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Sears and Compco Strike Again

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NOTES

SEARS AND COMPCO
STRIKE AGAIN

Bonito Boats, Inc. v. Thunder Craft Boats, Inc.¹

INTRODUCTION

The United States Constitution grants Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."² Pursuant to this power, Congress has enacted statutes regulating the issuance of patents³ and copyrights.⁴ State common and statutory law have often clashed with federal laws in these areas. It is beyond dispute that Federal law controls when such a clash occurs.⁵ Courts faced with a potential conflict often look to the policies behind the federal laws to determine whether the two laws can co-exist.⁶

These policy considerations played an important role in the Supreme Court's decision in Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,⁷ in which the parties asked the Court whether Florida's "plug-molding" statute was constitutional.⁸ This statute prohibited the use of a particular method

² U.S. CONST. art. I, § 8, cl. 8.
⁷ Bonito Boats, 109 S. Ct. at 981-83.
⁸ Id. at 974. Florida's "plug-molding" statute provides: "It is unlawful for any person to use the direct molding process to duplicate for the purpose of sale any manufactured vessel hull or component part of a vessel made by another without the written permission of that other person." FLA. STAT. § 559.94(2) (1987). Other states that have enacted direct-molding statutes include: California, CAL. BUS. & PROF. CODE §§ 17300, 17301 (West 1987); Indiana, IND. CODE ANN. § 24-4-8-
of duplication known as the "direct molding process." Further, the statute granted both injunctive relief and damages to the manufacturer whose vessel had been "unlawfully" copied. The prohibition was not constrained by quality, originality, or time limitations, but rather unconditionally protected all "vessel hull[s] or component part[s] of . . . vessel[s]" from duplication by the "direct molding process."

In a unanimous opinion, the Supreme Court held the Florida statute conflicted with federal patent law and was, therefore, invalid under the supremacy clause. Specifically, the Court held the statute conflicted with the policies underlying federal patent law: to encourage free enterprise and to encourage invention. In reaching its decision, the Court noted that the plug-molding statute differed from traditional state statutes governing unfair competition and trade secrets which have been held in most instances to be constitutional, in that the policies behind the plug-molding statutes worked against, rather than with the relevant federal policies. The unfair competition and trade secret statutes, on the other hand, served to further the same policies promoted by the federal laws. Additionally, the Court clarified the scope of prior case law which had addressed the preemption doctrines of intellectual property.

The issue addressed by the Court and discussed in this Note is: Accepting the premise that the states may not forbid copying something that Congress has determined to be in the public domain, then may a state simply forbid a particular method of copying? To answer this question, this Note will consider first the history of federal preemption in the field of intellectual property. The Sears, Roebuck & Co. v. Stiffel Co. and Compco Corp. v. Day-Brite Lighting, Inc. cases will serve as a starting point for this
discussion. In these two landmark cases, the Court held that certain state unfair competition laws which governed intellectual property were preempted by federal law. The history of federal preemption will include an analysis of several cases in which other state laws regulating intellectual property were challenged under the Sears and Compco doctrine. The Note will proceed, then, to consider cases decided prior to Bonito Boats where the enforceability of the plug-molding statutes was at issue. Next, the Court’s decision in Bonito Boats will be discussed and analyzed. The analysis will focus on comparing and contrasting the plug-molding statutes with other state laws that regulated intellectual property and that courts have held to be constitutional.

THE SEARS AND COMPCO CASES

Among the more significant cases to find that federal law preempted a state law are Sears and Compco. These cases established the principle that the state may not prohibit one from copying something that the federal government has left in the public domain, freely copyable by all. The issue in both Sears and Compco was “whether a State’s unfair competition law can, consistently with the federal patent laws, impose liability for or prohibit the copying of an article which is protected by neither a federal patent nor a copyright.”19 Illinois’ unfair competition law, the law challenged in both cases, provided protection to the initial manufacturer when there was a “likelihood of confusion as to the source of the products.”20 The law did not require that one manufacturer had attempted to “palm off” his goods as those of another.21 This distinction is significant because it meant

of state unfair competition laws, language in the cases lead many courts to consider their applicability to other areas of state and federal law regulating intellectual property. As this Note discusses, much of the effect of Sears and Compco has dissipated over time and, in Bonito Boats, the Supreme Court condoned this dissipation. Bonito Boats, 109 S. Ct. at 979-80.

20. The Court in Sears and Compco addressed the situation where a state prevented copying of an item. The Court found the state could, consistent with federal law, “require that goods . . . be labeled or that other precautionary steps be taken to prevent customers from being misled as to the source.” Id. at 232 (emphasis added); see also Compco, 376 U.S. at 238.
that, under the Illinois law, a manufacturer was more likely to have a cause of action for unfair competition than in most states, which did require "palming off." Under Illinois law the state could prevent the manufacturer from copying the item, even if the goods' source was clearly indicated, as in *Sears* and *Compco*.

