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I. THE CONSTITUTIONALITY OF RESALE PRICE MAINTENANCE

In two cases, *McKesson & Robbins v. Government Employees Department Store, Inc.,*[1] and its companion, *Plough, Inc. v. Hogue & Knott Super Market,*[2] the challenge to resale price maintenance, already successful in twenty-three other states, was brought to the Tennessee Supreme Court by appeals from two opinions holding the Tennessee Fair Trade Law unconstitutional.[3] The historical background of fair trade legislation and the national controversy surrounding it since 1951 provide essential elements of perspective for consideration of these two cases.

The Tennessee act,[4] which is sinilar to fair trade statutes enacted in forty-five states between 1931 and 1941, permits a manufacturer-vendor of a trade-marked or branded product to contract with a distributor-wholesaler or retailer to set the minimum resale price of such product.[5] Prices set by such contracts are, by the so-called "non-signer" clause, made binding on all dealers in the jurisdiction with notice of the basic contract irrespective of whether any dealer has himself entered into such contract. Most statutes provide for civil sanctions in the form of a suit for breach of contract against a signatory party or a statutory action for damages, or an injunction against a non-signer. The effect of such a fair trade statute is to permit a qualifying manufacturer-vendor to blanket the jurisdiction with his resale price, and to effectively require adherence to it.[6] Such a bar against competitive pricing which, under section 1 of the Sherman Act and under section 5 of the Federal Trade Com-

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1. McKesson & Robbins, Inc. v. Government Employees Dep't Store, Inc., 211 Tenn. 494, 365 S.W.2d 890 (1963).

2. Plough, Inc. v. Hogue & Knott Super Market, 211 Tenn. 480, 365 S.W.2d 884 (1963).

3. TRADE REG. REP. ¶ 6041 (1963).

4. TENN. CODE ANN. § 69-201, -205 (1956).

5. *Id.* ¶ 6017; Shulman, *The Fair Trade Acts aad the Law of Restrictive Agreements Affecting Chattels,* 49 YALE L.J. 607 (1940).

6. Rahl, *Resale Price Maintenance, State Action, and the Antitrust Laws,* 46 ILL. L. REV. 349, 351 (1951).

mission Act would be illegal, is permitted by qualifying federal legislation where state law allows.[7]

The current tide of attacks on fair trade legislation which began with the striking down of the non-signers clauses by the Supreme Court of the United States in 1951 initiated the present controversy. Congress, in 1952, reaffirmed resale price maintenance in the McGuire Act.[8] Successive sessions of Congress have had before it further broadening legislation. The Quality Stabilization Bill (S. 774) is currently before the Senate Commerce Committee.[9]

At stake is the basic issue of whether price competition is to be dominant in the distribution of trade-marked or branded goods at the retail level; the policy of competition as a preferred mode of economic organization is firmly embedded in national and state legislation.[10] This trend of attacks on state legislation had its counterpart in recommendations for the repeal of the federal enabling legislation. The Attorney General's National Committee to Study the Antitrust Laws recommended

> Congressional repeal both of the Miller-Tydings amendment to the Sherman Act and the McGuire amendment to the Federal Trade Commission Act thereby subjecting resale price maintenance, as other price-fixing practices, to those Federal antitrust controls which safeguard the public by keeping the channels of distribution free.[11]

Alaska, Kansas, Missouri, Nebraska, Texas, and Vermont have no fair trade laws; Virginia and Ohio have fair trade laws, but without the broadening non-signer's clause.[12] The President's Council of Economic Advisors has recently stated its opposition to resale price maintenance.[13] In England resale price maintenance has been abandoned at the urging of the Conservative party after a decade of controversy.[14]

The historical development of fair trade legislation casts further

7. 26 Stat. 209 (1890), as amended, 15 U.S.C. § 1 (1958).

8. 66 Stat. 631 (1952), 15 U.S.C. § 45 (1958); see Note, 61 YALE L.J. 381 (1952).

