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NOTES

CORPORATIONS—EFFECT OF STATUTES ON SIMILARITY OF CORPORATE NAMES

Beginning with the earliest case law relating to corporations, there has been recognized a common law right which entitles a corporation to be protected in the use of its corporate name.¹ The rule, as frequently stated, is that the courts of equity will protect a corporation from the use of the same or a similar name by another corporation.² The courts, however, have varied somewhat as to the theory upon which to base this protection. The early cases protected corporate names by drawing an analogy to the law of trademarks. In one early case it was said:

The same principles apply in cases of the similarity of corporate names and those of the similarity of trade-marks, each being entitled to protection under identically the same rules and principles. The name of a corporation from necessity is its trade-marks.³

Other courts, however, found that the protection which was extended by trademark law was not broad enough to give relief in some situations, for instance when a generic name or term was used or appropriated.⁴ Courts of equity in later cases have, therefore, based the protection of corporate names upon a broader ground, that is, the right to protection against unfair competition, which may exist even in the absence of a technical trademark.⁵

In the majority of the states today there are not only the common law elements of trademark and unfair competition to consider but also statutes. Today in most states the corporation laws contain a specific statutory prohibition against the acquisition by new corporations of names the same as or similar to names already in existence. The applicable section of the Kentucky statute is typical and was copied directly from the Model Business Corporation Act. It reads:

¹ *Investor Publishing Co. v. Dobinson*, 72 Fed. 603 (C.C.S.D. Cal. 1896); *Industrial Mutual Deposit Co. v. Central Mutual Deposit Co.*, 112 Ky. 937, 66 S.W. 1032 (1902).

² 6 FLETCHER, *CYCLOPEDIA OF THE LAW OF PRIVATE CORPORATIONS* 27 (1950).

³ *Telephone Mfg. Co. v. Sumter Telephone Mfg. Co.*, 63 S.C. 313, 41 S.E. 322, 334 (1902).

⁴ *Merchants' Detective Association v. Detective Mercantile Agency*, 25 Ill. App. 250 (1888); *Umpqua Broccoli Exchange v. Um-Qua Valley Broccoli Growers*, 117 Or. 678, 245 P. 324 (1926).

⁵ *Brooks Bros. v. Brooks Clothing of Calif., Ltd.*, 60 F. Supp. 442 (1945); 6 FLETCHER, *CORPORATIONS* 32-33 (1950).

Except as provided in KRS 271.435, the corporate name shall not be the *same as*, nor *deceptively similar to*, the name of any other domestic corporation or of any foreign corporation authorized to do business in this state. . . . [Italics added.]⁶

A question frequently arising under statutes of this type has been whether they are merely declaratory of the existing common law or whether they were intended to broaden the basis of protection of corporate names. In the great majority of cases the courts have not discussed the issues before them in the light of the statutes or have said that the statutes have added nothing to the common law.⁷ In support of this view, Fletcher says, "It is questionable whether such statutes do more than codify, for purposes of incorporation, the common law of unfair trade. . . ."⁸

A recent Kentucky case is typical of this view and espouses the rationale of this approach. In *Burnside Veneer Corp. v. New Burnside Veneer Co.*,⁹ the Burnside Veneer Corporation sought to enjoin the use by the New Burnside Veneer Company of that name. The facts show that there was no actual competition between these businesses since the plaintiff, was merely a holding company of the Kreamer Veneer Company of Junction City, Kentucky, and the defendant was a manufacturer of wood veneer. But the court said that corporate