In *Sears, Roebuck & Co. v. Stiffel Co.*,22 Stiffel had obtained design and mechanical patents on a "pole lamp"—a lamp made with a vertical tube and fixtures along the outside. Subsequently, Sears sold, at a substantially lower price, a "pole lamp" virtually identical to one produced by Stiffel.23 Stiffel brought suit claiming, first, that Sears had infringed Stiffel's patents and, second, that by selling the pole lamps, Sears had created confusion about the source of the lamps and thus had engaged in unfair competition under Illinois law.24 The district court invalidated Stiffel's patents for want of invention, but held that the two lamps were virtually identical and "that confusion between them is likely, and some confusion has already occurred."25 On that basis, the district court enjoined Sears from selling pole lamps "identical to or confusingly similar to Stiffel's lamps."26 The court of appeals affirmed.27

The United States Supreme Court, on certiorari, held that Illinois' unfair competition law was incompatible with federal patent law and, thus, unconstitutional.28 The Court noted that the federal patent system was carefully designed to encourage inventiveness by rewarding worthy inventions with a federal patent and leaving for public use those inventions that do not meet the system's strict criteria.29 The Court stated that a state law frustrated these goals when it "prevent[ed] the copying of an article which represents too slight an advance to be patented ... ."30 To allow such a practice, in the guise of unfair competition, "would be to permit the State to block off from the public something which federal law has said belongs to the public."31 The Court conceded "a State may, in appropriate circumstances, require that goods, whether patented or unpatented, be labeled or that other precautionary steps be taken to prevent customers from being

23. *Id.* at 225-26.
24. *Id.* at 226.
25. *Id.*
26. *Id.*
28. *Id.* at 227-28.
29. *Id.* at 229-32.
30. *Id.* at 231-32.
31. *Id.* at 232. This statement stems from the premise that monopolies hinder free enterprise and, by granting a patent, the federal government essentially creates a monopoly in something which would have otherwise been in the public domain.

*See Bonito Boats*, 109 S. Ct. at 975-76.

http://scholarship.law.missouri.edu/mlr/vol54/iss4/7
misled as to the source." Nonetheless, "a state may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying."

Compco Corp. v. Day-Brite Lighting, Inc., a companion case, considered the same unfair competition law. Day-Brite, a manufacturer of fluorescent light fixtures, had secured a design patent on a reflector used in the fixtures when Compco, another fluorescent light fixture manufacturer, began producing fixtures with a reflector virtually identical to Day-Brite’s. Day-Brite sued Compco for patent infringement and unfair competition. The district court invalidated Day-Brite’s patent, but granted relief under Illinois’ unfair competition law. The Supreme Court reversed and held that it was impermissible to forbid Compco’s copying of the Day-Brite fixture. The Court also stated that evidence of "secondary meaning," the non-functionality of design, or consumer confusion, while relevant to a state’s decision to require labeling, could not provide a basis to prevent copying. The impact of the Sears and Compco holdings, particularly the

32. Id.
33. Sears, 376 U.S. at 232-33.
34. 376 U.S. 234 (1964).
35. Id. at 234-35.
36. Id. at 235.
37. Id. at 237-38.

Secondary meaning is a term commonly used in the areas of trademark and unfair competition law. Four types of words are available to designate a product: generic, descriptive, suggestive and arbitrary. Transgo, Inc. v. AJAC Transmission Parts Corp., 768 F.2d 1001, 1014 (9th Cir. 1985), cert denied, 474 U.S. 1059 (1986). Arbitrary and suggestive terms are immediately registerable as trademarks. Generic terms are never registerable. Park ‘N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189, 194 (1985), on remand, 782 F.2d 1508 (9th Cir. 1986). Descriptive terms are only registerable as trademarks if they have acquired a secondary meaning. Id.; Transgo, 768 F.2d at 1015. Secondary meaning is also required when an aspect of the product itself is to serve as a trademark, In re Morton-Norwich Prod., Inc., 671 F.2d 1332, 1343 (C.C.P.A. 1982), unless it is inherently distinctive. Id. This means the term or product feature is no longer viewed by the public as descriptive of the type of product, but rather indicates a particular source of the product. Truck Equip. Ser. Co. v. Fruehauf Corp., 536 F.2d 1210, 1215 (8th Cir.), cert denied, 429 U.S. 861 (1976). Or, in other words, once a “phrase has acquired its new meaning, its so-called secondary meaning has become its primary, or natural meaning.” Charcoal Steak House of Charlotte, Inc. v. Staley, 263 N.C. 199, 202, 139 S.E.2d 185, 187 (1964). See generally Lunsford, The Mechanics of Proof of Secondary Meaning, 60 TRADEMARK REP. 263 (1970).

38. Secondary meaning is a term commonly used in the areas of trademark and unfair competition law. Four types of words are available to designate a product: generic, descriptive, suggestive and arbitrary. Transgo, Inc. v. AJAC Transmission Parts Corp., 768 F.2d 1001, 1014 (9th Cir. 1985), cert denied, 474 U.S. 1059 (1986). Arbitrary and suggestive terms are immediately registerable as trademarks. Generic terms are never registerable. Park ‘N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189, 194 (1985), on remand, 782 F.2d 1508 (9th Cir. 1986). Descriptive terms are only registerable as trademarks if they have acquired a secondary meaning. Id.; Transgo, 768 F.2d at 1015. Secondary meaning is also required when an aspect of the product itself is to serve as a trademark, In re Morton-Norwich Prod., Inc., 671 F.2d 1332, 1343 (C.C.P.A. 1982), unless it is inherently distinctive. Id. This means the term or product feature is no longer viewed by the public as descriptive of the type of product, but rather indicates a particular source of the product. Truck Equip. Ser. Co. v. Fruehauf Corp., 536 F.2d 1210, 1215 (8th Cir.), cert denied, 429 U.S. 861 (1976). Or, in other words, once a “phrase has acquired its new meaning, its so-called secondary meaning has become its primary, or natural meaning.” Charcoal Steak House of Charlotte, Inc. v. Staley, 263 N.C. 199, 202, 139 S.E.2d 185, 187 (1964). See generally Lunsford, The Mechanics of Proof of Secondary Meaning, 60 TRADEMARK REP. 263 (1970).

39. See W.T. Rogers Co. v. Keene, 778 F.2d 334 (7th Cir. 1985). A feature is functional “if without it other producers of the product could not compete effectively.” It is non-functional if it is “merely [an] incidental feature which gives the [product] some individual distinction but which producers of competing [products] can readily do without.” Id. at 346.

