UNFAIR COMPETITION
IN ARIZONA

Shawn K. Aiken
Aiken Schenk Hawkins & Ricciardi P.C.
4742 N. 24th Street, Suite 100
Phoenix, Arizona 85016
(602) 248-8203
ska@ashrlaw.com

©2004, Shawn K. Aiken
I.

UNFAIR COMPETITION: A BRIEF PRIMER

Section 5 of the 1914 Federal Trade Commission Act introduced the phrase "unfair methods of competition." Eighty years after passage of the Act, the Restatement of the Law (Third) Unfair Competition (1995) described unfair competition under three broad headings: deceptive marketing (commercial detriment of another, passing off, reverse passing off, and misrepresentation in marketing the goods or services of another), infringement or misuse of trademarks, and misappropriation of trade values (including trade secrets and right of publicity).

In between the Federal Trade Commission Act and the Restatement, (too) many courts have attempted to locate the touchstone of unfair competition. In his treatise (McCarthy on Trademarks and Unfair Competition), Professor McCarthy collects several examples of those attempts: "principles of old-fashioned honesty are controlling," "the rule of fair play," acts that are "contrary to good conscience," "means which shock judicial sensibilities," "a level of rascality that would raise an eyebrow," "the morals of the marketplace," "the scales of conscience and fair dealing," "the decent thing to do in trade," "principles of honesty and fair dealing," and to "promote fair play." 3 McCarthy on Trademarks and Unfair Competition (1995 ed.) §1.04 at 1-19 and 1-20.

In a burst of insight, the Fifth Circuit summarized the area as follows: "The law of unfair competition is the umbrella for all statutory and non-statutory causes of action arising out of business conduct which is contrary to honest practice in industrial or commercial matters." American Heritage Life Insurance Co. v. Heritage Life Insurance Co., 494 F.2d 3 (5th Cir. 1974).

The most helpful way to summarize the non-statutory claim of unfair competition would be to look at fact patterns. At least one court described the factual patterns as follows: "In a society encouraging aggressive economic competition, this court has recognized that the tort of unfair competition is a somewhat anomalous creature. Its scope has therefore been limited to three categories: passing off one's goods as those of another, engaging in activities designed solely to destroy a rival, and using methods themselves independently illegal." Ray v. Proxmeyer, 581 F.2d 998 (D.C. Cir. 1978), cert. denied, 439 U.S. 933 (1978).

It may be most useful to cite examples of what the courts have done in fact. In his treatise, Professor McCarthy lists at least the following patterns:

- infringement of trademarks and service marks; 1
- dilution of good will in trademarks 2

---

use of confusingly similar corporate, business and professional names;
use of confusingly similar titles of literary works on other literary property and on commercial goods
the appropriation of distinctive literary and entertainer characterizations; simulation of a container or product configuration and of trade dress and packaging;
infringement of the right of publicity;
misappropriation of valuable business values;³
"bait and switch" selling tactics;⁴
false representations and false advertising;
"palming off" goods by unauthorized substitution of one brand for the brand ordered;⁵
theft of trade secrets;⁶
filing of groundless lawsuit or administrative challenge as an aggressive competitive weapon;⁷
sending cease and desist letters charging patent infringement before a patent has been granted;⁸
an unreasonable rejection of goods shipped under contract;⁹
physically obstructing entrance to a competitor's place of business and harassing its customers.¹⁰