9. TRADE REG. REP., No. 146, May 18, 1964.

10. Sherman Act, Clayton Act, Federal Trade Commission Act, State Antitrust Statutes, Employment Act of 1946, Surplus Property Act of 1944. (All these statutes stand for the proposition that competition is preferred); see also Rose, *Resale Price Maintenance*, 3 VAND. L. REV. 24, 43 (1949).

11. REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS 154 (1955); see generally, FTC REPORT ON RESALE PRICE MAINTENANCE (1945).

12. 2 TRADE REG. REP. ¶ 6017 (1963).

13. JOINT ECONOMIC COMM., 88TH CONG., 1ST SESS. 2-3, PROBABLE EFFECTS OF THE PROPOSED QUALITY STABILIZATION ACT ON PRICES, INCOMES, EMPLOYMENT, AND PRODUCTION, (Joint Comm. Print 1963); see also COUNCIL OF ECONOMIC ADVISERS, THIRD ANNUAL REPORT TO THE PRESIDENT 15 (1948).

14. N. Y. Times, Jan. 16, 1964, p. 47; see also Harbury and Raskind, *The British Approach to Monopoly Control*, 67 Q.J. ECON. 380 (1953).

doubt on its utility. Originating during the Great Depression as a means of protecting the smaller retail drug and grocery outlets from what was deemed to be unfair competitive advantages enjoyed by large cut-rate retailers, this legislation was part of a larger effort to mitigate the rigors of the depression by abandoning competition.[15] The National Industrial Recovery Act and its industry codes of fair competition represented the broadest application of the principle of coordinated price determination as an anti-depression measure.[16] Fair trade legislation was not affected by the demise of the N.R.A. in the *Schechter* case, since fair trade laws were created as exemptions to the Sherman and Federal Trade Commission Acts, with coordinate state legislation.

In the instant cases the supreme court reversed the lower courts. In the *Plough* case, the attack on the constitutionality of the Tennessee Fair Trade Law was raised as a defense in a suit by a manufacturer-vendor to enjoin a non-signer retailer from selling the product below the price agreed upon by the manufacturer and signatory retailers who were competitors of the defendant.[17] In reversing the holding of unconstitutionality by the chancellor below, the late Chief Justice Prewitt, in a short opinion, upheld the constitutionality of the fair trade law by holding that the statute was neither an undue delegation of a legislative function nor an excessive extension of the police power of the state.[18] By resting the reversal, in effect, on the two earlier opinions of his court which had upheld the constitutionality of the Fair Trade Law, the late Chief Justice did not address himself to the issue raised by the defense, for the police power question had not been raised or adjudicated in those prior opinions.[19]

In the *McKesson* case, Chief Justice Burnett did consider the two issues of whether the act was within the constitutional limits of the police power contained in article I, sections 8 and 21, and the limitation on undue delegation of legislative authority contained in article II, section 3 of the Tennessee Constitution.[20] In an extended opinion, the chancellor had found the act unconstitutional as an unlawful exercise of the police power contained in article I, section 8 of the Constitution. In answer to the appeal from the chancellor's opinion, the appellees filed cross-petitions urging that the act also violated article II, section 17 as being deficient in the title of the act. This

15. See Shulman, *supra* note 5, at 617.
16. PALAMOUNTAIN, THE POLITICS OF DISTRIBUTION 5-23 (1955).
17. See notes 1 & 2 *supra*.
18. *Ibid.*
19. See, McKesson & Robbins, Inc. v. Government Employees Dep't Store, Inc., *supra* note 1, at 498, 365 S.W.2d at 891.
20. *Ibid.*

latter point was dismissed by the chief justice on the authority of *Cosmopolitan Life v. Northington.*[21]

On the question of the use of police power, the chief justice considered the issue to be governed by the test of whether the requirement of obedience to the resale price determined by the manufacturer-vendor was a reasonable exercise of the police power designed to promote the public convenience or the general welfare. Applying this test to the statute, the court held that the determination of resale prices by a manufacturer under the act is justified, if not required, as a necessary means of protecting the reputation (goodwill) of a trade-marked product.

