

# AN ECONOMIC PERSPECTIVE ON PRODUCT CONFIGURATION TRADE DRESS

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## **I. Introduction**

Product design features may be protected by several types of intellectual property rights. First, under some circumstances, a novel

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design can qualify for a "design" patent.<sup>1</sup> In addition, certain product designs that display sufficient originality and creativity, and that are at least conceptually separable from the product, may obtain copyright protection.<sup>2</sup> Finally, a design feature may constitute trade dress that is protectable under the Lanham Act.<sup>3</sup>

There are several reasons why it is commercially desirable to obtain trade dress protection for a product's configuration. Unlike a patent, trade dress protection does not expire after any set period of time.<sup>4</sup> Moreover, the basic standard for trademark infringement, likelihood of confusion, may provide a broader safety net than patents or copyrights. Further, trade dress rights are generally easier to obtain than a patent or a copyright in a useful article.

Attempts to assert trade dress rights in a product's configuration, however, raise numerous issues concerning the proper scope of trade dress protection. Federal appeals courts have addressed these issues in different ways, creating a conflict in the manner in which product configurations may be protected as trade dress in different jurisdictions.<sup>5</sup> This Article will review these cases in light of the

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<sup>1</sup> See 35 U.S.C. § 171 (1988). A design patent may be obtained for a "new, original and ornamental design for an article of manufacture[.]" *Id.* See PETER D. ROSENBERG, PATENT LAW FUNDAMENTALS § 6.01[3] (2d ed. 1995). This definition applies to "a design for an ornament, impression, print or picture to be applied to an article of manufacture (surface ornamentation)," as well as to "a design for the shape or configuration of an article of manufacture" or a combination of these two categories. *Id.*

<sup>2</sup> See 17 U.S.C. § 101 (1988). The Copyright Act currently defines "pictorial, graphic and sculptural works," which may be copyrightable subject matter, to include a product's configuration only if the design features can be "identified separately from, and are capable of existing independently of, the utilitarian aspects of the article." See *id.*; see also MELVILLE B. NIMMER & DAVID NIMMER, 2 NIMMER ON COPYRIGHT § 2.08[B] (1995). Under this definition, the configuration of a product will be denied copyright protection as a "useful article" if one of the "intrinsic" functions of the configuration is utilitarian. See *id.*

<sup>3</sup> See 15 U.S.C. §§ 1051-1127 (1988).

<sup>4</sup> Utility patents expire 20 years after the filing date of the application and design patents expire after 14 years. See 35 U.S.C. § 154 (1994); 35 U.S.C. § 173 (1988).

<sup>5</sup> At the time this article went to press, the United States Supreme Court decided *Wal-Mart Stores, Inc., v. Samara Brothers, Inc.*, 2000 WL 293238 (Mar. 22, 2000). In *Wal-Mart*, the Court concluded that product designs can be protected as trade dress, but only upon a showing of secondary meaning. See *id.* at \*7. The Court did not, however, discuss in any detail the relationship between trade dress and patent law or the manner in which the functionality doctrine should be applied in product design trade dress cases. See *id.* The following economic analysis of the protectibility of product configuration trade dress also should be applicable in determining whether a

economic considerations underlying patent and trademark law.<sup>6</sup> The Article will then conclude that protection for non-functional product configuration trade dress will promote economic efficiency and is consistent with existing patent and trademark jurisprudence.<sup>7</sup>

## II. Trade Dress and the Patent Laws

### A. The Purpose of Patents

Patent law seeks to encourage innovation and the public disclosure of the fruits of innovation so that the public can benefit from new inventions. This can be expressed as a compact between the inventor and the public, as it was in an early United States Supreme Court case:

The patent law was designed for the public benefit, as well as for the benefit of inventors. For a valuable invention, the public on the inventor's complying with certain conditions, give him for a limited period, the profits arising from the sale of the thing invented. This holds out an inducement for the exercise of genius and skill, in making discoveries which may be useful to society, and profitable to the discoverer.<sup>8</sup>

The patent laws, then, provide a limited monopoly for a limited duration in exchange for the public disclosure of the invention.

Basic economic theory explains why monopolies are generally undesirable. Under conditions of perfect competition,<sup>9</sup> the price and

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given configuration is functional or is eligible for protection.

<sup>6</sup> See *infra* Parts II, III, and IV.

<sup>7</sup> See *infra* Part V.

<sup>8</sup> Shaw v. Cooper, 32 U.S. 292, 320 (1833).

<sup>9</sup> See generally MANSFIELD, PRINCIPLES OF MICROECONOMICS (7th ed. 1992). Perfect competition assumes that the products sold by various producers are homogenous and can be substituted for one another, that there are numerous buyers and sellers, that resources can readily be switched from one use to another, and that resource owners have full knowledge of relevant technical and economic data. See generally *id.*

output of a product will be set by the market as a function of supply and demand. The market demand curve for a commodity is based on consumer preferences, which govern how much consumers will be willing to pay for any given quantity of the commodity. As such, the market demand curve is usually downward sloping to the right.<sup>10</sup>

Under perfect competition, individual suppliers have no control over demand and therefore no control over price.<sup>11</sup> The market demand curve facing an individual supplier in a market with many suppliers and a homogenous product differs from the market demand curve for the commodity as a whole. For the individual supplier, the demand curve is horizontal; in other words, the supplier may select any amount of output to produce, but the price will remain constant.<sup>12</sup> This is because there are many substitutes for any one supplier under conditions of perfect competition. If a supplier charges a higher price than other suppliers, consumers will obtain the commodity from a different supplier at a better price.

The output level any individual supplier will choose under conditions of perfect competition is an amount that can be sold at a price equal to or greater than the supplier's marginal cost.<sup>13</sup> At an output rate at which price is greater than marginal cost, an extra unit of output will add more to total revenues than to total costs. Thus, it will pay to increase output. At an output rate at which price is less than marginal cost, one less unit of output will increase profits, since the decrease will subtract more from total costs than total revenues. Therefore, it will pay to decrease output. The equilibrium point, then, is the level of output at which price equals marginal cost.<sup>14</sup>

In monopolistic conditions, the monopolist is the only supplier. Thus, unlike the individual producer in a competitive market, the monopolist does not face an infinitely elastic individual demand curve, but rather faces the entire market demand curve. The supply side also differs for a monopolist. Because the monopolist faces the entire market demand curve, the price of each unit will always have to be reduced to sell an additional unit.<sup>15</sup> A monopolist's marginal

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<sup>10</sup> See *id.* at 39

<sup>11</sup> See *id.* at 164.

<sup>12</sup> See *id.* at 76-77.

<sup>13</sup> See *id.* at 168.

<sup>14</sup> See MANSFIELD, *supra* note 9, 169.

<sup>15</sup> See MANSFIELD, *supra* note 9, at 190-91.

revenue, the extra revenue attributable to one additional unit of sales, will always be less than price, and hence always less than the market demand curve.<sup>16</sup> If a monopolist's marginal revenue exceeds its marginal cost, it will increase output because the extra revenue will exceed the extra cost.<sup>17</sup> Conversely, if a monopolist's marginal revenue is less than marginal cost, it will reduce output because the decrease in cost will exceed the decrease in revenue.<sup>18</sup> Therefore, a monopolist will select a level of output where its marginal revenue equals its marginal cost.<sup>19</sup>

It is easy to see, then, why monopolies are not economically efficient. Under perfect competition, the price and output will be set at a level where market supply intersects market demand.<sup>20</sup> Under monopoly conditions, the price and output will be set at a level where supply (the monopolist's marginal cost curve) intersects the monopolist's marginal revenue, which will always

be less than the market demand curve.<sup>21</sup> Therefore, under monopoly conditions, the price will be higher and the output lower than under perfect competition.<sup>22</sup> This inefficiency, which allows an individual producer to obtain higher profits than would be the case under perfect competition, is the price society pays for the benefits provided by the patent laws. In other words, the monopoly price obtained by the producer is the benefit the producer obtains as part of this bargain.<sup>23</sup>

### *B. The Patent Clause and the Sears-Compco Doctrine*

The founders recognized the dangers of monopolies and therefore provided in the Constitution that the terms of patents must be limited. Article I of the United States Constitution grants Congress the power "[t]o promote the Progress of Science and the useful Arts,

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<sup>16</sup> See MANSFIELD, *supra* note 9, at 190-91.

<sup>17</sup> See MANSFIELD, *supra* note 9, at 190-91.

<sup>18</sup> See MANSFIELD, *supra* note 9, at 193.

<sup>19</sup> See MANSFIELD, *supra* note 9, at 193.

<sup>20</sup> See MANSFIELD, *supra* note 9 at 194-95.

<sup>21</sup> See MANSFIELD, *supra* note 9 at 194-95.

<sup>22</sup> See MANSFIELD, *supra* note 9 at 195-96.

<sup>23</sup> See MANSFIELD, *supra* note 9 at 195-96.

by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>24</sup> Although this clause prohibits perpetual patents or copyrights, the Constitution does not expressly address other forms of intellectual property, such as trademarks.<sup>25</sup> As a result, a question naturally arises whether patentable or copyrightable subject matter should also be protectable by other forms of intellectual property that are not subject to the time limitations of the Patent Clause.

### 1. Early Cases

A long line of United States Supreme Court cases address the extension of patent-like protection to product configurations under the law of unfair competition. In the Nineteenth Century case of *Singer Mfg. Co. v. June Mfg. Co.*,<sup>26</sup> for example, Singer sought an injunction and damages for defendant’s production and sale of sewing machines that kept the Singer name and which were similar to Singer’s in size, shape, and design.<sup>27</sup> Several patents on certain features of Singer’s sewing machines had expired.<sup>28</sup> Prior to the expiration of the patents, Singer began casting its name and logo into different parts of its machines.<sup>29</sup> The defendant began selling machines that looked identical to Singer’s most popular model, which included, in the same size and shape as the Singer trademarks, the legend “Improved Singer.”<sup>30</sup> The defendant also numbered its machines with serial numbers in the millions in the same manner as Singer, even though the defendant had not manufactured millions of machines, and added a “dummy” tension screw in the same location as a working tension screw on the genuine Singer machines.<sup>31</sup>

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<sup>24</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>25</sup> *See id.*

<sup>26</sup> 163 U.S. 169 (1896).

<sup>27</sup> *See id.* at 170.

<sup>28</sup> *See id.* at 172-73 (discussing Singer Company patents which had been acquired and lost, as well as those still in existence at the time of the opinion).

<sup>29</sup> *See id.* at 173. Singer began to mark its machines by putting its company name on the top or front of the sewing machine’s arm. *See id.* Another mark was attached to the base of the machine’s arm, which could be easily seen by anyone operating the machine. *See id.* at 174. Some time after the expiration of the last patent held by Singer, a mark was placed on the front and rear of the machine’s arm. *See id.*

<sup>30</sup> *See id.* at 176.

<sup>31</sup> *See Singer*, 163 U.S. at 176-77. The tension screw was still covered by a patent

Although this appeared to be a clear case of passing off, the Court struggled with the fact that Singer's distinctive machine design had been claimed in expired patents.<sup>32</sup> The Court noted that patents grant a monopoly to the patent holder, who has an exclusive right to utilize the design during the patent term.<sup>33</sup> After such time, however, the design falls into the public domain.<sup>34</sup> For this reason, the Court rejected Singer's claim based upon the design of the defendant's sewing machine.<sup>35</sup>

With respect to the Singer mark, the Court concluded that "Singer" had become the generic<sup>36</sup> designation for the style of

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owned by Singer. *See id.* Furthermore, the screw on Singer's machines had a useful and valid purpose. *See id.* at 202. The tension screw, therefore, did not pass into the public domain when the other patent expired. *See id.* The defendant's machines had such a screw with no valid or useful purpose, and therefore, the Court opined that defendant intended to deceive consumers into believing that its machine was manufactured by Singer. *See id.*

<sup>32</sup> *See id.* at 184-185.