40. Compco, 376 U.S. at 238. This language created a fervor in the legal community because, taken literally, it conflicted with an area of trademark law. Previously, if one demonstrated that a product design or feature was non-functional
above statement,\textsuperscript{41} is less substantial than originally anticipated.\textsuperscript{42} Nevertheless, the cases often serve as a starting point for questions about the validity of state laws that regulate intellectual property. \textit{Sears}, \textit{Compco}, and subsequent decisions interpreting them establish that it is important to consider the purposes of the state statutes regulating intellectual property; if the state’s purposes conflict with the federal patent goals, the state laws will be invalid under the supremacy clause. States can regulate only if the goals of the state and federal laws are harmonious.\textsuperscript{43}

\textbf{SEARS AND COMPACO APPLIED}

\textbf{1. Trade Secret Laws}

Soon after \textit{Sears} and \textit{Compco} were handed down, suits were brought to challenge the constitutionality of trade secret laws under the doctrine established by \textit{Sears} and \textit{Compco}.\textsuperscript{44} State laws had traditionally governed and that it had acquired secondary meaning, she could register it as a trademark. \textit{See supra} note 38. Courts could construe \textit{Compco} to prevent registration of this type of trademark since the effect of a trademark is to allow the holder of the mark to have exclusive use thereof.

Consequently, courts were quick to address this potential application of \textit{Sears} and \textit{Compco}. \textit{In re} Mogen David Wine Corp., 328 F.2d 925 (C.C.P.A. 1964), decided without considering \textit{Sears} and \textit{Compco}, held that an object’s protection by a design patent does not preclude its registration as a trademark. \textit{Id.} at 930. Subsequent cases applied \textit{Mogen David} in light of \textit{Sears} and \textit{Compco} and held that trademark protection was still viable for non-functional features that had acquired secondary meaning. Therefore, courts could forbid copying of such features. \textit{See In re} Honeywell, Inc., 497 F.2d 1344 (C.C.P.A.), \textit{cert. denied}, 419 U.S. 1080 (1974); Truck Equip. Serv. Co. v. Fruehauf Corp., 536 F.2d 1210 (8th Cir.), \textit{cert. denied}, 429 U.S. 861 (1976).

\begin{itemize}
\item 41. \textit{See supra} note 40.
\item 43. Some had argued that Congress’ power over intellectual property was exclusive and, thus, the states could not regulate in this field at all. \textit{See} Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974); Goldstein v. California, 412 U.S. 546 (1973). On at least two occasions, the Court determined that federal power was not exclusive and that states may regulate provided the state law does not ‘‘stand as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.’’ \textit{Kewanee Oil}, 416 U.S. at 479 (quoting Hines v. Davidowitz, 312 U.S. 52, 67 (1941)); \textit{see also} Goldstein, 412 U.S. at 551-58.
\end{itemize}
this area of law, and state trade secret laws had been in effect long before the court decided *Sears* and *Compco*. Because some trade secrets potentially are patentable, there is a possibility of conflict with federal patent law. The United States Supreme Court considered the effect of this potential conflict in *Kewanee Oil Co. v. Bicron Corp.*, when it addressed the constitutionality of Ohio's trade secret laws. This case was one of many that chipped away at the *Sears* and *Compco* cases and made it apparent that courts should not read the two cases to preclude all state regulation of intellectual property, even if that regulation provided that a party in error could be prevented from copying a product. In addition, *Kewanee* taught that the more significant consideration is whether the state trade secret law conflicts in purpose, rather than in subject matter, with federal patent law.

*Kewanee* Oil manufactured crystals for use in ionization detection. Bicron, a company organized largely from former employees of Kewanee Oil, began to produce the same crystals soon after its formation. Kewanee Oil sued for misappropriation of trade secrets under Ohio's trade secret law. The Sixth Circuit Court of Appeals ruled that federal patent laws preempted Ohio's trade secret law. The Supreme Court reversed.

Initially, the Court noted that Congress' power to regulate intellectual property was not exclusive. Thus, the states could, by appropriate legislation, regulate discoveries so long as such laws did "not conflict with the operation of the laws . . . passed by Congress." The test to determine whether a state law conflicts with federal law "involves a consideration of whether that law 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.'"

Applying this test, the Court evaluated and compared the purposes of the two putatively conflicting laws. One objective of federal patent law is to promote discoveries and "to insure adequate and full disclosure" of those discoveries. To accomplish this, Congress pays the "high price" of a seventeen-year monopoly to the worthy inventor. Another objective

45. See Milgrim, supra note 44.
48. Id. at 473.
51. Id. at 478-79; see also supra note 43.
52. *Kewanee Oil*, 416 U.S. at 479.
53. Id.
54. Id. (quoting Hines v. Davidowitz, 312 U.S. 52, 67 (1941)).
55. Id. at 480.
56. *Kewanee Oil*, 416 U.S. at 481.
is to keep those inventions in the public domain that Congress has determined belong there. The Court found that the policies behind trade secret protection are (1) to encourage good faith and fair dealing within the commercial world and (2) to protect discoveries from misappropriation by unfair means even though the discoveries are not patentable.

The Court found that to evaluate adequately the conflicts between the two laws, the potential for conflict must be determined independently for each type of subject matter governed by trade secret laws. The Court noted there are essentially two categories of trade secrets: those that could never be patentable and those that have some degree of potential for patentability. After having thus categorized the trade secrets, the Court continued its analysis by first determining whether each category of trade secrets was similar in subject matter to patentable items. If the court found the subject matters were similar, it went on to determine whether the policies were sufficiently similar so that the trade secret laws would be constitutional.

