁸ "The drawee owed the drawer the duty of paying the draft only to the payee named. The drawer owed to the drawee the duty only that it would not by act or misrepresentation facilitate a fraud upon it. Alleged negligence in delivering a draft or check to a person not authorized by the payee to receive it is 'immaterial' ²⁹ where a party discounts or pays a draft without sufficient identification of the payee and upon a forged indorsement. * * * Negligent failure by the drawer to protect itself against fraud in procuring the making of the drafts does not cast upon the drawer the risk that they will be paid upon a forged indorsement."

It is held, therefore, that, as a matter of law, it is immaterial that the drawer was negligent in not discovering the forgery since there was no such duty on the drawer to ascertain such fact. The drawee's reliance on the subsequent *bona fide* indorsements does not relieve it from its liability since it is negligence on its part to rely thereon, and the drawer is not precluded from recovering.

VINCENT G. ROMANO.

UNFAIR COMPETITION.

The law governing unfair competition, although still in its infancy, is rapidly approaching the point where definite judicial reaction may be satisfactorily noted as curbing unfair procedure in trade.

Fundamentally, the controversy involved trade-names.¹ The once well settled rule that an injunction would not be granted unless there was actual competition in the sale of similar merchandise

²⁵ *Morgan v. Railroad Co.*, 96 U. S. 716 (1877).

²⁶ *Supra* note 13.

²⁷ 228 App. Div. 572, 240 N. Y. Supp. 164 (4th Dept. 1930).

²⁸ *Supra* note 4, at 106, 186 N. E. at 437, 438.

²⁹ Italics author's.

¹ Trade-name denotes "all symbols in reference to which a reputation may be established (*e.g.*, trade-names, including geographical, corporate and personal names; devices such as collocations of colors, peculiar sizes and shapes; distinctive methods of advertising and marketing generally) which, not being subject to exclusive appropriation, are protected under the law of unfair competition as contrasted with technical trade-marks, registerable for exclusive use under modern statutes, and protectable under the common law of trade-marks." (1930) 30 COL. L. REV.. 695.

or services, was based on the theory that injury would result only when the public was deceived by the misrepresentation. The tendency today, however, is to grant protection to a firm regardless of the existence of actual competition. "If the designation of two firms are identical, or nearly so, and if their businesses are so similar as to cause the public to confuse one with the other, or to believe that they are affiliated, the second corporation which adopts the name will be required to differentiate itself, even though there is no likelihood of confusion between their products."²

The departure from the old rule is well illustrated in *John Forsythe Co., Inc. v. Forsythe Shoe Corp.*³ The plaintiff was entitled to an injunction restraining the defendant from using the word "Forsythe" or "Forsythe Shoes" as descriptive of its store or goods.⁴ The injunction was granted to prevent threatened competition which was unfair and calculated to impair the value of plaintiff's trade-name or to deceive the public. "Almost invariably the selection by a defendant for use in his business of a trade-name or mark which has theretofore been used and advertised by another, is for the purpose of appropriating its value and reaping the benefit of the labor of him who may have made that name an emblem of quality, or of tastes, or a symbol of fair dealing."⁵ Equity does not shirk from interfering to prevent such spoliation. Names other than plaintiff's there are in plenty which the defendant could have selected."⁶

A similar attitude was taken in *Long's Hat Stores Corp. v. Long's Clothes, Inc.*⁷ In an action by the plaintiff to enjoin the defendant from using the name of "Long's Clothes, Inc." evidence that the plaintiff conducted the business of selling at retail hats, and at times clothing, and intended to resume the clothing branch

² (1933) 46 HARV. L. REV. 1185.

³ 234 App. Div. 355, 254 N. Y. Supp. 584 (1st Dept. 1932); modified, 259 N. Y. 248, 181 N. E. 467 (1932).

⁴ Prior to plaintiff's incorporation, the trade-name had been used by a firm selling men's and women's apparel, including women's shoes. Plaintiff, since its incorporation and purchase of this widely known trade-name, had conducted retail stores selling men's haberdashery and apparel and had intensively advertised "Forsythe" to designate its merchandise. Plaintiff, except for the occasional sales of ladies' hosiery, had not dealt in ladies' apparel or shoes.