⁷ T. N. Dickinson Co. v. L.L. Corp., 227 USPQ 145 (D.C. Conn. 1985) (An allegation that a firm filed a petition to cancel before the Trademark Board containing knowingly false and misleading allegations is sufficient to state a claim for unfair competition. "[I]f suit is used as a deliberate weapon of business aggression rather than as an instrument of adjudicating honest disputes, then it is an unfair method of competition."); see Concrete Unlimited, Inc. v. Cemtercraft, Inc., 776 F.2d 1537 (Fed. Cir. 1985). (Threats and lawsuits for patent infringement do not constitute unfair competition even though patent was later held invalid. The patent was presumptively valid. Court stated that the patent owner "did only what any patent owner has the right to do to enforce its patent, and that includes threatening alleged infringers with suit.").
⁸ Gardiner v. Gendel, 729 F. Supp. 799 (E.D.N.Y. 1989) (sending cease and desist patent infringement letters to customers of competitor before a patent has been granted constitutes unfair competition).
⁹ Allied Grape Growers v. Bronco Wine Co., 203 Cal. App. 3d 432, 249 Cal. Rptr. 872 (5th Dist. 1988), modified, reh. denied, 203 Cal. App. 3d 1314 (5th Dist.) (A grape buyer contracted to buy too many grapes in a year of a glut on grapes on the market. To limit its requirement to pay, the buyer unreasonably rejected some shipments of grapes and downgraded others to a lower price. Held to be an unfair business practice under California law).
¹⁰ Hutcherson v. Alexander, 264 Cal. App. 2d 126, 70 Cal. Rptr. 366, 38 A.L.R. 3d 636 (5th Dist. 1968) (defendant hired young toughs to chase off plaintiff's hired boy who was passing out free refreshment tickets; defendant also
II.

UNFAIR COMPETITION: ARIZONA CASES (VERY BRIEFLY)

Thirty-one Arizona appellate opinions discuss "unfair competition" claims to one degree or another. These cases fall into the following four broad categories: (1) those whose outcome was governed by statute (e.g., Consumer Fraud Act, Fair Trade Practices Act, or Unfair Sales Act); (2) cases in which the predominant if not sole issue revolved around a covenant not to compete or similar agreement (e.g., anti-piracy or anti-solicitation provision); (3) trade secret cases; and, (4) trade name or trademark cases.

The greater number of cases fell into the trade name category. In those cases, two fact patterns emerge: (1) competing enterprises with similar names or marks or (2) one entity selling goods allegedly similar to those sold by another. Of those two patterns, the greater number of cases fall into the former category. The key test in those cases is whether the public will likely be deceived by the second company's use of the allegedly similar name. If so, then relief should be granted. The question is a factual one.

The opinion in Taylor v. Quebedeaux, 126 Ariz. 515, 627 P.2d 23 (1980), illustrates the trade name pattern. In that case, two equipment rental businesses in Show Low and Lakeside battled over the names "Taylor's Equipment Rental" and "Taylor Rental Center." The first user obtained an injunction against the latecomer requiring a slight name change and notice of non-affiliation in local advertising. The court of appeals observed the "gravamen of the case before us is unfair competition and the essence of unfair competition is confusion of the public." 126 Ariz. at 516, 627 P.2d at 24. The court noted that "ultimately unfair competition is a question of fact." 126 Ariz. at 517, 627 P.2d at 25. The court upheld issuance of the injunction because the latecomer "appropriated a name for their endeavor which is deceptive and causes confusion among the public." Id. The court cited, for example, misdelivered mail, wrongly returned equipment, and misdirected customers. Id. We should note that the towns of Show Low and Lakeside lie only 8 miles apart – a mere stone’s throw in that trade area presumably.

See attached list in the Appendix. Arizona has no right of publicity, right of privacy or trademark dilution statutes. Refer to the Restatement (2d) of Torts on the former two and the federal statute on the latter.
III.

UNFAIR COMPETITION: THE LANHAM ACT (SOMewhat Briefly)

The common law theory of unfair competition began as a bar to "palming off," or false selling of one's goods as those of another. But as technology and the market have changed, so has the reach of the law.

With the passage of those simple days when the chief business malpractice was “palming off” and with the development of more complex business relationships, many courts, including the courts of this state, have extended the doctrine of unfair competition beyond cases of "palming off." That extension has resulted in the granting of relief in cases when there was no fraud on the public, but only a misappropriation for the commercial advantage of one person in the form of a benefit or "property right" belonging to another.

The Lanham Act has heavily influenced this area of the law. More recently, in January 1995, the American Law Institute issued the final draft of the Restatement of the Law Third, Unfair Competition, which includes entire topics on trade secrets and other common subjects of unfair competition cases.