The Court found that Congress has left unattended those subjects not governed by patent law and there is no reason “why the State[s] should not be free to act.” These subjects include items related to the business aspect of an organization, such as a customer list. The Court found that providing protection for business practices would not discourage disclosure of new ideas, which is a goal of patent law. It noted, “keeping such items secret encourages businesses to initiate new and individualized plans of operation, [and results in] constructive competition.”

The Court further divided the second category, potentially patentable items, into three subcategories: “(1) the trade secret believed by its owner to constitute a validly patentable invention; (2) the trade secret known to its owner not to be so patentable; and (3) the trade secret whose valid patentability is considered dubious.” Each of these categories poses special problems and, thus, requires individual attention.

The Court noted there would be little or no reason to deny state protection for items the inventor believes will not meet the standards of patentability. The Court found that such protection would “have a decidedly beneficial effect on society,” because trade secret laws would be able to provide the encouragement for invention normally provided by patent laws. Were trade secret laws abolished and patent protection uncertain, manu-

58. Id.
59. Id. at 481-82.
60. Id. at 482-83.
61. Id. at 483-91.
62. Id. at 483 (quoting Goldstein v. California, 412 U.S. 546, 570 (1973)).
63. Id.
64. Id. at 484 (quoting Painton & Co. v. Bourns, Inc., 442 F.2d 216, 224 (2nd Cir. 1971)).
65. Id. at 485.

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facturers would be forced to rely on increased salaries and security to ensure employee loyalty. Another factor the Court found persuasive was that if an item is protected as a trade secret, the state could license its use, thus, encouraging disclosure. Conversely, if trade secret protection were unavailable, "[t]he result would be to hoard rather than disseminate knowledge." Overall, the Court found that the trade secret laws in this area do not run afoul of federal policy; instead they help to promote "discovery and exploitation of . . . invention[s]."

Furthermore, the Court ruled that trade secret laws protecting inventions of dubious patentability do not conflict with federal patent policy. Invalid patents are considered harmful because they grant unworthy items broad federal protection. Trade secret laws alleviate this harm by offering alternate protection. The Court found that if trade secret laws were abolished more inventors would seek patent protection for subjects the inventor believed were unpatentable. This would increase the risk of invalid patents. With the protection of the state laws, an inventor may rely on the sure, although more limited, protection of trade secrets rather than seek patent protection.

The final category, inventions known to be patentable, are most similar in subject matter to patentable items, thus, the policies of trade secret laws must be correlated most closely to those of the federal patent system in order to avoid an unconstitutional conflict. The Court found, however, there was "no reasonable risk of deterrence from patent application by those who can reasonably expect to be granted patents." In reaching this decision, the Court noted that patent protection is much more extensive than trade secret law protection. Thus, although "trade secret law does not produce any positive effects in the area of clearly patentable inventions," neither does it discourage anyone from seeking patent protection. When trade secret laws alone protect a product, anyone so inclined may freely use reverse engineering. Patent laws do not, for a limited time, allow this practice. It is unlikely that an invention unprotected by patent would remain secret for the period of time it would be uncopyable if patented. The Court concluded that "the extension of trade secret protection to

66. Id. at 485-86.
67. Id. at 486.
68. Id. at 485.
69. Id. at 487.
70. The Court noted an historical aversion to invalid patents and stated that an invalid patent presents a serious threat "to the free use of ideas already in the public domain." Id. at 488-89.
71. Id. at 488.
72. Id.
73. Id. at 489.
74. Id. at 491.
75. Id. at 489-91.
clearly patentable inventions does not conflict with the patent policy of disclosure."\textsuperscript{76}

In addition to the policy considerations, the Court’s decision was influenced by the fact that “[t]rade secret law and patent law have coexisted . . . for over one hundred years;”\textsuperscript{77} in that time, Congress has done nothing to change the relationship between the two. The long history of trade secret laws and the lack of conflict with federal patent policies clearly outweighed any indication, found in \textit{Sears} and \textit{Compco}, that trade secret laws were in conflict with federal patent law.\textsuperscript{78}

The analysis provided in \textit{Kewanee Oil} is helpful in that it illustrates the Court’s method of comparing and contrasting various policies. Trade secret laws, the Court believed, actually further, or at least do not deter, the goals of the federal patent system. Thus, \textit{Kewanee Oil} established that state and federal laws protecting essentially the same subjects can coexist.\textsuperscript{79} Additionally, the analysis in \textit{Kewanee Oil} will be helpful in understanding \textit{Bonito Boats} because the plug-molding statutes, like the trade secret laws, offer protection to objects within the scope of potential federal patent protection. The policies behind the plug-molding statutes, however, work against, rather than with, the relevant federal policies.

2. Other State Laws Regulating Intellectual Property

Another Supreme Court case in the history of federal preemption of state intellectual property laws is \textit{Goldstein v. California}.\textsuperscript{80} Although rendered moot by the phono record provisions of the 1971 amendment and the 1976 Copyright Revision Act,\textsuperscript{81} it provides additional insight into the methods of analysis used by the Court to determine whether a state law, due to a conflict in policies, must defer to the interests of a federal system.