⁵ Judge Hand: "It has of recent years been recognized that a merchant may have sufficient economic interest in the use of his mark outside the field of his own exploitation to justify interposition by a court. His mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill. If another uses * * * it, he borrows the owner's reputation, whose quality no longer lies within his own control. This is an injury, even though the borrower does not tarnish it, or divert any sales by its use; for a reputation, like a face, is the symbol of its possessor and creator, and another can use it only as a mask. And so it has come to be recognized that unless the borrower's use is so foreign to the owner's as to insure against any identification of the two, it is unlawful." *Yale Electric Corp. v. Robertson*, 26 F. (2d) 972 (1928).

⁶ *Supra* note 1.

⁷ 224 App. Div. 497, 231 N. Y. Supp. 107 (1st Dept. 1928).

of the business, that no member of the defendant corporation was named Long, and that no explanation was offered for the coincidence of names, showed intention to take advantage of plaintiff's trade-name and reputation, causing damage to plaintiff by appropriation of good will⁸ and authorized the injunction to restrain unfair competition, though the defendant was selling clothes. In the enjoyment of its trade-name the corporation is to be protected, not only with respect to merchandise it presently sells, but also in respect to merchandise which the public would believe it was selling, through deception practiced by another.

*Tiffany & Company v. Tiffany Productions, Inc.*⁹ is the greatest step in the departure from the old rule. Here, plaintiff sued to restrain the defendant from using the name "Tiffany" in the defendant's business, claiming that it had established a universal reputation on a widely advertised business in a variety of lines, including especially, diamonds, jewelry, and silverware. The Appellate Division found that the defendant, a motion picture producer, chose the name for the sole reason of trading on plaintiff's reputation and reaping the benefits of the public's belief that the plaintiff was connected with the defendant. This might be called stretching the point a bit, but it is now a pillar in the competition law. In an opinion of Coxe, J.: "The real injury in such non-competitive cases is the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods. The more distinctive or unique the mark the deeper it is impressed upon the public consciousness and the greater its need for protection against vitiation or dissociation from the particular product in connection with which it has been used."¹⁰

The most recent decision restraining unfair competition ruled that one might do business under one name and symbolize business by another.¹¹ In this case, the controversy between the plaintiff and the defendant was over the use of the word "Universal Tours" as a trade-name and symbol which described their travel agency. Plaintiffs' predecessors had adopted "Universal Tours" as a trade-name in their travel agency business in 1915; in 1924 plaintiffs' predecessors adopted the legend "Universal Lehrenkrauss Travel Agency" as the trade-name; in 1925 the plaintiffs adopted "Universal Travel Agency" as the trade-name; neither the plaintiffs nor their predecessors had discontinued nor abandoned the use of said

⁸ "In short, the trade-mark is treated as merely a protection for good will, and not the subject of property except in connection with an existing business." *Hanover Star Milling Company v. Metcalf*, 250 U. S. 403, 36 Sup. Ct. 357 (1916).

⁹ 237 App. Div. 801, 260 N. Y. Supp. 821 (1st Dept. 1932), *aff'd*, 262 N. Y. —, *Advance Sheet* 1694, June 17, 1933.

¹⁰ *Alfred Dunhill of London, Inc. v. Dunhill Shirt Shop, Inc.*, 264 N. Y. Supp. 462 (1929).

¹¹ *Lehrenkrauss v. Universal Tours, Inc.*, 262 N. Y. 332, 186 N. E. 802 (1933).

trade-names; that said trade-names had acquired a secondary meaning; that the defendant company was engaged in a travel agency business in New York City under the name "Universal Tours, Inc." and was incorporated after its predecessors in title had received actual notice of plaintiffs' claim of exclusive right to the trade-name "Universal Tours"; and that the use by the defendant of the name "Universal Tours" as a part of its corporate name has caused confusion in the trade with the result that numerous concerns have extended credit to tourists bearing credentials issued by the defendant and have forwarded said credentials to the plaintiffs for redemption in the mistaken belief that said credential emanated from or were issued by the plaintiffs.¹² Here it was found that the plaintiffs' predecessors adopted the trade-name as early as 1915, and continuously employed the same, without regard to the name or assumed name under which they did business. The trade-name remained the plaintiffs' property throughout. They identified that name with their travel agency business. It became a symbol descriptive of their business.¹³ The symbol "Universal Tours" was inseparably attached to the plaintiffs' business, under whatever name such business was conducted; that there was no non-user and no intent to abandon the name.¹⁴ The appropriation by the defendant of the plaintiffs' trade-name as an assumed name under which to do the same kind of business and as a corporation, with knowledge and notice that such name was the property of the plaintiffs', subjected the plaintiffs to unfair competition and an invasion of the good-will acquired by them for their trade-name and they are entitled to an injunction