⁶ KY. REV. STAT. sec. 271.045 (2) (1953); MODEL BUSINESS CORP. ACT sec. 4, found in 9 UNIFORM LAWS ANNOTATED 52, 60 (1951). For statutes in other states having them, see: Alabama, ALA. CODE ANN. tit. Corp. sec. 2(1) (1940); California, CALIF. CORP. CODE sec. 310 (Deering 1953); Colorado, COLO. REV. STAT. ANN. sec. 31-1-6 (1953); Delaware, DEL. CODE ANN. tit. Corp. sec. 102 (1) (1953); Florida, FLA. STAT. sec. 608.03 (1953); Idaho, IDAHO CODE ANN. sec. 30-107 (1947); Illinois, ILL. REV. STAT. c. 32, sec. 157.9 (1953); Indiana, IND. ANN. STAT. sec. 25-203 (b) (Burns 1948); Kentucky, *supra* this note; Louisiana, LA. REV. STAT. sec. 12:4 (1950); Maine, ME. REV. STAT. ANN. c. 54, sec. 13 (1954); Maryland, MD. ANN. CODE art. 23, sec. 5 (3) (1951); Massachusetts, MASS. ANN. LAWS. c. 155, sec. 9 (1953); Michigan, MICH. COMP. LAWS, sec. 450.6 (Mason Supp. 1952); Minnesota, MINN. STAT. sec. 301.5 (1953); Mississippi, MISS. CODE ANN. sec. 5322 (1942); Missouri, MO. REV. STAT. sec. 351.110(3) (1949); Montana, MONT. REV. CODES ANN. sec. 15-111(2) (1947); Nebraska, NEB. REV. STAT. sec. 21-104 (1954 Reissue); Nevada, NEV. COMP. LAWS SEC. 1603 (1930); New Hampshire, N.H. REV. LAWS c. 274, sec. 3 (1942); New Jersey, N.J. REV. STAT. sec. 14:2-3 (1937); New Mexico, N.M. STAT. ANN. sec. 51-2-8 (1953); New York, N.Y. GEN. CORP. LAWS sec. 9; North Carolina, N.C. GEN. STAT. sec. 55-2(1) (1950); Ohio, OHIO REV. CODE ANN. sec. 1701.08 (1954); Oklahoma, OKLAHOMA STAT. tit. 18, sec. 1.11(c) (1951); Oregon, OR. REV. STAT. ANN. sec. 57.045(c) (1953); Pennsylvania, PA. STAT. ANN. tit. 15, sec. 442 (Purdon 1938); Rhode Island, R.I. GEN. LAWS c. 116, sec. 7 (1938); South Carolina, S.C. CODE sec. 12-58 (1952); Utah, UTAH CODE ANN. sec. 16-2-3 (1953); Virginia, VA. CODE ANN. sec. 13-24 (1950); Washington, WASH. REV. CODE sec. 23.12.030 (1951); West Virginia, W. VA. CODE ANN. sec. 3018(a) (1955); Wisconsin, WIS. STAT. sec. 180.07(3) (1953).

⁷ *Driverless Car Co. v. Glessner-Thornberry Driverless Car Co.*, 83 Colo. 262, 264 P. 653 (1928); 13 AM. JUR. 271-272 (1938); 66 A.L.R. 959 (1930).

⁸ 6 FLETCHER, CORPORATIONS 15 (1950).

⁹ 247 S.W. 2d 524 (Ky. 1952).

names could be protected even though no actual competition existed.¹⁰ However, the court denied relief saying:

After the enactment of this statute, this court invoked the common law rule and refused to grant protection to a geographic name. *City of Indian Hills v. Indian Hills Development Co.*, 310 Ky. 104, 219 S.W. 2d 776. The aforesaid statute was not discussed in the opinion, but common law principles were wholly relied upon and hence are still applicable in this jurisdiction.