<sup>33</sup> *See id.*

<sup>34</sup> *See id.* at 185. The Court noted the following:

It is self evident that on the expiration of a patent the monopoly created by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property. It is upon this condition that the patent is granted. It follows, as a matter of course, that on the termination of the patent[,] there passes to the public the right to make the machine in the form in which it was constructed during the patent.

*Id.*

<sup>35</sup> *See id.*

<sup>36</sup> Courts employ a sliding scale to evaluate the "distinctiveness" of marks to determine whether the term functions as a trademark. *See Singer*, 163 U.S. at 185. A term may be "generic," "descriptive," "suggestive," "arbitrary," or "fanciful." *See id.*

"Generic" terms identify the product or service itself rather than indicating any particular source. *See* J. THOMAS MCCARTHY, 2 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 12.01[1] (3d ed. 1995) [hereinafter 2 MCCARTHY]. For example, "valves," "gears," and "pistons" are generic terms for particular products. *See id.* Generic terms can never denote a single source for the product or service they identify, and therefore cannot function as trademarks for such products or services. *See id.*

"Descriptive" terms describe the nature, quality or characteristics of the goods or services offered. *See* J. THOMAS MCCARTHY, 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 11.05[2][a] (3d ed. 1995) [hereinafter 1 MCCARTHY]. For example, "Reliable Valves" would be descriptive of valves, if the valves in fact were reliable. *See id.* "Descriptive" terms are only protectable as trademarks if their primary significance to the public is to identify the term with a single source, known as acquiring "secondary meaning." *See id.*

machine previously covered by the Singer patents.<sup>37</sup> The Court further noted that as a consequence of the termination of the patent holder's exclusive monopoly, the device's generic designation, as well as the device itself, fell into the public domain.<sup>38</sup>

Notwithstanding this sweeping holding, the Court stated that if the name has a bifurcated or dual importance, such as identifying both the original manufacturer and the generic good, a party who wishes to use the name in its generic sense must take precautions that guard against deception as to the product's origin.<sup>39</sup> Because the defendant had acted deceitfully by incorporating Singer's design features and by using the Singer name without any clear indication as to the source of the product, the Court found that the defendant's conduct should be enjoined.<sup>40</sup>

Several decades later, the Court again addressed the intersection of the patent laws and the "genericness" doctrine. In *Kellogg Co. v. National Biscuit Co.*,<sup>41</sup> the issue was whether plaintiff

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"Suggestive" terms call to mind the goods or services offered without immediately describing them. *See id.* § 11.20[3]. The distinction between whether a term is "descriptive" or "suggestive" is sometimes a fine one. *See id.* For example, although "Reliable Valves" is descriptive of valves, it may be suggestive if used as a trademark for a chain of mechanic shops. *See id.* The distinction is important, however, because "suggestive" terms are inherently protectable as trademarks and do not require a showing of secondary meaning. *See id.*

"Arbitrary" and "fanciful" marks also are inherently protectable. *See id.* An "arbitrary" mark is a common designation which does not describe or suggest the quality, nature or characteristics of the goods or services to which it is applied. *See id.* § 11.04[1]. For example, APPLE is arbitrary when used as a mark for computers. *See id.* A "fanciful" mark is a "coined" designation which has been invented or selected solely to function as a trademark. *See id.* § 11.03[1]. KODAK is an example of a fanciful mark for film. *See id.* §§ 11.03[2], 11.03[4].

<sup>37</sup> *See Singer*, 163 U.S. at 186. The Court stated that the public acquires the right to use the name of the product in any form when the patent's term expires. *See id.*

<sup>38</sup> *See id.* at 185. The Court stated that "[i]t equally follows from the cessation of the monopoly and the falling of the patented device into the domain of things public, that along with the public ownership of the device there must also necessarily pass to the public the generic designation of the thing." *Id.*

<sup>39</sup> *See id.* at 187-88. If "a second comer" avails himself of the original manufacturer's name without specifically and clearly indicating that the good was produced by the second comer, it implies that the second comer is attempting to chisel away the goodwill created and held by the original manufacturer. *See id.*; *see also* 2 MCCARTHY, *supra* note 36, § 12.01 [1] (explaining that modern trademark law does not allow a generic term to serve any trademark function with respect to the product it describes).

<sup>40</sup> *See id.* at 204.

<sup>41</sup> 305 U.S. 111 (1938).



could claim exclusive rights to the name "Shredded Wheat" for pillow-shaped wheat biscuits and to the pillow-shaped wheat biscuit product itself.<sup>42</sup> Several patents on the pillow-shaped shredded wheat product and the process and machinery for making it had previously expired.<sup>43</sup> The Court held that the term "shredded wheat" had become generic for pillow-shaped wheat biscuits, and that at the conclusion of the patent's term, both the product's form and name fell into the public domain.<sup>44</sup>

The Court discussed the form of the shredded wheat product in language suggesting that, aside from the statutory time limitations inherent in the patent grant, the product's form was generic for trademark purposes.<sup>45</sup> Thus, another manufacturer would be entitled to produce the shredded wheat product, so long as it sufficiently identified that the new product was not produced by the original patent holder.<sup>46</sup> This was because the goodwill in the product itself, as opposed to goodwill running to the producer, inhered in the generic form and name for the product.<sup>47</sup> In addition, the Court found that the pillow shape was "functional," since a substituted form, other than a pillow-shaped biscuit, would be prohibitively expensive and would diminish the quality of the product.<sup>48</sup> Finally, the Court explained that because the goodwill inherent in an unpatented article may be appropriated by anyone, there could be no liability for Kellogg's use of the name "shredded wheat" or the pillow shape, absent other

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<sup>42</sup> See *id.*

<sup>43</sup> See *id.* at 114.

<sup>44</sup> See *id.* at 119-120. The Court explained that the plaintiff did not possess the exclusive right to produce and sell the shredded wheat. See *id.* The shredded wheat product was produced in the form of a pillow-shaped biscuit and it was this form that the public recognized. See *id.* The basic patent was for the pillow-shaped form, while other patents ran concurrently with the basic patent. See *id.* Therefore, as the patent expired, the form and the name were dedicated to the public domain. See *id.*

<sup>45</sup> See *id.* at 121-122.

<sup>46</sup> See *Kellogg*, 305 U.S. at 120. The Court stated that:

Where an article may be manufactured by all, a particular manufacturer can no more assert exclusive rights in a form in which the public has become accustomed to see the article and in which, in the minds of the public, is primarily associated with the article rather than the particular producer, than it can in the case of a name with similar connections in the public mind.

*Id.*

<sup>47</sup> See *id.* at 121.

<sup>48</sup> See *id.* at 122.

evidence of passing off or deception.<sup>49</sup> Finally, the Court found that there was no passing off or deception because Kellogg's packaging and labeling were very different from the plaintiff's.<sup>50</sup>

## 2. The *Sears* and *Compco* Cases

The question of whether to extend trademark protection to unpatented product designs was further addressed in the context of state unfair competition law in two famous Supreme Court cases: *Sears Roebuck & Co. v. Stiffel Co.*<sup>51</sup> and *Compco Corp. v. Day-Brite Lighting, Inc.*<sup>52</sup> In these cases, the Court held that federal patent law preempts state unfair competition law with respect to the right to copy non-patented products.<sup>53</sup> This holding is commonly known as the "Sears-Compco doctrine."

In *Sears*, the plaintiff had obtained design and mechanical patents on a type of lamp.<sup>54</sup> Sears began marketing identical lamps shortly after plaintiff's lamps attained some commercial success.<sup>55</sup> Plaintiff sued for patent infringement under federal law and for unfair

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<sup>49</sup> See *id.* In the production of its own pillow-shaped biscuits, the defendant shared in the goodwill of the unprotected article. See *id.* The Court stated that "[s]haring in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all - and in the free exercise of which the consuming public is deeply interested." *Id.* (emphasis added).

<sup>50</sup> See *id.* at 121-22. The Court compared the plaintiff's and defendant's products in detail:

Each company sells its biscuits only in cartons. The standard Kellogg carton contains fifteen biscuits; the plaintiff's twelve. The Kellogg cartons are distinctive. They do not resemble those used by the plaintiff either in size, form, or color. And the difference in the labels is striking. The Kellogg cartons bear in bold script the names 'Kellogg Whole Wheat Biscuit' or 'Kellogg's Shredded Whole Wheat Biscuit' so sized and spaced as to strike the eye as being a Kellogg product.

*Id.*

<sup>51</sup> 376 U.S. 225 (1964).

<sup>52</sup> 376 U.S. 234 (1964).

<sup>53</sup> See generally *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

<sup>54</sup> See *Sears*, 376 U.S. at 225-26. Stiffel's patent was for a pole lamp. See *id.* The lamp was basically a vertical tube that extended from the floor to the ceiling, with lamps intermittently placed along the outside length of the pole. See *id.*

<sup>55</sup> See *id.*

competition under Illinois law.<sup>56</sup> The lower courts invalidated the patents for want of originality but found that since the marketing by Sears of identical lamps would cause a likelihood of confusion as to the source of the lamps, plaintiff should prevail on its state law claims.<sup>57</sup> The Supreme Court reversed and held that state unfair competition laws are preempted by the federal patent laws to the extent the state laws provide patent-like protection to unpatentable articles.<sup>58</sup>

The Court first discussed the purpose of the patent laws, which were created to encourage innovation by affording inventors a limited monopoly during the patent term.<sup>59</sup> In exchange for this limited monopoly, society enjoys the long-term benefits of the invention after the patent expires and the immediate benefits from matter that is disclosed, but not claimed, in the patent. The process to obtain a patent is arduous, but the benefit gained from the process, however, is the strict enforcement of the available protection.<sup>60</sup> In particular, when the patent term expires, the limited monopoly over use or sale of the product ceases, and the product falls into the public domain.<sup>61</sup>

The Court found that since federal patent law dictates that an unpatentable article is in the public domain, state unfair competition law cannot prohibit the copying of such an article. This is so even if the copying creates a likelihood of consumer confusion as to the source of the product.<sup>62</sup> A state may, however, mandate that a

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<sup>56</sup> *See id.*

<sup>57</sup> *See id.* at 226. The district court found that Sears produced "a substantially exact copy" of Stiffel's lamp. *See id.* This substantially exact copy resulted in the likelihood and existence of consumer confusion based upon the similarity of the two lamps' appearance and functional details. *See id.* Based on these findings, the district court held Sears guilty of a state law violation: unfair competition. *See id.* The district court enjoined Sears from selling the "identical or confusingly similar" lamp because it was unfairly competing with Stiffel's lamp. *See id.*

<sup>58</sup> *See id.* at 231.

<sup>59</sup> *See Sears*, 376 U.S. at 229.

<sup>60</sup> *See id.* at 230. The Court stated that the initial prerequisites for securing a patent are fastidiously observed, as is the time limitation once the applicant has been issued a patent. *See id.*

<sup>61</sup> *See id.* The *Sears* holding took a cue from the dicta found in the *Kellogg* and *Singer* decisions. *See id.* The Court stated that "when the patent expires the monopoly created by it expires, too, and the right to make the article - including the right to make it in precisely the shape it carried when patented - passes to the public." *Id.* (citing *Kellogg*, 305 U.S. at 112 and *Singer*, 163 U.S. at 185).