The chief justice rejected the position taken by the chancellor below, that the *Schwegman* cases which outlawed the non-signer clause, had repudiated at least part of the *Old Dearborn* opinion which had originally validated fair trade legislation.[22] Similarly, the court refused to give any weight to the trend of state court opinions in twenty-two other jurisdictions which held related statutes unconstitutional. Here the court stressed the position that changes in fair trade legislation must come from the legislature, noting, "the Legislature is more or less the body who forms our public policy."[23]

Thus the opinion does not indicate the nature of the manufacturer's interest in the branded product, nor the manner in which it would be injured by a sale below the manufacturer's minimum resale price. Goodwill is a slippery concept.[24] That a consumer seeking brand Alpha shoe polish will conclude that it is an inferior product because he can purchase it for 27 cents rather than for 29 cents, is not borne out by experience. The interest of a manufacturer of a trade-marked product is obvious if his well-known product is sold at severely reduced prices (at cost or less than cost) as either "distress merchandise" or as part of a program by a retailer to feature "loss leaders."

There are at least two attributes of a trade-marked product—its name and its price.[25] Different consumers are motivated in differing degrees by both factors. It does not necessarily follow that complete dominion over price by the manufacturer is necessary for the protection of his interest in the product name. Not every departure from a stated price is a threat to the value of the name. The better view

21. Cosmopolitan Life Insurance Co. v. Northington, 201 Tenn. 541, 300 S.W.2d 911 (1957).

22. Schwegmann Bros. v. Calvert Distillers Corp., 341 U.S. 384 (1951); Old Dearborn Distributing Co. v. Seagram Distillers Corp., 299 U.S. 183 (1936).

23. See note 19 *supra* at 503, 365 S.W.2d at 894.

24. See Moore, Legal Protection of Goodwill 6-7 (1936); Note, 53 Colum. L. Rev. 660, 671 (1953).

25. Nichols, *The Rehabilitation of Pure Competition*, 62 Q.J. Econ. 31 (1947).

is that there is a range of prices, rather than a unique price, at which a trade-marked commodity can be sold without injury to the brand, between the cost of that product (including a fair profit for the retailer) and the higher retail price set by a fair-trade manufacturer.[26] To the extent that this characterization is accurate, the remedy of resale price maintenance is overly protective of the legitimate interest of the manufacturer in the price component of this product.[27] Resale price maintenance bars every departure from the manufacturers' suggested minimum even though complete uniformity in the price of the product is not required to keep it from being identified as distress merchandise or as a loss leader.

In view of the substantial body of economic and legal opinion showing that resale price maintenance tends toward higher prices and to deprive the consumer of the cost savings of an efficient retailer, it is respectfully submitted that it would have bcen appropriate for the supreme court to have affirmed the lower court opinion in both cases.[28]

II. Trademark Infringement and Unfair Competition

In *Tigrett Industries, Inc. v. Top Value Enterprises, Inc.*, the district court enjoined defendant's use of the mark, "Pitch-N-Field" as an infringement of plaintiff's registered mark, "Pitch-Back" for an identical toy deflecting device permitting a pitched baseball to be returned to the pitcher.[29] Plaintiff, doing business in Jackson, Tennessee, as a manufacturer of the "Pitch-Back" device under an exclusive patent license, contended that defendant, a trading stamp redemption firm, infringed the plaintiff's registered mark. The manufacturer of the infringing product, Plastic Block City, Inc., intervened and defended the action. Jurisdiction was grounded on trademark infringement, unfair competition (pendant jurisdiction), and diversity of citizenship.[30] The defense consisted of (1) an attack on the validity of the plaintiff's mark as being merely descriptive of the product, and (2) a rejection of the unfair competition count for

26. See Rose, *supra* note 10, at 46; see also Report of the Attorney General's National Committee to Study the Antitrust Laws, *supra* note 11, at 153; Adams, *Resale Price Maintenance: Fact and Fancy*, 64 Yale L.J. 967, 970-73 (1955).