As stated before, the statute involved . . . is part of the codification of our law of private corporations. . . . Its purpose is to regulate the acquisition of and afford protection to corporate names. For us to construe it in a manner which would create exclusive rights in geographic or generic terms would lead to absurd results, of such scope it can fairly be presumed that they would have been expressly mentioned in the statute had the Legislature intended them.¹¹

The question arises as to whether the Kentucky court, and courts in other states which have reached similar results, are justified in deciding these cases entirely upon the common law without any consideration of the statutory language. It is significant that a minority of courts have adopted a different view from that of Kentucky and the majority. For example, under the common law it was frequently held that before a corporate name would be protected there must be shown an actual use of the name.¹² Thus in *Blackwell's Durham Tobacco Co. v. American Tobacco Co.*,¹³ the North Carolina court held that an actual user of the corporate name was necessary even though a statute similar to that of Kentucky was in effect in the jurisdiction. The court said that it would be against the public policy of the state to allow the creation of a monopoly in a corporate name which is never used.¹⁴ The court reached this result by relying entirely upon the trademark cases and did not mention the wording of the statute. However, in *Drugs Consolidated, Inc. v. Drugs Incorporated*,¹⁵ the Delaware court held that a similar statute changed the common law rule, saying that the statute removed the necessity of showing actual use in business of the corporate name. It was said that the statutory provision was intended to broaden the basis of protection of corporate names.¹⁶

The greatest area of litigation in this field has not evolved around the necessity of an actual user but rather around the scope of protec-

¹⁰ Citing, *Churchill Downs Distilling Co. v. Churchill Downs Inc.*, 262 Ky. 567, 90 S.W. 2d 1041 (1936).

¹¹ *Supra* note 9 at 525, 526. It might be pointed out that the Kentucky court did not consider any of the prospective "absurd results."

¹² *Borden Ice Cream Co. v. Borden's Condensed Milk Co.*, 201 Fed. 510 (1912).

¹³ 145 N.C. 367, 59 S.E. 123 (1907).

¹⁴ *Id.* 59 S.E. at 126-127.

¹⁵ 144 A. 656 (Del. Ch. 1929).

¹⁶ *Id.* at 657.

tion when the use of a geographical or generic term is involved. As stated above, the great majority of cases have applied the common law rule of trademarks and have held that words which merely describe the kind of business engaged in or the place where the business is carried on are not capable of exclusive appropriation and will not be protected unless the words have acquired in the mind of the public a secondary meaning which denotes the goods or business of a particular company. The reasoning of the line of cases rejecting the applicability of the statutes to this situation is illustrated by the *Burnside* case in which it was said that to allow exclusive appropriation of a generic or geographical name would lead to "absurd results."¹⁷

Other courts, in another line of cases, have thought that this view is open to the objection that there is too little stress placed upon the words of the statute. All of these courts, however, have not approached the problem in exactly the same manner. In the Washington case of *Diamond Drill Contracting Co. v. International Diamond Drill Contracting Co.*,¹⁸ the plaintiff and defendant were both in the business of drilling with diamond tipped drills. The plaintiff had been in this business for a number of years when the defendant first incorporated. The facts showed that there was no actual confusion concerning the identity of the two businesses because they only dealt with the limited number of persons who had reason to hire specialists of this type, such persons hiring drillers by the reputation of the individual driller rather than by the reputation of the corporation. The defendant contended that the term "diamond drill" was generic and therefore not capable of protection. Concerning the breadth of protection afforded corporate names by a statute similar to that of Kentucky then in existence in the jurisdiction, the court said:

The statute does not confine its protection of the name of a corporation first adopting it to any particular or special class of name, and the protection afforded is more comprehensive than that given under the law of trade-name or trade-marks, and protects even those purely descriptive titles without secondary meaning, but this protection is always against the use of a name 'so clearly resembling' the prior name 'as to be misleading.'¹⁹

This view clearly puts all the emphasis upon the words of the statute. But in deciding whether the name "so clearly resembled" the prior name "as to be misleading" the court conceded that a corporation could not adopt words *purely* descriptive of a type of business then in

¹⁷ Also see *Driverless Car Co. v. Glessner-Thornberry Driverless Car Co.*, *supra* note 7; Note, 28 CALIF. L.R. 766 (1940).

¹⁸ 106 Wash. 72, 179 P. 120 (1919).