<sup>62</sup> *See id.* at 231-32.

manufacturer label or somehow identify its product to negate the likelihood of consumer deception as to the product's source.<sup>63</sup>

In *Compco Corp. v. Day-Brite Lighting, Inc.*, the companion case to *Sears*, the Court reversed the lower courts' judgment that the defendant engaged in unfair competition under Illinois law by selling a fluorescent lighting fixture with design features similar to the plaintiff's fixture.<sup>64</sup> The plaintiff had obtained a design patent on its fixture, which was held invalid by the district court.<sup>65</sup> Reviewing its holding in *Sears*, the Court in *Compco* stated that "if the design is not entitled to a design patent or other federal statutory protection, then it can be copied at will."<sup>66</sup>

### 3. Refinement of the *Sears-Compco* Doctrine

For ten years, the *Sears* and *Compco* cases stood as a monument to federalism in the area of intellectual property. These cases suggested that product configurations may only be protected by patent, subject to a possible requirement of distinctive labeling. Strikingly, in *Kewanee Oil Co. v. Bicron Corp.*,<sup>67</sup> the Court subsequently held that state *trade secret* protection is *not* preempted by the federal patent laws.<sup>68</sup>

The Court based its holding in *Kewanee Oil* on the distinct requirements for protecting trade secrets and patents, and the different aims the two forms of protection serve. Trade secret protection does not require novelty, but does require secrecy, whereas patent protection requires novelty and further requires that the invention be disclosed in the patent application.<sup>69</sup> The *Kewanee Oil* Court saw the

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<sup>63</sup> See *id.* at 232.

<sup>64</sup> See *Compco*, 376 U.S. at 239.

<sup>65</sup> See *id.* at 235.

<sup>66</sup> *Id.* at 238. As the Court had held earlier in *Sears*, where an article is unpatentable, no state law protection may be afforded to it. See *id.* at 237. Furthermore, the Court noted that if neither a design patent nor any other federal statutory protection is issued to a design, then the design falls into the public domain, where it may be copied. See *id.* at 238.

<sup>67</sup> 416 U.S. 470 (1974).

<sup>68</sup> See *id.* at 470.

<sup>69</sup> See *id.* at 476. The Court stated that "[n]ovelty, in the patent law sense, is not required for a trade secret." *Id.* (quoting *W.R. Grace & Co. v. Hargadine*, 392 F.2d 9, 14 (6th Cir. 1968)). Under the patent act, the patent application must fully and clearly describe the invention in a manner that "an ordinary person skilled in the art may make

limited patent monopoly as a social "price" paid for the public disclosure of useful art.<sup>70</sup> The Court discerned a complimentary policy in trade secret protection, which also encourages invention by penalizing the unauthorized disclosure of confidential information that is unpatentable or marginally patentable.<sup>71</sup> This alternative incentive to invention, the Court held, does not disturb the policies of the patent laws, but rather supplements them.<sup>72</sup>

If *Kewanee Oil* signaled something of a retreat from the absolutist language of *Sears-Compco*, Justice White's concurrence in *Inwood Laboratories v. Ives Laboratories*<sup>73</sup> provided a further indication of the Court's views on the nexus between patent and trademark protection for product designs. *Inwood* concerned the protectability of trade dress for a generic drug which was previously protected by a patent. The Second Circuit held that the generic manufacturer infringed the original manufacturer's trade dress; the Supreme Court, however, reversed on procedural grounds.<sup>74</sup> In a concurring opinion, Justice White commented on the "functionality" doctrine<sup>75</sup> in the context of a generic drug that had been protected by patent.<sup>76</sup>

According to Justice White, a product's commercial success depends heavily upon its functional characteristics. Those functional

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or use the invention." *Id.* at 481 (citing 35 U.S.C. § 112 (1988)).

<sup>70</sup> See *id.* at 480.

<sup>71</sup> See *id.* at 483.

<sup>72</sup> See *Kewanee Oil*, 416 U.S. at 484. The Court clearly articulated its holding on the alternative incentive to invention:

Certainly the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention. In this respect the two systems are not and never would be in conflict. Similarly, the policy that matter once in the public domain is not incompatible with the existence of trade secret protection. By definition a trade secret has not been placed in the public domain.

*Id.*

<sup>73</sup> 456 U.S. 843 (1982).

<sup>74</sup> See *id.* at 857-58.

<sup>75</sup> See 1 MCCARTHY, *supra* note 36, § 8.06. "Functional" items cannot qualify for trade dress protection. See *id.* When a product's wrapper or container "contributes to efficiency or economy in manufacturing or handling, or to durability," it may be found to be functional. See *id.* However, even if the wrapper or container feature itself is functional and unprotectable, the overall trade dress incorporating the functional feature may be protectable if the functional feature is integral to the product's overall image. See *id.*

<sup>76</sup> See *Inwood*, 456 U.S. at 859-64.

characteristics fall into the public domain after the exhaustion of the patent term.<sup>77</sup> A manufacturer may, therefore, reproduce the functional element of the unprotected product as a legitimate competitive activity.<sup>78</sup> This legitimate competitive activity, however, is distinguished from the activity of a producer who puts a product on the market which is so similar to another's product that the consumer would be confused as to the actual producer of the product.<sup>79</sup> That type of competition, according to Justice White, is unfair, and is not immunized merely because the product is unpatented.<sup>80</sup>

Thus, in *Kewanee* and *Ives*, there were indications that the *Sears-Compco* cases would not preclude all non-patent protection for product configurations. This retreat from a literal reading of *Sears-Compco* was subsequently confirmed in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*<sup>81</sup> In *Bonito Boats*, the Court invalidated a Florida statute which prohibited the copying of unpatented boat hulls.<sup>82</sup> Writing for the Court, Justice O'Connor reiterated that the Patent Clause balances the benefits of creative innovation and the chilling effects of short-term monopolies with the goal of advancing science and the arts.<sup>83</sup> This is accomplished through a delicate balancing of the need to protect innovators against the need for refinement of a product through imitation.<sup>84</sup> Justice O'Connor cast the "free exploitation of ideas" as the norm, with the exception being the protective shield accorded by a federal patent.<sup>85</sup>

Against this backdrop of the policies reflected in the Patent Clause, Justice O'Connor reviewed the Court's holdings in *Sears* and

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<sup>77</sup> See *id.* at 862-63. In *Inwood*, Justice White explained that functionality is an affirmative defense to an infringement claim which solely relies on the copying of a functional aspect of the produced item. See *id.* The functional aspect is an essential factor "in the commercial success of the product' . . . and, after expiration of a patent, it is no more the property of the originator than the product itself." *Id.* at 863 (quoting *Ives Laboratories, Inc. v. Darby Dug Co., Inc.*, 601 F.2d 631, 643 (2d Cir. 1979)).

<sup>78</sup> See *id.* at 863.

<sup>79</sup> See *id.* Justice White stated that if a competing manufacturer uses a package design or product which is nearly identical to another manufacturer's, and confusion as to the product's source is likely to occur, it may be a violation of § 43 (a) of the Lanham Act. See *id.* (citing 15 U.S.C. § 1125(a)).

<sup>80</sup> See *id.* at 863-64.

<sup>81</sup> 489 U.S. 141 (1989).

<sup>82</sup> See *id.*

<sup>83</sup> See *id.* at 146.

<sup>84</sup> See *id.*

<sup>85</sup> See *id.* at 151.

*Compco*. She dismissed any broad reading of those cases that would bar state regulation of deceptively similar trade dress or the illegal appropriation of confidential information.<sup>86</sup> Since the Court indicated in *Sears* that states may enact limited regulations to protect trade dress, and the subject matter of a design patent may also be trade dress, Justice O'Connor concluded that *Sears* and *Compco* cannot be read to preempt the entirety of state regulation of all possibly patentable but unpatented articles.<sup>87</sup>

Justice O'Connor further noted that the common-law tort of unfair competition merely protects the copying of an article's non-functional, source-identifying elements.<sup>88</sup> Thus, unfair competition is limited to circumstances where consumers may be misled or confused. The idea of the design, however, remains readily exploitable.<sup>89</sup> Most significantly, Justice O'Connor perceived that Congress had already recognized the balance between patent law and trade secret and unfair competition protection by codifying the common law policy against consumer confusion in Section 43(a) of the Lanham Act.<sup>90</sup> Justice O'Connor noted that this policy against consumer confusion, like the policy in favor of copying unpatented articles, is pro-competitive.<sup>91</sup>

### **III. Current Approaches to Trade Dress Protection for Product Configurations**

Three distinct approaches to the protection of product configuration trade dress have emerged in recent federal appeals court opinions. Some courts have applied traditional trade dress rules to determine whether the product is distinctive and nonfunctional.<sup>92</sup>

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<sup>86</sup> See *Bonito Boats*, 489 U.S. at 154.

<sup>87</sup> See *id.*

<sup>88</sup> See *id.* at 158.

<sup>89</sup> See *id.*

<sup>90</sup> See *id.* at 166 (citing 15 U.S.C. § 1125(a) (1993)).

<sup>91</sup> See *Bonito Boats*, 489 U.S. at 166. In an earlier Supreme Court case, Justice Marshall's concurring opinion noted that federal patent and state trade secret laws have survived together for a long period of time. See *id.* During this period of co-existence, Congress recognized and accepted state trade secret law. See *id.*; see also *Kewanee*, 416 U.S. at 474-78 (explaining the simultaneous existence and acceptance of federal patent laws and state trade secret laws).

<sup>92</sup> See *infra* Part IIIA.

Others have refused to extend trade dress protection to product configurations, at least where the configuration is the subject matter of a patent.<sup>93</sup> Additionally, the Third Circuit has created a new hybrid standard for trade dress protection in product configurations.<sup>94</sup>

### A. *Application of Traditional Trade Dress Principles*

Some courts have analyzed product configuration trademarks in terms of the traditional law of trade dress protection under the Lanham Act. In *Kohler Co. v. Moen Inc.*,<sup>95</sup> for example, the Seventh Circuit held that Moen's faucet and faucet handle designs could qualify for protection under the Lanham Act.<sup>96</sup> Moen originally applied for a federal trademark registration for its faucet and faucet handle designs in the Patent and Trademark Office.<sup>97</sup> Kohler opposed Moen's application on the grounds that the configuration of Moen's faucet and faucet handle were not valid trademarks.<sup>98</sup> Shortly thereafter, the Trademark Trial and Appeal Board ("TTAB") dismissed Kohler's oppositions.<sup>99</sup> Kohler appealed this dismissal to the district court, which entered summary judgment against Kohler.<sup>100</sup> On appeal, the parties stipulated that if Moen's designs could serve as valid trademarks, Moen had met the other statutory prerequisites to obtain trademark registrations for those designs.<sup>101</sup>

The Seventh Circuit resolved the case under the standards for reviewing an administrative agency's interpretation of a statute announced in *Chevron U.S.A. v. Natural Resources Defense Council, Inc.*<sup>102</sup> The court first discussed numerous decisions of the

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<sup>93</sup> See *infra* Part IIIB.

<sup>94</sup> See *infra* Part IIIC.

<sup>95</sup> 12 F.3d 632 (7th Cir. 1993).

<sup>96</sup> See *id.*

<sup>97</sup> See *id.* at 633.

<sup>98</sup> See *id.*

<sup>99</sup> See *id.*

<sup>100</sup> See *Kohler*, 12 F.3d. at 632.

<sup>100</sup> See *id.* at 633.

<sup>101</sup> See *id.* at 634 (citing *Chevron U.S.A. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 842-43 (1984)). The *Chevron* doctrine holds that when courts analyze an administrative agency's construction of a governing statute, the court must first determine whether the question at issue is addressed by the statute's plain language, and if not, whether the agency was authorized by Congress to interpret the statute in the



Court of Customs and Patent Appeals and the Federal Circuit that held that product containers and configurations could be protected as trademarks.<sup>103</sup> The court then reviewed the legislative history of the Trademark Law Revision Act,<sup>104</sup> which, according to the court, codified prior case law. As the court noted, the Trademark Law Revision Act specifically expresses that words, devices, or symbols are part of the revised definition of trademarks.<sup>105</sup> The Senate Report of the 1988 amendments explained that the reason for revising the definition of "trademark" was to include shapes, colors, sounds, and configurations within the definition.<sup>106</sup> Based on this prior case law and legislative history, the court concluded that the TTAB acted properly in dismissing Kohler's oppositions and interpreting the definition of trademark under the Lanham Act to extend to product configurations.<sup>107</sup>

The *Kohler* court further considered whether a claim of trade dress rights in a product configuration conflicts with the Patent Clause.<sup>108</sup> The court noted two fundamental distinctions between patent and trademark rights. First, the patent term is limited, while trademark protection lasts as long as the mark is in use; second, while patent law provides absolute exclusivity, trademark law merely precludes others from use of a mark that is likely to cause consumer confusion.<sup>109</sup>

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manner it did. *See id.* (citing *Chevron*, 467 U.S. at 842-43).