In \textit{Goldstein}, the defendant was charged with violating a section of the California Penal Code that prohibited copying sound recordings that were intended to be sold.\textsuperscript{82} At the time the copies at issue in \textit{Goldstein}
were made, there was no federal copyright protection for sound recordings.\textsuperscript{83} Even though the California statute \textquotedblleft effectively prohibit[ed] the copying of works \ldots not entitled to federal protection,\textsuperscript{84} the Court found it did not conflict with federal policy and was, therefore, not void under the supremacy clause of the Constitution.\textsuperscript{85}

Initially, the Court addressed the legitimacy of state action in the area of copyright protection and found that the power to grant copyrights was not vested exclusively in the federal government.\textsuperscript{86} It went on to conclude that state copyright protection would not \textquotedblleft prejudice the interests of other States,\textsuperscript{87} because \textquotedblleft a copyright granted by a particular State has effect only within its boundaries.\textsuperscript{88} While this may lessen the value of a state copyright, because not all states would protect the works, a conflict in states' laws of this type would not unduly prejudice the states not offering the protection.\textsuperscript{89} The Court held that within the state's boundaries, the copyright laws of that state serve the same purpose as federal copyright laws: \textquotedblleft to induce new artistic creations.\textsuperscript{90} Finally, the Court found that the unlimited duration of the protection offered by the California statute was not a bar to its constitutionality\textsuperscript{91} because the Article I, Section 8 limitation applies only to federal action.\textsuperscript{92}

After determining that copyright protection by states generally was permissible, the Court considered whether California's statute was void under the supremacy clause. In so doing, the Court used the familiar standard: Does the state law stand \textquotedblleft as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress?\textsuperscript{93} The primary argument against the statute's constitutionality was that Congress, by not expressly granting copyright protection to sound recordings, had intentionally left them in the public domain.\textsuperscript{94} The Court found, however,

\textsuperscript{83.} Id. at 549-52.
\textsuperscript{84.} Id. at 551.
\textsuperscript{85.} Id. at 570.
\textsuperscript{86.} Id. at 558.
\textsuperscript{87.} Id. It is relevant that the protection offered in \textit{Goldstein} was against record piracy and did not grant complete copyright protection. \textit{Id.} at 550-51.
\textsuperscript{88.} Id. This was relevant in that California's law did not impose a burden on other states to regulate in a like manner and citizens of those states could freely copy what was protected in California. \textit{Id.} Still, the Court had to consider whether the mere difference in protection offered by various states was prejudicial.
\textsuperscript{89.} Id. at 558-59.
\textsuperscript{90.} Id. at 559.
\textsuperscript{91.} Id. at 561.
\textsuperscript{92.} Id. at 560-61.
\textsuperscript{93.} Id. at 561 (quoting Hines \textit{v.} Davidowitz, 312 U.S. 52, 67 (1941)).
\textsuperscript{94.} Id. at 563. The petitioner first argued Congress had affirmatively omitted sound recordings from the Copyright Act of 1909. However, the Court noted that it must consider this deletion in light of the technology available at the time the Act was written. Considering the differences between 1909 and current technology, the Court found that the sound recordings at issue in \textit{Goldstein} were not of a type considered by Congress in 1909. \textit{Id.} at 563-66.
that although Congress had explicitly offered copyright protection for certain "writings," sound recordings not included, it had not indicated an intent to prohibit state control of "records, as renderings of original artistic performance."95

Finally, the Court addressed the impact of Sears and Compco on its decision, finding that those decisions did not preclude the result reached in Goldstein. While Congress has created a careful balance in the patent system which cannot be disturbed by state action, "in the case of recordings of musical performances ... Congress has drawn no balance, rather, it has left the area unattended, and no reason exists why the State should not be free to act."96

So, with Goldstein, the Court illustrated that, at least in the copyright field, state and federal protection can coexist. Once again, the similarity of the respective policies was an important consideration. In Goldstein, yet another state law, almost certainly unconstitutional according to the exact language of Sears and Compco,97 was upheld. It was becoming clear that Sears and Compco did not restrict state law to the extent once believed.

3. State Unfair Competition Laws

One can see further limitation on the Sears and Compco holdings in the lower courts' treatment of state unfair competition laws. Courts often have ignored the dicta in Compco,98 which purported to prohibit state protection of items, via unfair competition laws, even if secondary meaning and non-functionality had been established.99 Although there are exceptions,100 it may generally be said that states can, via unfair competition

95. Id. at 566.
96. Id. at 569-70.
97. Although the Goldstein Court considered Sears and Compco, it did not address the words found in the holding of Sears that "a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself ...." Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 232-33 (1964) (emphasis added). The dissent, however, did address that language and found that, as the statute forbade others from copying an article unprotected by copyright, it was invalid under the supremacy clause. Goldstein, 412 U.S. at 573-74; see also Brown, Publication and Preemption in Copyright Law: Elegiac Reflections on Goldstein v. California, 22 U.C.L.A. L. Rev. 1022 (1975).
98. See supra notes 38-42 and accompanying text.
99. See In re Mogen David Wine Corp., 328 F.2d 925 (C.C.P.A. 1964); Time Mechanisms, Inc. v. Qonaar Corp., 422 F. Supp. 905, 910, 915 (S.D. Tex. 1976) (The court found, first, that Sears and Compco do not forbid common law trademark protection and, second, that the cases do not bar recovery for unfair competition in trademark cases. The plaintiff had established secondary meaning so the court granted relief.).
100. Litton Sys., Inc. v. Whirlpool Corp., 728 F.2d 1423, 1449 (Fed. Cir. 1984).
laws, prevent one from copying the non-functional features of an item
which have acquired secondary meaning. A state may not, however, prevent
one from copying a functional feature of an item.\(^1\)

THE PLUG-MOLDING STATUTES

1. Background

Plug-molding statutes often protect functional features from being cop-
ied by the direct molding process. Cases in which courts have used the
statutes as a basis for granting injunctions or awarding damages illustrate
the potential impact of their continued use. In *Brahma, Inc. v. Joe Yeargain,
Inc.*,\(^2\) the court found itself faced with the task of interpreting California’s
plug-molding statute. The defendant had used the original product as a
mold for only a portion of the new product. The court looked to the
intent of the legislature and determined, “the clear intent of the law is
to prohibit what the legislature considered to be an unfair trade practice.”\(^3\)
The court then concluded that, when faced with the question whether a
defendant has violated the statute, one should inquire “whether by using
a competitor’s product as a ‘plug’ or pattern in making a mold which in
turn is used to manufacture the same product,” the subsequent manufacturer
“obtained an unfair competitive advantage by avoiding otherwise necessary
development costs.”\(^4\)