¹⁹ *Id.* 179 P. at 122.

existence and thus acquire an exclusive right to their use.²⁰ The court then concluded that the case finally resolved itself into a question of fact as to whether the words were merely descriptive or were misleading, finally concluding that the words were merely descriptive and not misleading since the parties were specialists and did not cater to the general public.

Another case adopting somewhat the same approach is the *Drugs Consolidated* case mentioned above. After deciding that the statute extended the protection of the common law the court said that a corporation could use a merely descriptive word such as "drug," but that in view of the statute there must be enough in the remainder of the name to distinguish it from other corporations. The court rejected the "secondary meaning" test of the common law and applied a statutory test, saying that the question was whether or not the name of the defendant was sufficiently distinguishable from that of the plaintiff to satisfy the statute.²¹

Both of the immediately preceding cases rejected the common law approach and substituted a statutory approach. But in both of these cases one of the factors considered by the courts under the statutory approach was whether or not the name was generic or geographical. These courts approached the problem by first discussing whether or not the statute broadened the common law basis of protection. After deciding that the statutes did give a greater breadth of protection than did the common law the courts, however, in the latter portions of their opinions did recognize that there was some justification behind the common law rule and took into a limited consideration the fact that the name sought to be protected was generic or geographical.

In a leading Ohio case, *Cleveland Opera Co. v. Cleveland Civic Opera Association*,²² the court went even further than the above two cases and by its language *completely* rejected the common law approach. The court implied in the early portions of its opinion that the common law would be followed, but concluded in the latter portions of its opinion that the language of the statute was the sole controlling factor in any determination of whether or not the use of any particular name should be enjoined, regardless of its generic or geographical character. The court at first gave lip service to the common law rule

²⁰ *Id.* at 124.

²¹ *Supra* note 15 at 657.

²² 22 Ohio App. 400, 154 N.E. 352 (1926). The language of this case may have been necessary under the facts since the plaintiff had been in the opera business for four years prior to the incorporation of the defendant and "had fully established itself with the public. . . ." Even under the common law the plaintiff might have had protection under the secondary meaning rule.

as to geographical and generic names but then proceeded to grant the injunction saying that the statute prohibited the use of an identical name and a court should give purpose and effect to the intent of the legislature and enjoin the use of a name so substantially similar that it would cause confusion and unfair competition.²³

These three cases point the way toward the proper rule to be applied under these statutes. It should be noticed that the statutes say nothing about any exceptions to their mandate. The courts are to give protection when a new corporation adopts a name "the same as" or "deceptively similar to" that of a previously created corporation.²⁴ The statute makes no provision for an exception when one party is not using the name or when it is geographical or generic. On the other hand, it is easily seen that in some cases "absurd results" might follow if the words of the statute were blindly followed, especially when the term litigated was purely descriptive and there was no confusion because the businesses were not competitors, or the businesses were being conducted in small, widely separated areas, or they catered to small classes of persons who were interested in the person performing the service rather than the name of the corporation. The three last discussed decisions would seem to answer these questions according to the historical common law rule which gave protection in those cases where the corporate names were deceptively similar and there was a probability of confusion. It is to this rule that the courts engrafted the geographical and generic exceptions. The statutes seem to be merely codifications of the *historical* common law view without the exceptions—the test employed whether there is sufficient similarity in the names to mislead or to produce confusion. The geographical or generic character of the name would be considered only to the extent to which it affect the probability of confusion. It would not be considered an absolutely determinative factor as it was in the *Burnside* case.

There are many cases illustrating this rule, dating from early common law to recent cases decided under general corporation statutes. Thus, in the early New York case of *Charles S. Higgins Co. v. Higgins Soap Co.*,²⁵ the court said that whether it should interfere and enjoin the use of a deceptively similar name would be made to turn on the circumstances, that is, the "identity or similarity of the names," the "identity of the businesses" of the respective corporations, the extent of confusion which actually existed or might reasonably be anticipated, and any other circumstances which might justly influence the court

²³ *Id.* 154 N.E. at 354.

²⁴ *Supra* note 6.