<sup>103</sup> *See, e.g., Application of Mogen David Wine Corp.*, 328 F.2d 925, 929 (C.C.P.A. 1964) ("The underlying purpose and the essence of patent rights are separate and distinct from those appertaining to trademarks. No right accruing from the one is dependent upon or conditioned by any right concomitant to the other.")

<sup>104</sup> *See* Trademark Law Revision Act of 1988, 15 U.S.C. § 1127 (1988); *see also* S. REP. NO. 100-515, at 44-45 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5606-08 (discussing how the modifications proposed by the bill update and clearly define the Lanham Act's definitions and makes them reflect the current interpretation of the Court).

<sup>105</sup> *See Kohler*, 12 F.3d at 636. As the court noted, "[t]he Senate Report accompanying the 1988 amendments specifically states the words, 'symbol or device,' were retained in the Trademark Revision Act's revised definition of trademark[.]" *Id.* (quoting S. REP. NO. 100-515, at 44, *reprinted in* 1988 U.S.C.C.A.N. at 5607).

<sup>106</sup> *See id.* The definition of trademark was revised "so as not to preclude the registration of colors, shapes, sounds or configurations where they function as trademarks." *Id.* (quoting S. REP. NO. 100-515, 100th Cong., 2d Sess. at 44, *reprinted in* 1988 U.S.C.C.A.N. at 5607) (emphasis in original).

<sup>107</sup> *See id.*

<sup>108</sup> *See id.* at 637.

<sup>109</sup> *See id.*

Because patents and trademarks are fundamentally different, according to the *Kohler* court, a product's configuration can be protected both by patent and trademark law.<sup>110</sup> The court believed the *Sears-Compco* doctrine was limited to *state* unfair competition laws regarding product configuration that were preempted by the federal patent law.<sup>111</sup> Since the *Compco* court stated that "a defendant may copy at will if the design is 'not entitled to a design patent or other federal statutory protection[,]'" the court held that the *Sears-Compco* doctrine did not apply to a federal statute such as the Lanham Act.<sup>112</sup>

The *Kohler* court also rejected the policy argument that trade dress protection for product configuration is inherently anti-competitive and should be rejected on policy grounds. A producer may use any number of alternative designs, as long as they do not create a likelihood of consumer confusion.<sup>113</sup> While a patent grants a limited monopoly on an invention, trademark law merely prevents consumer confusion.<sup>114</sup> In fact, trademark law encourages innovation by enhancing a producer's ability to differentiate its product in the marketplace and thereby to profit from it.<sup>115</sup>

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<sup>110</sup> See *Kohler*, 12 F.3d. at 638. In reaching this decision, the Court referred to *Bonito Boats*, where the Supreme Court determined that states may enact regulations requiring the use of distinguishing labels, trademarks, or trade dress features used to prevent consumer confusion. See *id.* (citing *Bonito Boats*, 489 U.S. at 154); see also *Kewanee*, 416 U.S. at 476-78 (explaining elements which are not adequately protected by copyright may be protected by patent law); see also *Application of Mogen David Wine Corp.*, 328 F.2d at 930 (stating that trademark rights which extend beyond the expiration date of an invention's patent term do not expand the patent because the two prophylactic devices of patent and trademark exist and function independently of each other).

<sup>111</sup> See *id.* at 639-40.

<sup>112</sup> *Id.* at 640 (quoting *Compco*, 376 U.S. at 238) (emphasis in original).

<sup>113</sup> See *id.* at 643. Before the district court, *Kohler* conceded that granting Moen its trademark would not bar others from manufacturing faucets or faucet handles. See *id.* Trademark protection which is extended to non-generic and non-functional designs does not inhibit competition. See *id.* The court noted that there is a very large pool of distinctive names and symbols which may be utilized for brand identification, and that competition is not stifled by giving the individual manufacturers limitless monopolies in identifying marks. See *id.*

<sup>114</sup> See *id.* at 643. The Court noted that patents encourage innovations which further the progress and refinement of science and the arts. See *id.*

<sup>115</sup> See *Kohler*, 12 F.3d. at 643-44 (citing *W.T. Rogers Co. v. Keene*, 778 F.2d 334 (7th Cir. 1985)). Patent protection advances discovery and invention while trademark protection stimulates the creative marketing of new products. See *id.* (citing *Jay Dratler, Jr., Trademark Protection for Industrial Designs*, 1988 U.Ill.L.Rev. 887, 927-

The *Kohler* court found support for its position in *Two Pesos v. Taco Cabana, Inc.*<sup>116</sup> In *Two Pesos*, the Supreme Court rejected the argument that trade dress protection is inherently anti-competitive.<sup>117</sup> Under *Two Pesos*, if the trade dress is one of only a few efficient choices to a competitor, it is functional, and therefore unprotectable.<sup>118</sup> Similarly, the *Kohler* court found that the functionality doctrine resolves any apparent conflict between the patent and trademark laws.

A similar result to that in *Kohler* was reached by the Eighth Circuit in *Stuart Hall Co., Inc. v. Ampad Corp.*<sup>119</sup> The *Stuart Hall* court rejected the district court's holding that a product's configuration must be "striking" or "memorable" to qualify for trade dress protection.<sup>120</sup> Instead, the Eighth Circuit held that the usual trade dress distinctiveness classifications must be utilized.<sup>121</sup> The Eighth Circuit also took comfort in *Two Pesos*, stating that the Supreme Court clearly recognized that a product's feature, shape, or design may function as trade dress.<sup>122</sup> The Court of Appeals for the Federal Circuit has also held that a product's configuration can be protectable as trade dress under the Lanham Act without offending the patent laws.<sup>123</sup> According to the Federal Circuit, "statements in a patent may provide evidence that the asserted trade dress is functional, and thus not entitled to legal protection. . . [b]ut the fact that a patent has been acquired does not convert what otherwise would have been protected trade dress into nonprotected matter."<sup>124</sup>

The Second Circuit has also held that traditional trade dress principles, with some important modifications, will apply in product configuration case. The products at issue in the Second Circuit case,

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<sup>116</sup> 505 U.S. 763, 112 S. Ct. 2753 (1992).

<sup>117</sup> See generally *id.*

<sup>118</sup> See generally *id.*

<sup>119</sup> 51 F.3d 780 (8th Cir. 1995).

<sup>120</sup> See *id.* at 784.

<sup>121</sup> See *id.* at 785.

<sup>122</sup> See *id.* at 788. The Court in *Two Pesos* stated that "trademarks and trade dress are defined as 'a verbal or symbolic mark or the features of a product design.'" *Id.* (quoting *Two Pesos*, 112 S. Ct. at 2759) (emphasis added).

<sup>123</sup> See *Midwest Industries, Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999), *cert. denied*, 120 S. Ct. 527 (1999).

<sup>124</sup> *Id.* at 1362.

*Knitwaves Inc. v. Lollytogs Ltd.*,<sup>125</sup> were sweaters with “fall” applique designs. More specifically, the fall designs included squirrels, leaves, acorns, and colored stripes.<sup>126</sup> Defendant admitted that it had copied certain elements of plaintiffs’ sweater designs.<sup>127</sup> As a result, the district court found defendant liable for copyright and trade dress infringement.<sup>128</sup>

The Second Circuit affirmed the finding of copyright infringement but reversed the finding of trade dress infringement.<sup>129</sup> The court first acknowledged that the concept of trade dress includes everything that comprises a product’s visual image, including its “overall appearance.”<sup>130</sup> The court further acknowledged that the functionality doctrine guards the policy expressed in the *Sears-Compco* doctrine in favor of copying unpatented articles.<sup>131</sup> Since there was no evidence that plaintiffs’ sweater designs were necessary to competition, the Second Circuit found that the designs were not functional.<sup>132</sup> Because the “primary purpose” of the designs was “aesthetic rather than source-identifying,” the court held that the designs were not protectible trade dress.<sup>133</sup>

In reaching this conclusion, the Second Circuit had the same ontological problem as the Third Circuit.<sup>134</sup> Where the mark is the product itself, it is difficult to apply the usual trademark taxonomy, which assumes the mark is something apart from the product.<sup>135</sup> The Second Circuit rejected the Third Circuit’s hybrid standard for assessing the distinctiveness of product configuration trade dress.<sup>136</sup> Instead, the Second Circuit held that where trade dress is claimed in

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<sup>125</sup> 71 F.3d 996 (2d Cir. 1995).

<sup>126</sup> *See id.* at 1000.

<sup>127</sup> *See id.*

<sup>128</sup> *See id.* at 999.

<sup>129</sup> *See id.* In affirming the finding of copyright infringement, the Second Circuit found that defendant’s sweaters met the copyright infringement test of “substantial similarity.” *See id.* at 1002.

<sup>130</sup> *See Knitwaves*, 71 F.3d at 1005 (quoting *Two Pesos, Inc.*, 112 S. Ct. at 2755 n.1).

<sup>131</sup> *See id.* at 1000.

<sup>132</sup> *See id.* at 1005.

<sup>133</sup> *See id.*

<sup>134</sup> *See infra* Part IVC.

<sup>135</sup> *See Knitwaves*, 71 F.3d at 1007. *See supra* note 36 for a discussion of the classification of trademarks.

<sup>136</sup> *See id.* at 1009 n.6. The Second Circuit stated that the Third Circuit’s standard is “not rooted in the language of the Lanham Act.” *Id.*

“product features or designs whose primary purposes are likely to be functional or aesthetic,” the standard trademark taxonomy must be discarded in favor of a general inquiry into whether the trade dress is “likely to serve primarily as a designator of origin of the product.”<sup>137</sup> In addition, the Sixth Circuit and Fourth Circuits have held that a traditional likelihood of confusion and functionality analysis should be conducted with respect to product configuration trade dress claims, regardless of whether the configuration is also the subject of a utility patent.<sup>138</sup>

## B. Rejection of Trade Dress Protection for Product Configurations

### 1. The Kohler Dissent

Judge Cudahy’s dissent in *Kohler* elegantly illustrates the dichotomy of views concerning trade dress protection for product configurations. Judge Cudahy focused on the economic rationale for limiting patent grants: although a limited monopoly promotes innovation by allowing a producer to profit from its invention, after a period of time it is more important that a useful article pass into the public domain.<sup>139</sup> This will allow others to profit from and improve upon the invention. According to Judge Cudahy, a central theme of Supreme Court patent jurisprudence is the public’s right to copy a non-patented design.<sup>140</sup> In contrast to the majority’s exegesis of *Compco*, Judge Cudahy’s dissent emphasized the Supreme Court’s discussion of the Constitutional mandate that whatever is unprotected by patent and copyright may be freely copied.<sup>141</sup> According to Judge Cudahy, this policy was reinforced in *Bonito Boats*, where the Court

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<sup>137</sup> *Id.* at 1008 (quoting *Duraco Products, Inc. v. Joy Plastic Enterprises*, 40 F.3d 1431, 1449 (3d Cir. 1994)).

<sup>138</sup> See *Marketing Displays, Inc. v. Traffix Devices, Inc.*, 200 F.3d 929 (6th Cir. 1999); *Ashley Furniture Indus., Inc. v. Sangiacomo*, 187 F.3d 363 (4th Cir. 1999).

<sup>139</sup> See *Kohler*, 12 F.3d at 648-49.