In *Metro Kane Imports, Ltd. v. Rowoco, Inc.*,\(^5\) the court found the
defendant had violated New York’s unfair competition statute and the
plug-molding statutes of California, Michigan and Tennessee. Based on
this determination, the Court enjoined the defendant from importing a
juicer.\(^6\) In this case, the court found no evidence of secondary meaning
in the product design.\(^7\)

The over-broad reading in *Brahma* and the extensive injunction granted
in *Metro Kane Imports* serve as examples of the potential economic harm
of these statutes. Although the original opinion in *Metro Kane Imports*
limited the injunction to sales in the three states whose statutes had been

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1986).
3. Id. at 1452.
4. Id. (emphasis omitted).
6. Id. at 276-77.
7. Id. at 276. This case received unfavorable review, as did plug-molding
statutes generally in Heald, *Unfair Competition and Federal Law: Constitutional
violated, the subsequent injunction was not so limited. In *Brahma*, the court gave California’s statute considerable effect, going beyond the words of the statute to the perceived policy behind it.

The court in *Power Controls Corp. v. Hybrinetics, Inc.* dealt with the plug-molding statute in a different manner. In this case, the court held that Power Control’s product, the subject of a design patent, was functional; therefore, the patent was invalid. The plaintiff also sought protection under California’s plug-molding statute. The court denied relief on the ground that "an action for unfair competition cannot be based upon a functional design." It reasoned "[t]here is no reason to think that the California courts would apply a different principle in interpreting their statute." Here, the court went in the opposite direction from the *Brahma* court, giving the statute a narrow reading to prevent what it believed would be an unconstitutional result.

The United States Supreme Court addressed the constitutionality of these statutes in *Bonito Boats*. Recognizing that plug-molding statutes largely serve to protect functional features, the court considered whether the state could constitutionally prohibit a form of copying, the direct molding process, which is, apparently, the most economical method of copying in many circumstances.

2. The Holding of the Supreme Court

*Bonito Boats*, after a substantial engineering and manufacturing effort, developed a hull design for a fiberglass recreational boat which the company placed on the market in September of 1976. In May of 1983, after the boat had been on the market for six years, the Florida legislature enacted

108. Metro Kane Imports, Ltd. v. Rowoco, Inc., 595 F. Supp. 702, 707-08 (1984) (previous decision denying Metro Kane Imports’ motion for preliminary injunction). The court held that the injunction would be granted if irreparable harm were shown. *Id.*

109. Metro Kane Imports, 618 F. Supp. at 277. It is interesting to note that in the first *Metro Kane Imports* case, the court held that federal law preempted New York’s unfair competition statute because the New York statute did not require secondary meaning. In neither case did the court consider the potential preemption of the plug-molding statutes.


111. *Id.* at 240. 35 U.S.C. § 171 (1982) allows the issuance of a design patent for “any new, original and ornamental design.” Functional products are not included.

112. *Power Controls Corp.*, 806 F.2d at 240 (citing J. McCarthy, TRADEMARKS AND UNFAIR COMPETITION § 7.26 (2d ed. 1984)).

113. *Id.*


its plug-molding statute. Subsequently, Bonito Boats, a Florida corporation, brought suit against Thunder Craft, a Tennessee corporation, for violation of the Florida statute and sought a temporary and permanent injunction to prevent Thunder Craft from "continuing to unlawfully duplicate and sell Bonito Boat hulls or components." The Florida courts concluded that the statute "impermissibly interfered with the scheme established by the federal patent laws."

The Supreme Court, in an extensive opinion, concluded that the Florida court had been correct in its interpretation of the application of the Sears and Compco doctrine to the plug-molding statute. Initially, the Court gave a lengthy dissertation on the history of patent law and the policies embodied therein. The constitutional provision for Congressional authority in the area and the laws which Congress has enacted pursuant to that power were created to "balance ... the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." Inherent in this balance is the belief that once an object has been placed in the public domain it cannot be subsequently removed. This consideration was especially important in Bonito Boats where the boat had been on the market for six years prior to the statute's enactment and the resulting court action. The Court further stated that the "balance" should be maintained so that "free exploitation of ideas is the rule, to which the protection of a federal patent is the exception."

Thus, only the inventor whose invention meets the strict standards of patentability—novelty, usefulness and nonobviousness—is rewarded with federal patent protection. In return for the limited exclusive use of the invention, the inventor must fully disclose her invention to the public, making it available for future inventors. Consequently, a federal patent will be issued only when it will encourage "the creation and disclosure of new, useful, and nonobvious advances in technology and design." The Court concluded that "state regulation of intellectual property must yield

116. See supra note 8 for the text of the Florida statute.
118. Id. at 975. The lower court decisions are Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 515 So. 2d 220 (Fla. 1987) and Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 487 So. 2d 395 (Fla. Dist. Ct. App. 1986).
120. Id. at 975.
121. Id. at 974.
122. Id. at 978.
123. Id. at 977. For non-obviousness to exist an inventor of ordinary skill must not think that an invention, for which a patent is sought, is obvious, given prior art. Id.
124. Id.
to the extent that it clashes with the balance struck by Congress in our patent laws."\textsuperscript{125}