²⁵ 144 N.Y. 462, 39 N.E. 490 (1895).

in granting or withholding the remedy. A later Oregon case stated the rule to be that the court should consider all the facts of locality and business and determine whether the use of a particular name could reasonably be calculated to deceive the public and result in injury to the plaintiff.²⁶ Under this rule it is not sufficient that merely *some* person may possibly be misled, but the similarity must be such that an ordinary person, exercising the reasonable care and observation which the public generally is presumed to be capable of using, would be likely to mistake one for the other.²⁷ Or, as another case has stated the rule, the court should not take cognizance of confusion resulting from carelessness or ignorance on the part of the uninformed.²⁸

As stated before, this rule is a common law rule which has had existence independent of the corporation statutes. But if this is the rule that the statutes are intended to establish, and it seems reasonable to assume that it is, the statutes say nothing about any exceptions to its application. The only requisite to the operation of the statutory protection is that the corporate name be the same as or deceptively similar to that of an existing corporation. Under the statutes, unless exceptions are impliedly added by interpretation, the sole test would be similarity and probability of confusion, the geographic or generic character of the name being merely a fact to consider along with all the others. This would seem to be the better view to adopt because it is the only view that places any stress upon the terms of the statute and its mandate.

One example will suffice to illustrate the opposite results that might be reached in any one case when considered first under the common law and second under the statutes as they should be interpreted. In the *Burnside* case in Kentucky the only substantial difference in the names of the corporations was the word "New", the plaintiff corporation being named the "Burnside Veneer Corporation", and the defendant corporation being named the "New Burnside Veneer Company". The court, blindly following the common law geographic and generic exception, said that the name was merely generic and geographic and its use would not be protected unless a secondary meaning had attached to it. The facts of the case show that the plaintiff corporation was incorporated in 1948 and the defendant corporation

²⁶ *Umpqua Broccoli Exch. v. Um-Qua Valley Broccoli Growers*, 117 Or. 678, 245 P. 324 (1926).

²⁷ *Middletown Trust Co. v. Middletown National Bank*, 110 Conn. 13, 147 A. 22 (1929).

²⁸ *Central Mutual Auto Ins. Co. v. Central Mutual Ins. Co.*, 275 Mich. 554, 267 N.W. 733 (1936).

in 1949. It would be extremely difficult for a secondary meaning to attach in that length of time. Secondary meaning attaches to such words as "Standard Oil",²⁹ or "General Electric", words, though primarily generic, which have been associated with one business in such a way and for such a length of time that they are generally understood as referring to that one business.³⁰ The Kentucky court therefore denied the application for an injunction. Thus, under the view of this case, it would be possible for a person to incorporate and open a chain of stores known as "Kentucky Television Inc.," and have no relief against another person who, six months later, opened other stores called "The New Kentucky Television Co.," for these terms would be merely geographical and generic and no secondary meaning would probably have attached in that length of time. However, applying the language of the statute to this example, an injunction would surely be proper because a name "deceptively similar" to that of the first corporation has been adopted by the second corporation and confusion might reasonably be anticipated even in the mind of a person exercising reasonable care and observation.

Therefore, because of the unsatisfactory results which might follow in some cases when the common law exception is applied, it is concluded that the majority of courts have been ill advised in not giving broader effect to the language of the statutes when cases have come before them relating to the protection of corporate names. These statutes should not be considered as codifying the "geographical and generic" exception to the old common law rule, but should rather be considered as establishing a broader basis for the protection of corporate names. Protection should be extended whenever, considering all the circumstances, the resemblance of the names is such that a person of ordinary caution will be confused and deceived.

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²⁹ *Standard Oil Co. of New Mexico v. Standard Oil Co. of California*, 56 F. 2d 973 (1932).

³⁰ *R. H. Macy & Co. v. Macy's Drug Store, Inc.*, 84 F. 2d 387 (1936); *Electric Supply Co. v. Hess*, 139 Wash. 20, 245 P. 27 (1926).