<sup>140</sup> See *id.*

<sup>141</sup> See *id.* The court stated that “[t]o forbid copying would interfere with the federal policy. . . of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.” *Id.* (quoting *Compco*, 376 U.S. at 237-38) (emphasis in original).

recognized that for nearly a century, patent has incorporated a public right to copy and use an article after the patent protection has been exhausted.<sup>142</sup> Judge Cudahy was not concerned that the *Sears-Compco* cases dealt with preemption of *state* unfair competition law. Because the Lanham Act federalized state unfair competition law, there is a conflict between “a federal statutory scheme rooted in the Constitution and a federal codification of the common law.”<sup>143</sup> Under these circumstances, the explicit constitutionally-proscribed requirement should control.<sup>144</sup>

Judge Cudahy did not accept the standard response that the functionality doctrine resolves this conflict. He likened a truly “functional” product feature to one that could be protected by a utility patent.<sup>145</sup> An ornamental feature, however, might be protected by a *design* patent, not a utility patent.<sup>146</sup> Since design patents may protect ornamental designs regardless of whether they are “essential for competition,” a product configuration that was the subject of an expired design patent may nevertheless be protected from copying under the Lanham Act.<sup>147</sup> In Judge Cudahy’s view, this would permit a producer to obtain a monopoly on an essentially generic form outside the patent laws’ boundaries.<sup>148</sup> Judge Cudahy therefore would not have extended trade dress protection to product configurations.

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<sup>142</sup> See *id.* The court noted that *Bonito Boats* affirmed the federal policy of granting individuals the right to copy unprotected articles. See *id.*

<sup>143</sup> *Id.* at 647.

<sup>144</sup> See *Kohler*, 12 F.3d at 651. The Seventh Circuit analyzed the conflict between the patent law (a specifically-described statutory artifice) enacted under the Patent Clause (a constitutional clause) and the trademark protection of product configurations (statutory law) merely incident to the Lanham Act (a codification of the common law), and determined that the constitutionally-mandated requirement should control. See *id.* (citing *Morton v. Mancari*, 417 U.S. 535, 550-51, 94 S.Ct. 2474, 2482-83 (1974)).

<sup>145</sup> See *id.* at 648.

<sup>146</sup> See *id.* at 649. In order to receive a utility patent, the invention must be useful. See *id.* (citing 35 U.S.C. § 101 (1988)). Design patents, however, provide protection merely to ornamental designs. See *id.* (citing 35 U.S.C. § 171 (1988)).

<sup>147</sup> See *id.*

<sup>148</sup> See *id.*

## 2. The Tenth Circuit's Rule

In *Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*,<sup>149</sup> the Tenth Circuit held that where an element of a product's configuration is claimed in a utility patent, and the claimed element is an inventive and integral part of the invention, patent law bars trade dress protection.<sup>150</sup> The product involved in *Vornado* was a fan with a spiral grill.<sup>151</sup> The plaintiff held a utility patent which claimed the vane structure of the grill.<sup>152</sup> Defendant sold fans with a grill that looked like the plaintiff's, but did not infringe the plaintiff's patent.<sup>153</sup> Plaintiff sued for trade dress infringement.<sup>154</sup> The district court found that although the plaintiff's grill performed a unique function in shaping the flow of air exiting the fan, it was not "functional" for trade dress purposes because defendant had no competitive need for that feature and would suffer no marketing disadvantage if it could not use that particular grill shape.<sup>155</sup>

The Tenth Circuit acknowledged the importance of patent law policy in favor of the copying of unpatented features and the potential for unfair competition because of consumer confusion resulting from copying a product feature.<sup>156</sup> In addition, the Tenth Circuit perceived

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<sup>149</sup> 58 F.3d 1498 (10th Cir. 1995).

<sup>150</sup> *See id.* at 1510. According to the *Vornado* court, patent law bars trade dress protection even though the element is non-functional. *See id.* In addition, the patent law bars trade dress protection when the claimed element lacks the essential element of the invention and could not be construed to be a similar invention. *See id.* The *Vornado* court stated where:

[a] disputed product configuration is part of a claim in a utility patent, and the configuration is a described, significant inventive aspect of the invention. . .so that without it the invention could not fairly be said to be the same invention, patent law prevents its protection as trade dress, even if the configuration is nonfunctional.

*Id.* Thus, the court noted that a configuration will rarely be granted protection as trade dress. *See id.*

<sup>151</sup> *See id.* at 1500.

<sup>152</sup> *See id.*

<sup>153</sup> *See id.* at 1501.

<sup>154</sup> *See Vornado*, 58 F.3d at 1501.

<sup>155</sup> *See id.* at 1501.

<sup>156</sup> *See id.* at 1504. After reviewing the *Sears-Compco* cases, the Tenth Circuit explained that when weighing the interests of the patent system against those of unfair competition laws regarding the copying of product shapes, the court has consistently held that the public's right to copy the product must prevail. *See id.*; *see also Bonito Boats*, 489 U.S. at 167-68; *Sears*, 376 U.S. at 232-33; *Compco*, 376 U.S. at 238;

a conflict between patent law and federal unfair competition law, which was similar to the conflict between the federal and state laws addressed by the *Sears-Compco* doctrine. The Tenth Circuit stated that the fundamental purpose of the patent law is to provide society with the benefits of technological progress; not the enhancement of competition.<sup>157</sup> The court concluded that this fundamental goal of the patent system is gravely impaired when a producer is impeded from copying a feature of a formerly protected item. This is true regardless of whether the feature is a necessary element to competition.<sup>158</sup>

On the other hand, the Lanham Act, which is designed to limit consumer confusion, has not consistently been held to protect the shapes of containers of products. Therefore, the Act does not contemplate total abatement of consumer confusion.<sup>159</sup> Balancing these two goals, the Tenth Circuit believed the policy permitting free copying of articles in the public domain should trump the policy against consumer confusion.<sup>160</sup>

In contrast to the holding in *Kohler* and *Stuart Hall*, the *Vornado* court rejected the argument that the functionality doctrine in trade dress law adequately resolves this conflict of policy goals. The district court's finding that the plaintiff's patented invention was nonfunctional for trade dress purposes demonstrated that not all products covered by utility patents will be exempted from appropriation as trademarks.<sup>161</sup> A producer may extend the patent monopoly by claiming trade dress protection at the expiration of the patent term.<sup>162</sup> According to the Tenth Circuit, this would thwart the fundamental aim of the patent laws of allowing others to practice the invention once the patent expires.

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*Kellogg*, 305 U.S. at 119-22; *Singer*, 163 U.S. at 185.

<sup>157</sup> See *id.* at 1508.

<sup>158</sup> See *id.*

<sup>159</sup> See *Vornado*, 58 F.3d at 1509.

<sup>160</sup> See *id.* at 1505.

<sup>161</sup> See *id.* at 1506. There appeared to be a widespread assumption that product configurations protected by utility patents were functional *per se* for Lanham Act purposes. See *id.* In the instant case, the district court affirmatively demonstrated that this assumption was unwarranted. See *id.* In fact, product configurations can "simultaneously be patentably useful, novel, and non-obvious and also nonfunctional[.]" See *id.*

<sup>162</sup> See *id.* at 1507.



### 3. The Seventh Circuit's Retreat from *Kohler*

In *Thomas & Betts v. Panduit Corp.*,<sup>163</sup> the Seventh Circuit reversed a finding of infringement in a product configuration case because the lower court utilized an improper standard for finding secondary meaning.<sup>164</sup> Although this holding was not particularly noteworthy, the court's opinion contains some surprising *dicta* concerning the protectability of product configuration trade dress. The court studiously avoided its previous discussion of product configurations in *Kohler*. Instead, the Court followed the Tenth Circuit's reasoning in *Vornado* and the Third Circuit's reasoning in *Duraco Products v. Joy Plastic Enterprises*.<sup>165</sup>

The product at issue in *Thomas & Betts* was a two-piece cable tie. Thomas & Betts obtained a patent on the product in 1965, which disclosed "a two-piece cable tie with an oval head, metal barb and transverse slot."<sup>166</sup> The slot and barb were claimed in the patent, while the oval head was merely illustrated and described.<sup>167</sup> Nearly a decade after Thomas & Betts' patent expired, Panduit entered the market with a cable tie essentially identical to the Thomas & Betts' invention.<sup>168</sup>

Although the court saw no restraint on competition when the use of a symbol attached to a product is enjoined, the court believed that trade dress protection based upon the product's configuration "opens up another can of worms."<sup>169</sup> As expressed in *Bonito Boats*, the court noted that copying is a federal right which "is even more robust when

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<sup>163</sup> 65 F.3d 654 (7th Cir. 1995).

<sup>164</sup> See generally *id.* The lower court defined secondary meaning as "an association in the mind of the consumer between the trade dress of a product and a particular source." *Id.* at 661. The circuit court reversed because the proper standard is whether the *primary significance* of the claimed feature is to identify source. See *id.* The magistrate judge based his holding upon the evidence with respect to Thomas & Betts' advertising, a consumer survey, the defendant's deliberate copying, and the product's "classic design." See *id.* None of the foregoing factors, however, are necessarily sufficient to support a finding of secondary meaning. See *id.*

<sup>165</sup> 40 F.3d 1431 (3d Cir. 1994).

<sup>166</sup> *Thomas & Betts*, 65 F.3d at 656.

<sup>167</sup> See *id.*

<sup>168</sup> See *id.* The two-piece cable tie patent expired in 1982. See *id.* Similarly, a related patent expired in 1986. See *id.* Prior to Panduit's entrance into the market, Thomas & Betts was the single manufacturer of two-piece cable ties. See *id.*

<sup>169</sup> See *id.* at 657.

the copied product was previously patented but the patent has expired.”<sup>170</sup> Thus, while trademark law protects a producer’s right to bar the copying of a source-identifying product feature, “the penumbra of the patent laws requires that competitors be able to slavishly copy the design of a successful product.”<sup>171</sup> This raises significant concerns where the feature sought to be protected does not simply identify the product, but is the product itself.<sup>172</sup>

Although the court recognized that this broad right to copy is protected by the distinctiveness, secondary meaning, and functionality doctrines, it also stated that an expired patent which claims *or describes* the product feature may preclude trade dress protection.<sup>173</sup> The rationale for this rule is twofold. First, the absence of a described element from a claim does not mean the element is unimportant to the invention.<sup>174</sup> Second, and more significantly, “[i]n the patent ‘bargain,’ the claims define what the patentee receives, the ‘metes and bounds’ from which he can exclude competitors,” while the public receives the entire disclosed invention.<sup>175</sup> Since the patent bargain dictates that the public receives all that is claimed in the patent after it expires, and all that is disclosed in the patent once it is published, trade dress protection for product features that have been disclosed in a patent would be anomalous.<sup>176</sup>

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<sup>170</sup> *Id.* at 657-58. Copying is held to be not only good, but necessary. *See id.* Copying is a complement to the granting of limited monopolies to inventors. *See id.*

<sup>171</sup> *Thomas & Betts*, 65 F.3d at 658.

<sup>172</sup> *See id.*; *see also Duraco*, 40 F.3d at 1440-41 (describing the Third Circuit’s ontological problem with product configuration trade dress).

<sup>173</sup> *See id.* at 659.

<sup>174</sup> *See id.* at 659-60. In the two-piece cable tie patent, the cable tie’s oval-shaped head was not expressly claimed in the patent application. *See id.* at 659. In *Vornado*, the spiral grill was a required element in one of the patent claims. *See id.* at 659-60. Thus, *Thomas & Betts*’ patent could be infringed without infringing its trade dress; while any product infringing upon *Vornado*’s patent would also infringe upon its trade dress. *See id.* at 660.

<sup>175</sup> *Id.* at 660.