27. Adequate protection is available for the manufacturer against distress and loss-leader selling by a "sales below cost statute." See Rust v. Griggs, 172 Tenn. 565, 113 S.W.2d 733 (1938); Tenn. Code Ann. §§ 69-301 to -306 (1956); Clark, *Statutory Restrictions on Selling Below Cost*, 11 Vand. L. Rev. 105 (1957).

28. Note, 10 Vand. L. Rev. 415 (1957). See also Fulda, *Resale Price Maintenance in the United States*, 3 Bus. L. Rev. 65 (1956).

29. Tigrett Industries, Inc. v. Top Value Enterprises, Inc., 217 F. Supp. 313 (W.D. Tenn. 1963).

30. 62 Stat. 931 (1948), 28 U.S.C. § 1338 (1958); Maternally Yours, Inc. v. Your Maternity Shop, Inc., 234 F.2d 538 (2d Cir. 1956).

failure of the plaintiff's designation to attain secondary meaning, and (3) absence of infringement because likelihood of confusion, mistake, or deceit of purchasers was lacking.

Judge Bailey Brown, in granting the injunction, found the plaintiff's mark valid, and avoided the more labyrinthine and metaphysical concepts of unfair competition which some courts have utilized in limiting emulation of product designation between competitors.[31] The court applied as the ultimate test the likelihood of consumer confusion, taking into account all the circumstances such as physical similarity of the competing products, including the course of business conduct leading to the adoption of the emulating designation, and the differences between the labels both visible and (when pronounced) audible. Where many courts have given substantial weight to the dollar value of advertising expenses as a measure of the achievement of particular significance to consumers of the plaintiff's mark, this court avoided the troublesome concept of secondary meaning in favor of utilizing the advertising history of plaintiff's mark as an element of the fair conduct of the defendant in selecting his own product designation.[32] From this perspective, and in the absence of any offer of proof by defendant to the contrary, the court found that the defendant knew of the plaintiff's product and of his designation at the time defendant decided to manufacture a competing product.[33] In these circumstances the court held that the defendant's adoption of the competing symbol constituted a pattern of infringing behavior. Relying on the late Judge Goodrich's test in the Q-Tips case, Judge Brown found that the defendant failed to take the requisite and available steps to minimize the close emulation of the plaintiff's product.[34]

Accordingly, this case stands for the proposition that a second market entrant of an identical trade-marked product cannot approach

31. American Safety Table Co. v. Schreiber & Goldberg 269 F.2d 255 (2d Cir.) *cert. denied,* 361 U.S. 915 (1959); John Roberts Mfg. Co. v. University of Notre Dame du Lac, 258 F.2d 256 (7th Cir. 1958), *affirming* 152 F. Supp. 269 (N.D. Ind. 1957); Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc., 221 F.2d 464 (2d Cir.), *cert. denied,* 350 U.S. 832 (1955), *reversing* 119 F. Supp. 209 (S.D.N.Y. 1954); Sinko v. Snow-Graggs Corp., 105 F.2d 450 (7th Cir. 1939); Galbally, *Unfair Trade in the Simulation of Rival Goods,* 3 Vill. L. Rev. 333 (1958); Pollack, *Unfair Trading by Product Simulation: Rule or Rankle,* 23 Ohio St. L.J. 74, 78-81 (1962); Pollack, *A Projection for the Revaluation of Unfair Competition,* 13 Ohio St. L.J. 187 (1952); Stern and Hoffman, *Public Injury and the Public Interest: Secondary Meaning in the Law of Unfair Competition,* 110 U. Pa. L. Rev. 935, 941 (1962).