¹² "The Appellate Division made new findings of fact and dismissed the complaint. Such findings were based largely on the fact that P.'s predecessors, after having filed in the Kings County Clerk's office (Penal Law §440) to the effect that they were conducting business under the assumed name of 'Universal Tours' and 'Universal Tour Company,' filed in February, 1924, in said Clerk's office, certificates discontinuing the assumed names 'Universal Tours' and 'Universal Tour Company.'" 262 N. Y. 332, 335, 186 N. E. 802, 803 (1933).

¹³ A person who uses an unregistered name or mark can prevent others from using the same so as to deceive the public into thinking that the business carried on by such persons and the goods sold by them are his. *Fisher v. Star Company*, 231 N. Y. 414, 132 N. E. 133 (1921).

¹⁴ To constitute an abandonment of trade-marks there must be not only non-user, but also an intent to abandon. A trade-mark is not the subject of property, except when it is used in connection with an existing business. *Rockwitz Corset & Brassiere Corp. v. Madam X Company*, 248 N. Y. 272, 277, 162 N. E. 76 (1928). "One does not, it is repeatedly declared, lose his right to protection against an infringing use of the mark (in the absence of laches, acquiescence, or unclean hands) unless one *intends* to abandon the marks. To establish the defense of abandonment, it is necessary to show not only acts indicating a practical abandonment, but an actual intent to abandon. Acts which unexpectedly would be sufficient to establish an abandonment may be answered by showing that there never was an intention to give up and relinquish the right claimed, and when the use of a trade-mark is abandoned or given up with no intention to resume its use, this amount to an offer of it to the public which anyone may accept." (1930) 30 Col. L. Rev. 695.

perpetually restraining the defendant from the use, as part of its corporate name, the words constituting the plaintiffs' trade-name.

"With the attention of legislatures throughout the country focused upon emergency measures necessitated by current economic and financial conditions, it is not surprising that but few statutes were passed dealing with unfair competition."¹⁵ However, the numerous recent decisions indicate that the day has passed when developments in this field await the process of change in the judicial concepts of fair trade.

BEATRICE R. RAPOPORT.

NEGOTIABLE INSTRUMENTS—MISAPPLICATION OF FUNDS BY USE OF CHECKS—RECOVERY FROM PAYEE.

The courts of this state have adopted certain rules to protect corporations and trusts from misapplication of funds by persons authorized to issue checks of such corporation or trust. The general rule of law on this subject is that even when the officer has authority to issue checks, a person who receives a check drawn on the funds of the corporation or trust, to satisfy a debt of the officer, is put on notice to inquire if his authority extends to such use of the corporation or trust funds. This question has generally come before the courts in cases where the officer has deposited in his own account a check drawn by him on the corporation or used the check to reimburse the bank for a personal obligation. Another variation is where the officer has used a corporation check drawn by himself to reimburse a debtor.¹

In *Aneless Corporation v. Albert E. Woodward*,² an officer of the plaintiff was indebted to the defendant and, in order to discharge this obligation, issued a check of the plaintiff to the order of defendant. He then deposited the check in a bank in the name of defendant, having endorsed it "for deposit to the account of" defendant and signed the name of the corporation and his own as treasurer. He then delivered the duplicate deposit slip to defendant, who was thereby enabled to obtain the funds from the collecting bank. The plaintiff sought to recover the funds so acquired by the defendant. The Court of Appeals held "that we cannot hold that the actual facts, one of the essentials being unknown to the principal and the other unknown to the agent, can be so combined as to impute to the principal knowledge of the whole transaction."

¹⁵ (1933) 46 HARV. L. REV. 1194.

¹ Cohnfeld v. Tanenbaum, 176 N. Y. 126 (1903).

² Aneless Corporation v. Woodward, 262 N. Y. 326, 186 N. E. 800 (1933).