<sup>176</sup> *See Thomas & Betts*, 65 F.3d at 660. The court did not reach any holding on this issue because it was able to dispose of the case on traditional secondary meaning principles. *See id.*

### C. *The Third Circuit's Hybrid Approach*

The Third Circuit decided two cases in which it developed a hybrid standard for trade dress protection of product configurations, *Duraco Products v. Toy Plastics Enterprises, Ltd.*<sup>177</sup> and *Versa Products Co., Inc. v. Bifold Co., Ltd.*<sup>178</sup> In *Duraco*, the Third Circuit defined "product configuration" as "trade dress alleged in the product itself, whether in a specific feature or in some combination or arrangement of features," and distinguished that type of trade dress from "product packaging."<sup>179</sup> The products involved in *Duraco* were plastic urn-shaped planters. *Duraco* claimed trade dress protection for a combination of elements in its planters, including the planter's rim, finish, joining of its halves, and color.<sup>180</sup>

The *Duraco* court concluded that the typical distinctiveness analysis should not be used in product configuration cases because the "dialectical relationship" between a trademark or trade dress in a product's packaging and the product itself is absent when protection is claimed in the configuration of the product itself.<sup>181</sup> The court believed the absence of this "dialectical relationship" precluded application of the usual taxonomy of trademark distinctiveness. According to the court, it is impossible to claim that a product's configuration is arbitrary, suggestive, or descriptive as applied to the product, because the configuration *is* the product.<sup>182</sup> In addition, the court was concerned that if product configurations themselves could be considered inherently distinctive, competitors could be held liable for copying useful designs that do not primarily serve a source-indicating function.<sup>183</sup> The court used the example of a light bulb. Its configuration is not merely descriptive; it is capable of serving a source-identifying function, but it does not primarily serve that function.<sup>184</sup>

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<sup>177</sup> 40 F.3d 1431 (3d Cir. 1994).

<sup>178</sup> 50 F.3d 189 (3d Cir. 1995).

<sup>179</sup> *Duraco*, 40 F.3d at 1439.

<sup>180</sup> *See id.* at 1436.

<sup>181</sup> *See id.* at 1440-41.

<sup>182</sup> *See id.* at 1441.

<sup>183</sup> *See id.* at 1447.

<sup>184</sup> *See Duraco*, 40 F.3d at 1447.

Following its discussion of the distinction between product packaging and product configuration, the court adopted a new three-pronged test for determining whether a product's configuration is inherently distinctive.<sup>185</sup> To meet this test, the configuration must be: "(i) unusual and memorable; (ii) conceptually separable from the product; and (iii) likely to serve primarily as a designator of origin of the product."<sup>186</sup>

In order to be "unusual," the product's configuration must have such a distinctive appearance that any informed consumer, knowing all the potential available options, could reasonably identify the product's source.<sup>187</sup> To be "memorable," the configuration must be so unmistakably distinctive or unique that consumers will be unlikely to forget its appearance.<sup>188</sup> Because of these rather stringent requirements, designs customary in an industry cannot be found inherently distinctive, nor may secondary meaning attach to them.<sup>189</sup>

To satisfy the second element, the configuration, at a conceptual level, must be detachable from the product, so that the public will be able to identify and distinguish its unique symbolic character.<sup>190</sup> This means the configuration must not merely be a component of the "product gestalt."<sup>191</sup> Instead, it must appear to be something attached to the product, at least conceptually, which functions as an autonomous identifier of the product's origin, rather than merely as an element of the product itself.<sup>192</sup>

The question whether a product's configuration is merely part of the product's gestalt depends on whether the configuration makes the product intrinsically more desirable to consumers or whether it primarily serves to identify source.<sup>193</sup> In this regard, the intention of the product's originator in utilizing the configuration is highly

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<sup>185</sup> See *id.* at 1449.

<sup>186</sup> *Id.*

<sup>187</sup> See *id.*

<sup>188</sup> See *id.* As the court stated in *Stuart*, "[t]he dress must be remembered before it can be confusing." *Id.* (quoting *Stuart Hall Co. v. Ampad Corp.*, 31 U.S.P.Q.2d 1468, 1470 (8th Cir. 1994)).

<sup>189</sup> See *Duraco*, 40 F.3d at 1449; see also *Aromatique, Inc. v. Gold Seal, Inc.*, 28 F.3d 863, 868-70 (8th Cir. 1994) (holding that an object which is commonplace in the industry is not inherently distinctive).

<sup>190</sup> See *id.*

<sup>191</sup> See *id.* at 1450.

<sup>192</sup> See *id.* at 1449-50.

<sup>193</sup> See *id.* at 1450.

probative.<sup>194</sup> According to the *Duraco* court, this product gestalt analysis is distinguished from a secondary meaning analysis, because it concerns the consumers' likely perception of how the element functions, rather than their mental associations as to source.<sup>195</sup> Absent proof of each of the above elements, the court stated that the "penumbra" of the patent laws will bar the producer from any protection unless it can be shown that the product acquired a secondary meaning.<sup>196</sup>

The three-pronged test for protection of product configuration articulated by the Third Circuit thus combines elements of patent, copyright, and trademark law. The "unusual and memorable" requirement is similar to the novelty requirement in patent law. The "conceptual separability" requirement mirrors the copyright requirements for "useful articles," which would include most product configurations. Finally, the source-designation requirement reflects the usual requirement for trademark protection. In this sense, the *Duraco* standard creates a new hybrid form of intellectual property.

The Third Circuit pressed its analysis further in the area of secondary meaning. The court defined only three factors relevant to a secondary meaning inquiry in product configuration cases: advertising expenditures; consumer surveys; and length and exclusivity of use.<sup>197</sup> Other factors normally relevant to secondary meaning, according to the court, are not as probative in product configuration cases.<sup>198</sup>

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<sup>194</sup> See *Duraco*, 40 F.3d at 1450.

<sup>195</sup> See *id.*

<sup>196</sup> See *id.* at 1451. The Court stated that "the penumbra of the patent laws - granting others a right to copy what has been donated to the public domain - will deny protection unless secondary meaning is first shown." *Id.*

<sup>197</sup> See *id.* at 1452. The relevant factors include: "(1) plaintiff's advertising expenditures, measured primarily with regard to those advertisements which highlight the supposedly distinctive, identifying feature; (2) consumer surveys linking the distinctive product configuration to a particular, single source (although the identity of the source need not be known); and (3) length and exclusivity of use." *Id.*

<sup>198</sup> See *id.* Sales success, for example, is not as valuable because it may simply evidence the product's inherent desirability, rather than the feature or features which designate the product's source. See *id.* Moreover, because a particular configuration may render a design more desirable, there is less reason to infer that repeated and continuous purchases of a product demonstrate a primary connection between a product's configuration and its source. See *id.* The court also discounted evidence of copying. See *id.* According to the court, the copying of a product configuration will most likely not be probative, because it may represent a permissible use of a product's desirable features, rather than an attempt to confuse consumers as to the product's source or origin. See *id.* at 1452-53. Finally, the court noted that with respect to

The Third Circuit further developed its product configuration jurisprudence in *Versa Products Co., Inc. v. Bifold Co. (Mfg.) Ltd.*<sup>199</sup> In *Versa*, the court overhauled the traditional standards for finding infringement.<sup>200</sup> In most trademark and trade dress infringement cases, a plaintiff must prove that an appreciable number of reasonably prudent consumers are likely to be confused as to the infringing product's source or origin.<sup>201</sup> In the Third Circuit, however, only a "possibility" of confusion is required when the alleged infringer comes into an area where the plaintiff's mark is already established.<sup>202</sup> The considerations behind the "possibility of confusion" standard include the lack of reasons for copying another's work and consumer reliance on the mark as the indicator of the product's source.<sup>203</sup> The court noted that under its product configuration jurisprudence, these considerations are less significant.<sup>204</sup> The "possibility of confusion" standard was, therefore, rejected in product configuration cases.<sup>205</sup> Having rejected the lower "possibility of confusion" standard, the court then re-examined the traditional factors for determining likelihood of confusion.<sup>206</sup> The factors considered by the court

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certain types of products, consumers may be more "sensitized" to rely on product configuration as a source designator, which may lessen the burden of establishing secondary meaning. *See id.* at 1452-53. Such products include unusually shaped or colored drugs or pills or other products having important features which are not easily recognized in the marketplace, but for which it is difficult to create distinguishing labeling. *See id.*

<sup>199</sup> 50 F.3d 189 (1995).

<sup>200</sup> *See id.* The traditional test for infringement is generally whether there is a "likelihood of confusion" among the consuming public. *See id.* There is a likelihood of confusion "when consumers viewing the mark would probably assume that the product or service it represents is associated with the source of a different product or service identified by a similar mark." *Birtright v. Birtright, Inc.*, 827 F. Supp. 1114, 1135 (D.N.J. 1993) (quoting *Scott Paper v. Scott's Liquid Gold, Inc.*, 589 F.2d 1225, 1229 (3d Cir. 1978)).

<sup>201</sup> *See id.* at 200.

<sup>202</sup> *See id.* The Third Circuit appears to be unique in its use of the "possibility of confusion" standard. *See id.*

<sup>203</sup> *See id.* at 201.

<sup>204</sup> *See Versa*, 50 F.3d at 201.

<sup>205</sup> *See id.* at 201.

<sup>206</sup> *See Scott Paper Co.*, 589 F.2d at 1229. Likelihood of confusion is usually determined by a multi-factor test. The factors identified by the Third Circuit include:

- (1) the degree of similarity between the owner's mark and the alleged infringing mark;
- (2) the strength of owner's mark;
- (3) the price of the goods [or services] and other factors indicative of the care and attention expected of consumers when making a purchase;

included similarity of appearance, strength of the owner's mark, attention of expected consumers, actual confusion, defendant's intent, and marketing considerations.<sup>207</sup>

Although similarity of appearance is usually the *sine qua non* of infringement, the court held that it is not determinative in product configuration cases.<sup>208</sup> According to the Third Circuit, this is because consumers will generally focus on the product's advertising, packaging, and trademarks, rather than the configuration as indicators of source.<sup>209</sup> Therefore, clear labeling indicating the product's source will essentially negate any consumer confusion as to the product's source based upon the product's configuration.<sup>210</sup>

The *Versa* court also stated that the "strength of the mark" factor is less probative in product configuration cases.<sup>211</sup> Because the court rejected the traditional distinctiveness scale for product configuration in *Duraco*, the only remaining element with respect to strength is "commercial strength."<sup>212</sup> According to the court, however, commercial strength alone is inadequate, because consumers have a limited capacity to glean the product's source from its configuration. Commercial strength may, therefore, represent the inherent desirability of the configuration.<sup>213</sup> Thus, the court concluded, the strength of a product's configuration will be relevant only if consumers actually rely on the product configuration to identify the originator of the item.<sup>214</sup>

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(4) the length of time defendant has used the mark without evidence of actual confusion arising; (5) the intent of the defendant in adopting the mark; (6) the evidence of actual confusion; (7) whether the goods [or services], though not competing, are marketed through the same channels of trade and advertised through the same media; (8) the extent to which the targets of the parties' sale efforts are the same; (9) the relationship of the goods [or services] in the minds of the public because of similarity of function; (10) other facts suggesting that the consuming public might expect the prior owner to manufacturer a product in the defendant's market.

*Versa*, 50 F.3d at 201.

<sup>207</sup> See *Versa* at 202-08.

<sup>208</sup> See *id.* at 202.

<sup>209</sup> See *id.* at 202-03.

<sup>210</sup> See *id.*

<sup>211</sup> See *Versa*, 50 F.3d at 203.

<sup>212</sup> See *id.* Commercial strength refers to the success of the product in marketplace. See *id.*

<sup>213</sup> See *id.*

<sup>214</sup> See *id.* This test will more likely be met when the product is purchased

The court then turned to the “attention expected of consumers” factor.<sup>215</sup> This factor is extremely important in product configuration cases, because the “penumbra of the patent laws” limits the extent to which product configurations can be protected as marks.<sup>216</sup> According to the Third Circuit, one expects that advertising, packaging, and trademark, if not deceptive, are the primary indicators of a product’s source, rather than product configuration.<sup>217</sup> Thus, in an action over substantially identical products, the likelihood of consumer confusion as to the product’s source will turn on whether consumers exercising ordinary care will be confused after reviewing the product’s labeling and marketing.<sup>218</sup> The degree of care expected of consumers depends on the relative cost of the goods and the relevant buyer class.<sup>219</sup> Moreover, because of the expectation that prudent consumers will read a product’s labeling, actual confusion may not warrant a finding of likelihood of consumer confusion, unless the buyer was exercising the expected reasonable care of a consumer purchasing that particular item.<sup>220</sup>

The *Versa* court also nearly scuttled the “intent” factor in product configuration cases. The court was wary of limiting the

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predominantly because of its appearance. *See id.* at 204. An example used by the Court was “Carebears,” which are teddy bears with colorful tummy graphics. *See id.* (quoting *American Greeting Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1142 (3rd Cir. 1986)). This type of product is not usually found in the industrial design area because appearance of the product is generally a lesser concern in the industrial buyer’s selection process. *See id.*

<sup>215</sup> *See id.* at 203.