With this standard in mind, the Court considered the present impact of \textit{Sears} and \textit{Compco}, noting they could have been "taken to stand for the proposition that the States are completely disabled from offering any form of protection to articles or processes which fall within the broad scope of patentable subject matter."\textsuperscript{126} The Court admitted, however, such a broad reading was "inappropriate."\textsuperscript{127} Instead, it indicated that for guidance, one should look to the "heart" of \textit{Sears} and \textit{Compco}, namely: "[t]he efficient operation of the federal patent system depends upon substantially free trade in publicly known, unpatented design and utilitarian conceptions."\textsuperscript{128} The Court concluded that "the States may not offer patent-like protection to intellectual creations which would otherwise remain unprotected as a matter of federal law."\textsuperscript{129} Nevertheless, the Court recognized that this does not forbid the states from preventing "copying of non-functional aspects of consumer products which have acquired secondary meaning . . . ."\textsuperscript{130} Nor does it inhibit the ability of states to protect trade secrets.\textsuperscript{131}

The Court found that the Florida statute does not provide a permitted type of protection.\textsuperscript{132} First, the plug-molding statutes differ significantly from traditional unfair competition laws. Those laws operate to protect consumers from deception and confusion about the source of a product; "the design 'idea' itself may be freely exploited in all other contexts."\textsuperscript{133} Conversely, plug-molding statutes, while putatively enacted to provide manufacturers with an incentive for invention, operate to prevent "the exploitation of the design and utilitarian conceptions embodied in the product itself."\textsuperscript{134} Although the plug-molding statutes and the federal patent system arguably further a similar goal—encouragement of invention—the Court found that the plug-molding statutes operate to upset the balance maintained by Congress by providing too much protection with standards of innovation that are too low.\textsuperscript{135} The state, by enacting the plug-molding statute, attempted to set the standards for patent-like protection. This role is reserved for Congress and "[t]he States are simply not free in this regard to offer equivalent protection to ideas which Congress has determined should belong

\begin{thebibliography}{9}
\bibitem{125} \textit{Id.} at 978.
\bibitem{126} \textit{Id.} at 979.
\bibitem{127} \textit{Id.}.
\bibitem{128} \textit{Id.} at 980.
\bibitem{129} \textit{Id.}
\bibitem{130} \textit{Id.} at 981.
\bibitem{131} \textit{Id.} at 979-80.
\bibitem{132} \textit{Id.} at 981.
\bibitem{133} \textit{Id.}
\bibitem{134} \textit{Id.}
\bibitem{135} \textit{Id.} at 982.
\end{thebibliography}
to all." Additionally, the plug-molding statutes serve a purpose which is significantly different from that of trade secret laws. The Court noted "[t]he protections of state trade secret laws are most effective at the developmental state . . . when patentability [is] an uncertain prospect." The plug-molding statutes, however, provide the inventor, "from the outset of his effort," with the assurance that the result will be protected, regardless of its patentability. Furthermore, it is unlikely an inventor would rely on trade secret protection for an invention he believed was patentable. Plug-molding statutes, however, "eliminate the most efficient method" available for exploitation of an invention. Thus, by providing substantial protection with minimal standards, plug-molding statutes are a real threat to the uniformity of the federal patent system due to the probability that one would rely on the plug-molding statutes rather than seek a federal patent.

Finally the fact that the Florida statute prohibited only one method of copying did not persuade the Court. Plug-molding, the Court believed, is a form of reverse engineering, a practice the states have not attempted to prevent through trade secret or unfair competition laws. Reverse engineering acts as an incentive to the inventor "to develop inventions which meet the rigorous requirements of patentability." Thus, although it prohibits only one method of copying, the statute still hinders full realization of federal patent law policy—encouragement of inventiveness.

The decision in Bonito Boats conflicted with the only other decision in which the plug-molding statute's constitutionality had been addressed. The federal circuit court, in Interpart Corp. v. Italia, held that California's plug-molding statute was constitutional. The plaintiff accused the defendant of using the direct molding process to duplicate automobile rear view mirrors. The district court had held that federal law preempted the statute. The appellate court overturned that decision, finding comfort in the fact that the statute "does not give the creator of the product the right to exclude others from making, using, or selling the product as does..."
The court felt the laudable goal of merely preventing others from using the most economical method of copying a product, otherwise in the public domain, did "not 'clash' with the federal patent law." The Court in *Bonito Boats* found the arguments used in *Interpart* unpersuasive. *Interpart*'s finding that the statute was a mere regulation was clearly erroneous because by precluding copying by the most efficient method available, it effectively created property rights in the product. Although the *Interpart* court found that the statute prevented the use of an unfair method of copying, the Court noted this is not a decision for that court to make, rather it is a decision which has been left to Congress.

The Court concluded that protection of the type offered by the Florida statute conflicted with the federal patent policy. The statute overlapped an area of the law for which nationwide uniformity is necessary. Such an infringement on the balance struck by Congress could not be permitted, therefore, the Court held that the supremacy clause preempted Florida's statute.

3. **Analysis of the Decision**

It is difficult to determine whether the Court would have upheld the plug-molding statutes had all courts followed the lesson of the *Power Controls* court and interpreted them to apply only to non-functional features. It is unlikely it would have upheld them because there would still be no requirement of secondary meaning, the existence of which is necessary for states to offer protection. Furthermore, it seems clear that the plug-molding statutes were not enacted to protect only non-functional features. First of all, some, like the Florida statute, prohibited use of the direct molding process only on vessel hulls or its component parts, items which are, at least in most instances, functional. Additionally, if a feature was non-functional and had acquired secondary meaning, state unfair competition laws could be used to prevent its copying. Thus, it is only in a situation where a feature is functional or it has not acquired secondary meaning that plug-molding statutes would add to the protection normally granted by state and federal laws to intellectual property.