32. Proof of extensive advertising may be a factor in establishing secondary meaning. See Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938); Sinko v. Snow-Craggs Corp., 105 F.2d 450 (7th Cir. 1939); see also Brown, *Advertising and the Public Interest: Legal Protection of Trade Symbols,* 57 Yale L.J. 1165 (1948).

33. See Tigrett Industries, Inc. v. Top Value Enterprises, *supra* note 29, at 315.

34. Q-Tips, Inc. v. Johnson & Johnson, 206 F.2d 144 (3d Cir. 1953).

the product designation of a prior seller unless he (1) can establish that the emulating designation was without knowledge of the earlier usage, and/or (2) that the second entrant took reasonable steps to differentiate his product from that of the prior seller.

III. Design Patent Infringement

The design patent is part of the continuum of legal protection of product designation and configuration ranging from patent and copyright protection to common law doctrines of unfair competition. The operative provision of the statute granting protection of design provides (in part) "whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefor. . . ."[35] In construing the phrase, "new, original and ornamental design," the courts have applied to the design patent the standard of originality required for ordinary patent protection.[36]

Hollister, Inc. v. Tran-sel, Inc., raised a tangled skein of relationship between an employer and a former employee turned competitor.[37] Hollister, a large hospital supply firm and the holder of two design patents covering the ornamental designs of a hospital bed card holder and of an umbilical cord clamp, sued Tran-sel and one Laugherty, a former salesperson, to enjoin alleged infringement of its design patent and to end unfair competition. The defenses raised were the invalidity of the patents, non-infringement, and the absence of unfair competition either by a breach of confidential relationship or by palming off. The defendant counterclaimed alleging violation of section 2 of the Sherman Act.[38]

The court, applying Tennessee law to the issue of breach of a confidential relationship, found that the defendant's employment as a salesperson for one year, failed to establish a confidential relationship.[39] Similarly, the court found insubstantial evidence of actual confusion among purchasers of the two products at issue, and found further that the plaintiff's product had attained no secondary meaning. Moreover, the products of the defendant were found to be effectively identified as emanating from the defendant. These findings coalesced in the dismissal of the palming-off count of unfair competition.

The defendant's counterclaim was dismissed for lack of any evi-

35. 66 Stat. 805 (1952), 35 U.S.C. § 171 (1958).

36. International Silver Co. v. Pomerantz, 271 F.2d 69 (2d Cir. 1959); Burgess Vibrocrafters, Inc. v. Atkins Industries, Inc., 204 F.2d 311 (7th Cir. 1953); Western Auto Supply Co. v. American-National Co., 114 F.2d 711 (6th Cir. 1940).

37. Hollister, Inc. v. Tran-Sel, Inc., 223 F. Supp. 141 (E.D. Tenn. 1963).

38. 26 Stat. 209 (1890), as amended, 15 U.S.C. § 2 (1958).

39. Neuhoff, Inc. v. Neuhoff Packing Co., 167 F.2d 459 (6th Cir. 1948).

dence that plaintiff had violated any part of section 2 of the Sherman Act with respect to any part of the hospital supply trade.[40]

On the main branch of the case, Judge Taylor applied the accepted standard for adjudging the validity of a design patent. With regard to the bed sign patent, the court found that various kinds of similar signs had been in use for many years and that the plaintiff's design patent was invalid for want of the requisite "inventive genious" needed to distinguish a patentable departure over the prior art from a mere regrouping of known design elements.[41] In assessing the changes made by plaintiff in the traditional hospital bed sign, the court found the changes in slant and in slot were induced by functional considerations derived from use, rather than from design novelty.

The court applied the same standard of inventiveness to the plaintiff's claim for design patent protection for the umbilical cord clamp as it utilized for the bed sign. On this basis it found the claimed innovations by the plaintiff fell short of the requisite inventive ingredient and that the clamp embodied no new, original, or ornamental design which warranted patent protection.

40. 26 Stat. 209 (1890), as amended, 15 U.S.C. § 2 (1958).
41. 223 F. Supp. at 145.