<sup>216</sup> *See Versa*, 50 F.3d at 203.

<sup>217</sup> *See id.*

<sup>218</sup> *See id.*

<sup>219</sup> *See id.* at 204-05. The purchase of inexpensive goods requires consumers to exercise less care than the care extended to the purchase of expensive or important items. *See id.* The degree of care expected in product selection also depends on the relevant buying class. *See id.* A greater standard of care will be expected from professional buyers. *See id.* at 205. When the buying class is a combination of varying levels of buyers, the standard of care to be exercised will be that of the least sophisticated buyer in the relative class. *See id.*; *see also Ford Motor Co. v. Summit Motor Prods., Inc.*, 930 F.2d 277, 293 (3d Cir. 1991), *cert. denied*, 502 U.S. 939 (1991) (describing the different standards of care with respect to the buying classes).

<sup>220</sup> *See id.* at 205. The factor of “evidence of actual confusion” is relevant in that “the more evidence of actual confusion that a plaintiff can muster, the stronger the likelihood of confusion in the future[.]” *Id.* However, the lack of evidence of actual confusion does not suggest the absence of any likelihood of confusion. *See id.* Evidence of actual confusion is not a requisite element to establish a trade dress infringement action under the Lanham Act. *See id.*



right under *Sears-Compco* to copy successful unpatented product designs that do not principally identify source.<sup>221</sup> According to the court, unfair competition includes deception as to the source of the product and the exploitation of the goodwill of the original producer.<sup>222</sup> Thus, the court held that in product configuration cases, a finding of intent to copy is only relevant upon a clear and convincing showing that defendant intended to deceive consumers, and that the labeling and marketing were also misleading.<sup>223</sup> Finally, the court noted that the remaining *Scott Paper* factors including the channels of trade, the targets of the parties' sales efforts, and the similarity of function of the products are necessary elements, but are not sufficient to evidence a likelihood of consumer confusion in product configuration cases.<sup>224</sup> These factors, which were designed primarily for non-competing goods cases, are unlikely to be significant in product configuration cases, where the products directly compete.<sup>225</sup>

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<sup>221</sup> *See Versa*, 50 F.3d at 205.

<sup>222</sup> *See id.* The Court recognized that "deterrents to copying of product designs" would inhibit fair competition. *See id.* This, the Court noted, is contrary to the Lanham Act's purpose. *See id.* The Third Circuit believed that the best method to advance the congressional intent of the Lanham Act was to carefully limit the scope of permissible copying. *See id.*; *see also Kellogg*, 305 U.S. at 121 (discussing that unfair competition does not include a person trading off the goodwill of a competitor); *Duraco*, 40 F.3d at 1445 (explaining that deception as to a product's source and the trading off of a competitor's goodwill is unfair).

<sup>223</sup> *See id.* at 208. The Third Circuit also explained that a successful plaintiff may prove likelihood of confusion absent any proof of intentional deception. *See id.* The alleged infringer's bad intent, however, must satisfy the foregoing conditions in order for the intent "to be considered as evidence of a likelihood of confusion in product configuration cases." *Id.*

<sup>224</sup> *See id.*

<sup>225</sup> *See id.* at 208-209.

#### **IV. The Economic Basis for Trademark and Trade Dress Protection**

##### **A. Benefits**

##### **1. Reduction of Consumer Search Costs**

In a perfectly competitive market, the price paid for a good would equal the marginal cost of producing the good.<sup>226</sup> In the real world, however, markets are imperfect, in part because the cost of a good to consumers includes other factors in addition to the sales price. These factors include the costs of knowing where to obtain the product, the costs of knowing the price of the product at different sales outlets, and the costs of knowing the quality of the product relative to similar products offered by other producers.<sup>227</sup> The consumer activity of evaluating these non-price factors is called "search."<sup>228</sup> The additional costs to the consumer occasioned by search are called "search costs."<sup>229</sup>

The amount of search engaged in by a consumer can vary widely depending on the type of goods involved. For certain types of goods, search is limited to experience based on a few

sample purchases. This is often the case, for example, with respect to products such as inexpensive food staples, which are called "experience goods."<sup>230</sup> For other types of products for which price and quality may vary more significantly, such as, for example, automobiles, search may be more extensive.<sup>231</sup> Many goods fall somewhere in the middle of the spectrum, with consumers utilizing some combination of experience and search to obtain the necessary pre-purchase information.<sup>232</sup>

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<sup>226</sup> See *supra* Part II-A.

<sup>227</sup> See Folsom and Teply, *Trademarked Generic Words*, 89 YALE L.J. 1323, 1336 (1980); Landes and Posner, *Trademark Law: An Economic Perspective*, 30 J. LAW AND ECON. 265, 269 (1987).

<sup>228</sup> See Landes and Posner, *supra* note 227, at 269.

<sup>229</sup> See Landes and Posner, *supra* note 227, at 269.

<sup>230</sup> See Landes and Posner, *supra* note 227, at 269.

<sup>231</sup> See Landes and Posner, *supra* note 227, at 269.

<sup>232</sup> See Landes and Posner, *supra* note 227, at 269.

High search costs inhibit competition. If search costs are high, consumers will be less likely to consider substitutes for the product under consideration, and the producer consequently will be more free to raise prices.<sup>233</sup> Low search costs permit consumers to obtain more complete information about a product's relative price and quality, and thereby stimulate producers to keep their price and quality competitive.<sup>234</sup>

A principal economic function of trademarks and trade dress is to lower search costs by associating consistent price and quality with a particular brand name or package design.<sup>235</sup> The trademark or trade dress thereby becomes a shorthand for the information gathered by the consumer through experience and search. Trademarks and trade dress also provide a related economic benefit by encouraging producers to maintain a consistent price and quality associated with the mark.<sup>236</sup>

## 2. The Market in Languages

In addition, trademark protection provides an incentive for producers to innovate in what has been called the "market in languages."<sup>237</sup> Because distinctive marks receive a high degree of protection, producers will strive to adapt or create new terms or symbols to use in connection with their products or services. Thus, the lexicon is enriched and the social costs of communicating are decreased as new commercial shorthand is developed.

These economic benefits of trademarks do not accrue if a mark can be duplicated and used by another producer. If marks are not protected, free riders can siphon profits from the original producer as a result of consumer confusion. Moreover, in time, consumers will no longer associate the mark with a consistent quality product, and the mark will then cease to perform its function of reducing search costs.<sup>238</sup>

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<sup>233</sup> See Landes and Posner, *supra* note 227, at 269..

<sup>234</sup> See Landes and Posner, *supra* note 227, at 269.

<sup>235</sup> See Landes and Posner, *supra* note 227, at 269.

<sup>236</sup> See Landes and Posner, *supra* note 227, at 269.

<sup>237</sup> See Landes and Posner, *supra* note 227, at 271.

<sup>238</sup> See Landes and Posner, *supra* note 227, at 270.

## B. Costs

Most property rights<sup>239</sup> entail four kinds of costs: transfer costs, rent seeking, protection and enforcement costs, and public costs.<sup>240</sup> The most significant potential costs related to many forms of intellectual property protection are rent seeking and certain public costs. "Rent seeking" refers to the diversion of resources in an effort to obtain monopoly "rents" (the excess profits derived from monopolistic behavior).<sup>241</sup> Resources that might otherwise have been invested in more productive activities may be spent, for example, towards excessive research and development costs in an effort to discover a patentable product.<sup>242</sup>

In terms of public costs, intellectual property rights can create deadweight costs, either by monopoly or excessive competition.<sup>243</sup> In particular, trademark protection could result in monopoly costs because trademark owners, through advertising, may be able to create an exaggerated image of quality, which enables them to charge monopoly prices and to restrict output even when substitute goods are otherwise available.<sup>244</sup> Trademark protection could also result in excessive competition if advertising wars result in costs which ultimately drive up the prices of competing branded products.<sup>245</sup>

The problems of rent seeking and deadweight costs, however, are limited in connection with trademark protection because the supply of potential marks is virtually infinite. This is particularly true in countries, such as the United States, in which trademark rights are based upon use of the mark in commerce. The advent of the "Intent to Use" registration and the practice of making "token" shipments of products bearing a mark does to some extent enable producers to "bank" potentially valuable marks or to "maintain"

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<sup>239</sup> See Landes and Posner, *supra* note 227, at 266. A "property right" can be defined as "a legally enforceable power to exclude others from using a resource, without need to contract with them." *Id.*

<sup>240</sup> See Landes and Posner, *supra* note 227, at 267.

<sup>241</sup> See Alan Dunne, *Rent Seeking and the Social Costs of Monopoly*, (visited Nov. 14, 1998) <<http://maths.tcd.ie/pub/econrev/ser/html/rent.htm>>.

<sup>242</sup> See *id.*

<sup>243</sup> See Landes and Posner, *supra* note 227, at 267.

<sup>244</sup> See Landes and Posner, *supra* note 227, at 267.

<sup>245</sup> See Landes and Posner, *supra* note 227, at 267.

older marks which are no longer in general use. As such, the ability to usurp large numbers of otherwise viable marks is far more limited than in countries in which protection is based purely based upon registration. Moreover, the flexibility of language and the high level of protection given to coined terms permits, and indeed encourages, producers to make up new marks, avoiding the monopoly problem.<sup>246</sup> Finally, most advertising wars also involve price competition, and if the price of a particular branded product becomes too high, other brands or "generics" will offer a lower-priced substitute, unless the market is otherwise anticompetitive. Thus, trademarks provide significant economic benefits by reducing search costs while imposing few economic costs.

## V. *Conclusion: Application of the Economic Model of Trademarks to Product Configuration Trade Dress*

### A. *Product Configuration Trade Dress Can Lower Search Costs*

Product configuration trade dress can provide the same economic benefits as traditional trademarks. If a name or symbol can come to signify to consumers that a product associated with that name or symbol will be of a consistent quality, there is no reason a product's design cannot also do so. It can be argued that product configuration trade dress cannot reduce search costs because consumers do not interpret product design as a signal as to the product's source. This argument is one of the foundations of the Third Circuit's holdings in *Duraco* and *Versa*. This assertion can be repudiated, however, by direct consumer survey evidence of secondary meaning, or by common sense: for example, Tiffany lamps, Movado museum watches, Rolls-Royce automobiles, and

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<sup>246</sup> There may, of course, be other barriers to entry into a given market even if a firm can coin a new brand name for a product. This is particularly true in industries such as consumer products, in which advertising costs are so high and profit margins are so low that a new product launch is always a multi-million dollar gamble. The problem in those industries, however, is a structural one caused by market concentration, not by trademarks themselves.

countless other products have distinctive design features that are instantly associated with source. In fact, as the Supreme Court recognized in two recent cases, the variety of design features that can be distinctive enough to serve as trademarks is nearly limitless.<sup>247</sup> In other words, design features, as well as names and symbols, can help reduce consumer search costs.

In *Two Pesos, Inc. v. Taco Cabana, Inc.*,<sup>248</sup> for example, the Court considered the extent to which the decor of a Mexican restaurant is protectable as trade dress.<sup>249</sup> The Court's answer was that the standard trade dress rules would apply: if the decor was inherently distinctive or had acquired secondary meaning,<sup>250</sup> and was nonfunctional, it would be protectable.<sup>251</sup> Significantly, the Court rejected an argument that allowing protection for inherently distinctive trade dress without a showing of secondary meaning would allow the originator of the dress to stifle competition. The Court reasoned that the functionality doctrine protects the marketplace from a depletion of available trade dresses.<sup>252</sup>

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<sup>247</sup> See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 112 S. Ct. 2753 (1992); *Qualitex Co. v. Jacobson Products Co., Inc.*, 115 S. Ct. 1300 (1995).