The unfair competition plaintiff invariably pleads false designation of origin or some other claim under Section 43(a) Lanham Act along with other sometimes related copyright, patent, trade dress, misappropriation or other common law and statutory claims. Those areas are beyond the scope of this discussion. Given concurrent jurisdiction, every unfair competition plaintiff must plead the Lanham Act, which reads in part as follows:

Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which --

- is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

- in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

Thus, the subsections describe two distinct actions. The first describes actions based upon infringement of unregistered trade identifiers, such as trademarks, service marks, product and container configurations and trade dress. The second describes actions based upon false
advertising, false comparative advertising, false designation of geographic origin and trade libel. Section 35 of the Act describes the remedies.

The elements of the first action are that defendant:

1. has used a
   a. designation or
   b. false designation of origin
2. in interstate commerce and
3. in connection with goods or services
4. in a way that is likely to cause confusion, mistake or deception as to
   a. the affiliation, sponsorship or association of the defendant with another person, or
   b. the origin, sponsorship or approval of defendant's goods, services or commercial activities by another person; and
5. plaintiff has been or is likely to be damaged by the defendant's acts.

The elements of the second action are that:

1. defendant used a false misleading
   a. description of fact or
   b. representation of fact
2. in interstate commerce
3. in connection with goods or services
4. in commercial advertising or promotion and
5. in such a way as to misrepresent the nature, qualities or geographic origin of
   a. the defendant's goods, services or commercial activities (false advertising) or
   b. the goods, services or commercial activities of another person (trade libel) and
6. the plaintiff has been or is likely to be damaged by the defendant's acts.

The legal principles governing the Lanham Act trademark infringement claim (which requires registration), false designation or description under Sec. 43(a) (which requires no federal registration), and common law unfair competition or misappropriation claims are essentially the same.

First, the plaintiff must demonstrate that the public has come to associate his name, product or service with plaintiff. In other words, plaintiff must demonstrate "trademark" rights by establishing "secondary meaning," i.e., that the market identifies the plaintiff as the source of the name, product or service. See generally, J. Thomas McCarthy, 2 McCarthy on Trademarks and Unfair Competition §§15:1 -15:11 (4th ed. 1996). Once plaintiff has shown that he owns a trademark, whether registered or not, "the crucial issue in an action for trademark infringement or unfair competition is whether there is a likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused, as to the source of the goods in question." Mushroom Makers, Inc. v. R.G. Barry Corp., 580 F.2d 44, 47 (2d Cir. 1978) cert. denied, 439 U.S. 1116 (1979). The Arizona cases make this same point by describing
"confusion of the public" as the touchstone of the "unfair competition" claim. Similarly, the key to the Lanham Act claim is whether there is any substantial likelihood that an appreciable number of ordinarily prudent purchasers are likely to confused as to the source of the product in question. McGregor-Doniger, Inc., 599 F.2d 1126, 1130 (2d Cir. 1979). The factors determining proof of the likelihood of confusion have been described often: degree of similarity between the marks, strength of the senior user's mark, proximity of the products, likelihood that the senior user will bridge the gap, actual confusion, the defendant's good faith in adopting its mark, the quality of defendant's products, the sophistication of the buyers, and any other factors. Polaroid Corp. v. Polaroid Electronics Corp., 287 F.2d 492 (2d Cir. 1961) cert. denied, 368 U.S. 820 (1961).

Frequently, plaintiff will claim valid trademark rights because the names or symbols used in advertising and sale are "fanciful" or coined specifically for plaintiff's product or service. More often, though, plaintiff claims the public has, through plaintiff's use, advertising and sale of the name or symbol, come to recognize the products and services as originating with plaintiff ("secondary meaning").

**Damages under the Lanham Act.** Violation of Section 43(a) of the Lanham Act entitles plaintiff, "subject to . . . the principles of equity, to (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action." 15 U.S.C. §1117(a) (Supp. 1997). On the question of profits, the Act provides as follows:

The court shall assess such profits and damage or cause the same to be assessed under its direction. In assessing profits, the plaintiff shall be required to prove defendant’s sales only; defendant must prove all elements of cost or reduction claims. 15 U.S.C. §117(a)(1994).