148. *Id.* at 684-85.
149. *Id.* at 685.
151. *Id.* at 985.
152. *Id.* at 983.
153. *Id.* at 986.
154. *Id.* at 981.
156. *See supra* notes 98-101 and accompanying text.

http://scholarship.law.missouri.edu/mlr/vol54/iss4/7
It is insightful to compare trade secret protection and the Court's decision in *Kewanee Oil* to plug-molding statute protection and the decision in *Bonito Boats*. First, the two laws by nature protect different types of goods. Trade secret laws are most effective when protecting items in the developmental state or those which are not easily duplicated by conventional means. Conversely, plug-molding statutes protect goods which, by their nature, can easily be duplicated by the direct molding process. Additionally, trade secret laws protect only those items which the manufacturer has kept secret, whereas plug-molding statutes protect goods from being copied once a manufacturer places them on the market. Thus, a manufacturer could only protect the items governed by the plug-molding statutes from disclosure by refusing to offer them for sale, an unprofitable option. Consequently, it seems the goods protected by the plug-molding statutes would be offered for sale and disclosed to the public even without the protection of the statutes. It appears the statutes were enacted to provide an economic advantage to the first manufacturer. This is not, the Court noted, a decision for state legislatures to make.

Second, the policies behind the two laws are quite different. While trade secret laws serve much the same purpose as patent laws, namely to encourage invention, the purpose of the plug-molding statutes is contrary to the federal policy. The protection offered by trade secret laws is not "patent like" for they merely prevent one from misappropriating, by unfair means, the trade secrets of another. Legitimate methods of discovery, including reverse engineering, are not prohibited. Conversely, plug-molding statutes prohibit the use of a method allowed by trade secret laws and disallowed only by the federal patent laws. By using the plug-molding method, a manufacturer may be able to avoid the initial research cost. This does not make the method unfair, merely economical. A law which has the primary purpose of providing an economic advantage to the initial manufacturer of a product not worthy of patent protection clearly has no place in a system of free enterprise where "free exploitation of ideas [is] the rule to which the protection of a federal patent [or patent-like protection] is the exception."

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159. This assumption is illustrated by *Bonito Boats* where the manufacturer offered its boats for sale six years prior to the enactment of the statute. *Bonito Boats*, 109 S. Ct. at 974.
160. *Id.* at 982-83.
161. *Id.* at 983.
162. A patent would, of course, preclude copying by any means.
Furthermore, it is interesting to compare Goldstein’s approval of a statute that prohibits copying sound recordings to Bonito Boats. Many of the arguments successful in Goldstein failed in Bonito Boats. For example, in Goldstein, one of the first things the Court noted was that “[a]lthough the protection offered . . . is substantial, lasting for an unlimited time, the scope of the proscribed activities is narrow.”164 Whereas in Bonito Boats, both the Florida courts and the Supreme Court found that, although only one method of copying was prohibited, the statute still impermissibly interfered with the federal patent system.165 In addition, unlike the Bonito Boats Court, the Goldstein Court was not concerned by the lack of time constraints on the protection.

These differences can be explained. First of all, in Goldstein, the California statute sought to give copyright protection to something not mentioned in the federal copyright laws while the Florida statute sought to give patent-like protection to something presumably unpatentable under federal law. The federal patent laws focus more on criteria of patentability versus the copyright laws which focus more on what types of works are protectable. The criteria of patent laws can more easily be applied in the face of advancing technology. In fact their goal is to advance technology. Copyright laws, on the other hand, must be amended to incorporate new subjects worthy of copyright protection or to prevent new methods of copying.166 In line with this discussion is that Congress had decided, by the time Goldstein was handed down, to offer copyright protection to sound recordings, while prior to Bonito Boats, Congress had rejected attempts to lessen the standards for design patents.167 Finally, that the policies of the two statutes were different is an important consideration. The statute in Goldstein was directed to essentially the same goal as the federal copyright laws, while, as the Court found, the statute in Bonito Boats worked against the federal patent policy.

As a final comparison, the unfair competition statutes which have been upheld subsequent to Sears and Compco base their constitutionality on the fact that they protect only goods or features which are non-functional and have secondary meaning. Thus, the protection is far more trademark-like than patent-like. Conversely, the plug-molding statutes, as discussed, serve to protect features that are functional and have not acquired secondary meaning.

One question which remains is whether those unfair competition laws that require a showing of either “palming off”168 or secondary meaning as a precursor to recovery are constitutional. Under these laws, a state can

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166. For example, semiconductor chip products have recently been granted copyright protection. 17 U.S.C. § 901-914 (Supp. 1984).
168. See supra note 21 for a discussion of “palming off.”
prevent one from copying an item without secondary meaning having been established. In *Gemveto Jewelry Corp. v. Jeff Cooper, Inc.*, the district court found that New York's unfair competition law did not require evidence of secondary meaning, provided it could be shown the competitor had engaged in "palming off." After holding that Cooper had "palmed off" his goods as those of Gemveto, the court granted an injunction. The federal circuit court of appeals vacated and remanded, finding that, since secondary meaning had not been established, Cooper could not be prohibited from copying Gemveto's products. It noted, however, an injunction could require that Cooper adequately identify the source of the product.

The Supreme Court cited the federal circuit's *Gemveto* opinion with approval in *Bonito Boats*. Thus, it seems the Court would not allow a state to prevent copying based solely on a finding of "palming off." Requiring that one discontinue "palming off" would seem to be clearly within the scope of permitted state action.

**CONCLUSION**

In conclusion, it seems the Court's decision in *Bonito Boats* was sound. Patent-like protection must be granted by the federal government or not at all. Although it may seem unfair in some circumstances when one is able to copy at a low price what another has produced at a high price, the policies of the federal patent system and the need for uniformity must prevail.

The opinion was also helpful in that it codified the interpretation most courts had given *Sears* and *Compco*. That is, states may prevent copying of non-functional features that have acquired a secondary meaning but a state may not prevent copying of functional features or those that have not acquired secondary meaning.

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171. Id. at 1064.


173. Id. at 258-59.


175. Id. at 981.