<sup>248</sup> 112 S. Ct. 2753 (1992).

<sup>249</sup> See *id.* at 2755. *Taco Cabana* described its trade dress as:

[a] festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme.

*Id.* (quoting *Taco Cabana Inc., v. Two Pesos, Inc.*, 932 F.2d 1113, 1117 (5th Cir. 1991)).

<sup>250</sup> See 2 MCCARTHY, *supra* note 36, § 15.01[1]. "Secondary meaning" means that an otherwise descriptive mark has become distinctive to the public. [emphasis added]. See *id.* This occurs when there is a primary association in consumers' minds between the mark and a single source or origin of the product. See *id.* Courts usually examine a variety of factors, including the extent of sales and advertising, the length of use, and the exclusivity of use to determine whether a mark has acquired secondary meaning. See *id.* § 14.01, 14-2.

<sup>251</sup> See *Two Pesos*, 112 S. Ct. at 2758.

<sup>252</sup> See *id.* at 2760-61. Conversely, a requirement that all trade possess secondary meaning could place strenuous start-up burdens on small companies. See *id.* at 2761. For example, barring protection for inherently distinctive non-functional trade dress until the attachment of a secondary-meaning might permit a larger competitor, without its own distinctive dress, to use the originator's trade dress in other geographic areas and to hinder the expansion of the smaller competitor. See *id.*

Most recently, in *Qualitex Co. v. Jacobson Products Co., Inc.*,<sup>253</sup> the Court rejected similar arguments against the trademark status of colors. Justice Breyer noted that the Lanham Act's<sup>254</sup> language includes any name, word, device, or symbol, or any combination thereof, as potential trademarks.<sup>255</sup> According to Justice Breyer, this definition is broad enough to encompass nearly any object which has the capacity for meaning.<sup>256</sup> For this reason, the source-designating function of a mark, not its ontological status as a word, sign, shape, color or odor, is the fundamental determinant as to whether it is protectable.<sup>257</sup>

Applying these principles to color trademarks, Justice Breyer found no reason why color alone cannot serve a source-identifying function. In response to the argument that the limited supply of available colors would leave some producers at a competitive disadvantage, Justice Breyer cited the functionality doctrine, which would prohibit the acquisition of trademark rights in colors necessary for competition.<sup>258</sup> Because a particular color is sometimes not inherent to a product's purpose or use and does not impact upon its quality or cost, colors are sometimes nonfunctional, and therefore may sometimes qualify for trademark protection.<sup>259</sup>

### *B. Protecting Trademark Rights in Product Configurations Will Not Result in Excessive Costs*

Even if product configurations can serve to identify source, and thereby to reduce search costs, trademark rights in a product design as a whole could nevertheless impose unacceptable economic costs. An initial concern is whether the cost of protecting trademark rights in a design feature would outweigh the benefit of reduced search

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<sup>253</sup> 115 S. Ct. 1300 (1995).

<sup>254</sup> See 15 U.S.C. § 1127 (1988).

<sup>255</sup> See *Qualitex*, 115 S. Ct. at 1302.

<sup>256</sup> See *id.* at 1302-03. For example, the courts have allowed marks in the form of particular shapes, sounds, and scents. See *id.* at 1303.

<sup>257</sup> See *id.* at 1304. The Court found no reason "to disqualify absolutely the use of a color as a mark." *Id.*

<sup>258</sup> See *id.* at 1306. According to Justice Breyer, the purpose of the functionality doctrine is to prohibit the "use of a product's feature as a trademark where doing so will put a competitor at a significant disadvantage[.]" *Id.*

<sup>259</sup> See *id.*

costs the protection would provide. A second concern is whether the trademark laws create deadweight costs. A third problem is the possibility of rent seeking if enticing design features could be monopolized. A final concern, which was originally raised in the *Sears-Compco* cases, is that exclusive rights in a product and the attendant monopoly profits should not be conferred on the producer without meeting the rigorous requirements of the patent laws and the time limitations imposed by the patent clause of the Constitution. The first concern is addressed by the application of the traditional trademark distinctiveness scale to product configurations using readily available public sources and common sense. The latter two concerns are addressed by the functionality doctrine.

1. The Costs of Protecting Product Configuration Marks Would Not Differ Significantly From the Costs of Protecting Other Types of Trademarks

The costs of protecting product configuration trade dress depend on whether there are sufficient resources by which it can be decided, relatively cheaply and certainly, and whether a design is sufficiently distinctive to serve as a mark. This is accomplished with other types of trademarks by using the traditional generic-descriptive-suggestive-fanciful/arbitrary taxonomy as a surrogate for public perception. The standard taxonomy at least permits marks at the far ends of the spectrum to be held protectible or not protectible without a costly factual inquiry. Some commentators believe the standard trademark distinctiveness taxonomy is inadequate with respect to product configurations.<sup>260</sup>

The traditional taxonomy, however, should not be much more difficult to apply in product configuration cases than in other trade dress or trademark cases. Our experience with words allows us to recognize whether a given word is generic, descriptive, or inherently distinctive as applied to a given product. This experience is reflected in dictionaries, published references, surveys, and other sources which are often used as evidence in trademark cases. Our experience with product designs should also allow us to determine the inherent

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<sup>260</sup> See generally Graeme B. Dinwoodie, *Reconceptualizing the Inherent Distinctiveness of Product Design Trade Dress*, 75 N.C. L. REV. 471 (1997).



distinctiveness of a particular design. Just as the public associates the term "light bulb" with a certain type of product, precluding trademark rights in that term for that product, the public also associates the term with certain typical light bulb designs, which also are "generic" and unprotectable. Sources such as encyclopedias, design manuals, and surveys can assist in determining whether a particular design is inherently distinctive. Thus, product configuration marks should not impose significantly greater costs of protection than other types of marks.

## 2. Product Configuration Marks Do Not Necessarily Encourage Rent-Seeking or Create Deadweight Costs, Because of the Functionality Doctrine

### a. Definition of the Functionality Doctrine

Courts have defined "functionality" in different ways. Some courts determine functionality based on whether the trade dress in question is essential to the products' purpose or affects the cost or quality of the product.<sup>261</sup> Other courts attempt to evaluate whether the trade dress is primarily as a source-identifier or primarily related to the intrinsic "value" of the product.<sup>262</sup> Still other courts employ a multi-factored test which emphasizes the "competitive need" for the design and the availability of alternative designs.<sup>263</sup> In economic terms, each of these tests essentially asks the same question: whether there are available substitutes for the trade dress.

### b. Economic Basis for the Functionality Doctrine

A nonfunctional feature has perfect or nearly perfect substitutes.<sup>264</sup> This means that if one producer raises prices or restricts output, other producers can produce more at lower prices, keeping the market price and output at the equilibrium point. If the feature is functional, however, there are no readily available substitutes. Exclusive rights in the functional feature would

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<sup>261</sup> See JEROME GILSON, TRADEMARK PROTECTION AND PRACTICE, § 7.02[7] (1991).

<sup>262</sup> See *id.*

<sup>263</sup> See *id.*

<sup>264</sup> See Landes and Posner, *supra* note 227, at 297.

therefore shift the industry supply curve to the left, making a lesser amount of the product available at a higher price than would be the case in perfect competition, and permitting the producer to earn monopoly profits in the absence of obtaining a patent. Thus, it is only when there are no readily available substitutes for the design feature, that is, when the feature is functional, that trade dress protection for product configurations truly conflicts with the goals of the patent laws.

c. Application of the Functionality Doctrine to Product Configuration Trademarks

The most significant problem in applying the functionality doctrine to product configurations is the difficulty in separating the protectible, non-functional elements of the product's trade dress from the product itself. This is the "ontological" problem recognized by the Third Circuit in *Duraco* and *Versa*. However, the Third Circuit's ontological problem with the ability of a product's configuration to serve simultaneously as the product and the product identifier does not justify a retreat from traditional trademark principles. To paraphrase Justice Breyer: if a product's color can serve as a trademark, why can't its configuration? There is no reason to assume a particular configuration cannot, under the right circumstances, primarily serve to indicate source or origin, even if it is not "unusual" or "memorable." Indeed, the Third Circuit grudgingly recognized this in *Versa*, by holding that the commercial strength of a product configuration may be relevant to likelihood of confusion if there is actual consumer reliance on the configuration as a source-identifier.

Although the ontological problem should not pose too significant a barrier, it can make the various tests traditionally used to determine functionality difficult to apply. There is, however, an economic test that has long been used in antitrust analysis which could help in determining whether a product design has substitutes and therefore is non-functional. In merger analysis under the antitrust laws, the question in determining the relevant product market is whether, if a hypothetical monopolist imposed a "small but significant increase in price" in connection with a product, buyers would shift to purchasing a product offered by another supplier.<sup>265</sup> If so, the other supplier's

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<sup>265</sup> See UNITED STATES JUSTICE DEPARTMENT AND THE FEDERAL TRADE

product will be considered a substitute, and will be added to the relevant product market. The same kind of analysis could be applied to determine whether there are commercially viable substitutes for a particular product design, such that permitting trade dress protection in the design would not result in a patent-like monopoly. If there are sufficient alternative products in the "relevant product market," the design will not allow the producer to monopolize the market, and hence is not functional.

### 3. The Patent Clause Does Not Prohibit the Recognition of Trademark Rights in Product Configurations

The economic considerations discussed above demonstrate that the elimination of trademark protection for product configurations based on concerns about impinging on the domain of patents is unfounded. The functionality doctrine protects the fundamental policy that useful art necessary to competition, and not protected by patent or copyright law, should be available for all to copy and use. If the "art" is not necessary to compete in the marketplace, the complementary policy against marketplace confusion operates to protect configurations that serve primarily to identify source.

The Tenth Circuit's rejection of this argument, and the Seventh Circuit's recent dicta in *Thomas & Betts*, is based on a misreading of the *Sears-Compco* cases and a misunderstanding of the fundamental purposes of the patent laws. As the Supreme Court stated in *Kewanee*, the patent monopoly is a social price paid for disclosure of the invention, with the ultimate goal that competition will benefit from the public disclosure. Contrary to the Tenth Circuit's reading, then, the patent laws do not limit competition merely to encourage private invention. The stark conflict perceived by the Tenth Circuit between a policy of temporarily limiting competition to spur invention and a policy of promoting competition by providing limited protection against consumer confusion is therefore illusory.

Nor does the disclosure of product features in a patent mean those features must automatically pass into the public domain regardless of the likelihood of consumer confusion. If this were the test, a patentee with relatively narrow claims could disclose a variety

of alternative designs which, though not patentable, would then preclude competitors from using those designs to distinguish their products. This would be equivalent to obtaining trademark rights "in gross," without accompanying goodwill, something trademark law prohibits.

Finally, no constitutional issue is raised merely because, as Judge Cudahy observed, a design might be nonfunctional under trade dress analysis, but potentially subjected to the time limitations of a design patent. The policy against consumer confusion as expressed in the Lanham Act is exercised pursuant to a different grant of constitutional authority, the Commerce Clause. This exercise of Congress' authority to protect competition in interstate commerce dictates that the traditional standards for trade dress protection be applied in product configuration cases.

As Justice O'Connor recognized in *Bonito Boats*, the complimentary policies expressed in the Patent and Lanham Acts must be held in balance. If it is truly necessary for a competitor to use a patented feature to manufacture a competitive product, the unfair competition laws will not unjustifiably extend the life of the patent, because the functionality doctrine will dictate that the feature pass into the public domain. However, if the configuration is non-functional and copying is likely to confuse consumers, however, it may not be copied. This approach prevents the producer from obtaining monopoly profits, while promoting the benefits of reduced search costs through the use of source-identifying trade dress.