The statute provides for treble actual damages:

In assessing damages, the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. Id. In addition, the court may increase or decrease any award of profits if the award is "either inadequate or excessive." 15 U.S.C. §1117(a) (1994).

In summary, under Section 35 of the Lanham Act, plaintiff may be entitled to monetary relief as follows: damages (including lost profits); an accounting of the infringer's profits; increased or trebled damages or profits; statutory damages; attorneys' fees; and costs. This provision governs the award of monetary relief in suits under Section 32 for the infringement of federally registered marks, and trademark and false advertising suits under Section 43(a) when no registered mark is involved. A thorough treatment of damages under the Lanham Act is beyond the scope of this discussion.12

---

12 One final thought: see the Federal Trademark Dilution Act of 1995 (eff. January 16, 1996), found at Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c), and in the definitional provisions of Section 45 of the Lanham Act, 15 U.S.C. §1127. This statute protects owners of "famous marks." Arizona has no dilution statute.
The Final Point: Common law claim for misappropriation. Let me take one brief detour by way of conclusion. Another common law theory called "misappropriation" is closely related to but distinct from "unfair competition." The misappropriation theory alleges that defendant has "reaped where he has not sown." The tort of misappropriation was recognized in International News Service v. Associated Press, 248 U.S. 215 (1918)("INS"). The Associated Press ("AP") sued rival International News Service ("INS") for copying news updates from AP bulletin boards in the East Coast either verbatim or as rewrites and selling and transmitting them to West Coast newspapers via telephone or telegraph. The Supreme Court found the news dispatches themselves were not copyrighted. INS, 248 U.S. at 234. Nevertheless, the Supreme Court enjoined the practice because INS misappropriated a valuable aspect of AP's competing product:

> Defendant, by its very act, admits that it is taking material that has been acquired by complainant [AP] as the result of organization and the expenditure of labor, skill, and money, and which is salable by complainant for money, and that defendant in appropriating it and selling it as its own is endeavoring to reap where it has not sown, and is appropriating to itself the harvest of those who have sown. Stripped of all its disguises, the process amounts to an unauthorized interference . . . precisely at the point where the profit is to be reaped, in order to divert a material portion of the profit from those who have earned it to those who have not. 248 U.S. at 239-40. Many have criticized INS, but the misappropriation theory remains vital even today. See, e.g., National Basketball Ass'n v. Sports Team Analysis and Tracking Systems, Inc., 931 F.Supp. 1124, amended by, 939 F.Supp. 1071 (S.D.N.Y. 1996), aff’d in part in part sub nom. National Basketball Ass’n v. Motorola, Inc., 105 F.3d 841 (2d Cir. 1997)(district court granted injunctive relief based on common law misappropriation relying in part on INS but appellate court found lack of competition given nature of real-time scores provided by defendant); see also an Internet case with local flavor, Washington Post Co. et al. v. Total News, Inc., et al., 97 Civ. 1190 (S.D.N.Y.) (filed Feb. 20, 1997)(the so-called web site "framing" case).

The point here is this: if the facts warrant the claim, the plaintiff should consider pleading misappropriation separately from the general claim of unfair competition especially where the parties may not compete in conventional terms. The question whether this claim (or the unfair competition claim) may or may not be covered under the defendant’s CGL insurance or other policy is beyond the scope of this discussion but warrants careful attention.
<table>
<thead>
<tr>
<th>CITATION</th>
<th>PARALLEL CITATION</th>
<th>TITLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>970 P.2d 954</td>
<td>193 Ariz. 122</td>
<td>Fairway Constructors, Inc. v. Ahern (misappropriation; blueprints; preemption)</td>
</tr>
<tr>
<td>736 P.2d 1180</td>
<td>153 Ariz. 368</td>
<td>Prudential Ins. Co. of America v. Pochiro (anti-solicitation provisions)</td>
</tr>
<tr>
<td>725 P.2d 752</td>
<td>151 Ariz. 45</td>
<td>State ex. Re. Corbin v. United Energy Corp. (Consumer Fraud Act)</td>
</tr>
<tr>
<td>715 P.2d 1222</td>
<td>148 Ariz. 45</td>
<td>Olliver/Pilcher Ins., Inc. v. Daniels (anti-piracy provision)</td>
</tr>
<tr>
<td>691 P.2d 302</td>
<td>142 Ariz. 536</td>
<td>Tanque Verde Enterprises v. City of Tucson (license tax)</td>
</tr>
<tr>
<td>662 P.2d 452</td>
<td>135 Ariz. 487</td>
<td>Kaibab Shop v. Desert Son, Inc. (passing off – competing boots)</td>
</tr>
<tr>
<td>627 P.2d 666</td>
<td>128 Ariz. 515</td>
<td>State ex rel. La Sota v. Arizona Licensed Beverage Ass’n, Inc. (fair trade legislation)</td>
</tr>
<tr>
<td>617 P.2d 23</td>
<td>126 Ariz. 515</td>
<td>Taylor v. Quebedeaux (similar names)</td>
</tr>
<tr>
<td>609 P.2d 1062</td>
<td>125 Ariz. 362</td>
<td>Snelling and Snelling, Inc. v. Dupay Enterprises, Inc. (covenant not to compete)</td>
</tr>
<tr>
<td>591 P.2d 985</td>
<td>121 Ariz. 497</td>
<td>Raizk v. Southland Corp. (trademark)</td>
</tr>
<tr>
<td>584 P.2d 594</td>
<td>120 Ariz. 130</td>
<td>V.J. Doyle Plumbing Co. v. Doyle (own name)</td>
</tr>
<tr>
<td>537 P.2d 602</td>
<td>24 Ariz.App. 217</td>
<td>Gammill v. Superior Court In and For Pima County (similar trade names)</td>
</tr>
<tr>
<td>514 P.2d 752</td>
<td>20 Ariz.App. 581</td>
<td>Norton v. Rogers (cleaning solution formulae)</td>
</tr>
<tr>
<td>494 P.2d 64</td>
<td>16 Ariz.App. 459</td>
<td>Ramada Inns, Inc. v. Marriott Corp. (service mark (“we smile more”))</td>
</tr>
<tr>
<td>492 P.2d 455</td>
<td>16 Ariz.App. 206</td>
<td>Dietel v. Day (alter ego claims)</td>
</tr>
<tr>
<td>420 P.2d 177</td>
<td>101 Ariz. 392</td>
<td>Skaggs Drug Center v. U.S. Time Corp. (Fair Trade Practices Act)</td>
</tr>
<tr>
<td>368 P.2d 874</td>
<td>91 Ariz. 18</td>
<td>Titus v. Superior Court, Maricopa County (restrictive covenant)</td>
</tr>
<tr>
<td>354 P.2d 48</td>
<td>88 Ariz. 194</td>
<td>Senner v. Bank of Douglas (similar names)</td>
</tr>
<tr>
<td>267 P.2d 725</td>
<td>77 Ariz. 84</td>
<td>O’Hara v. Lance (tradename, restrictive covenant vs. retiring partner)</td>
</tr>
<tr>
<td>226 P.2d 549</td>
<td>71 Ariz. 280</td>
<td>State Tax Commission v. Quebedeaux Chevrolet (excise tax)</td>
</tr>
<tr>
<td>187 P.2d 648</td>
<td>66 Ariz. 308</td>
<td>Boice v. Stevenson (trade names)</td>
</tr>
<tr>
<td>160 P.2d 761</td>
<td>63 Ariz. 239</td>
<td>Lininger v. Desert Lodge (trade name)</td>
</tr>
<tr>
<td>113 P.2d 650</td>
<td>57 Ariz. 608</td>
<td>State v. Walgreen Drug co. (Unfair Sales Act)</td>
</tr>
<tr>
<td>113 P.2d 930</td>
<td>57 Ariz. 338</td>
<td>Edwards v. Superior Court of Arizona In and For Maricopa County (misdemeanor)</td>
</tr>
<tr>
<td>300 P.953</td>
<td>38 Ariz. 404</td>
<td>Cano v. Arizona Frozen Products (trademark) (1931)</td>
</tr>
</tbody>
</table>