

## LEGAL UPDATE

### CAUTION: ROADBLOCKS AHEAD: PATENT REVEALING TRAFFIC SIGN STAND'S FUNCTIONALITY PREVENTS TRADE DRESS PROTECTION

*TRAFFIX DEVICES, INC. v. MARKETING DISPLAYS, INC.*

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#### I. INTRODUCTION

On March 20, 2001, the United States Supreme Court decided the case of *TraFFix Devices, Inc. v. Marketing Displays, Inc.*<sup>1</sup> The district court had dismissed Marketing Display, Inc.'s trade dress and unfair competition claims because the sign stand at issue was the subject of an expired utility patent, which proved the stand was functional and therefore unprotectable under the Lanham Act.<sup>2</sup> The Sixth Circuit reversed, finding that the lower court improperly focused on the functionality of the dual spring design element rather than the sign in its entirety.<sup>3</sup> The decision responds to a circuit split regarding whether federal trade dress protection extends to a product configuration covered by an expired utility patent. This legal update addresses the Court's opinion as well as arguments made by petitioner, respondent, and amicus curiae.

#### II. TRADE DRESS AND UTILITY PATENTS: GENERALLY

Trade dress is "the appearance or image of goods or services as presented to prospective purchasers."<sup>4</sup> Trade dress, although developed in the common law of unfair competition, is now included in section 43(a) of the Lanham Act, the

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<sup>1</sup> 121 S. Ct. 1255 (2001).

<sup>2</sup> See *TraFFix Devices, Inc. v. Marketing Displays, Inc.*, 971 F. Supp. 262 (E.D. Mich. 1997). The Lanham Act provides no protection for functional product features. See Lanham Act, 15 U.S.C. § 1125(a)(3) (Supp. V 2000).

<sup>3</sup> See *Marketing Displays, Inc. v. TraFFix Devices, Inc.*, 200 F.3d 929 (6th Cir. 1999).

<sup>4</sup> RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 16 (1993).

principal source of unfair competition law.<sup>5</sup> Trade dress is capable of being inherently distinctive and does not require secondary meaning, which means it can be perceived as identifying a particular brand rather than requiring repeated public exposure to create brand recognition.<sup>6</sup> The Supreme Court recognized potential anti-competitive effects of granting broad protection to trade dress when it held that product design trade dress was not inherently distinctive and required secondary meaning to receive protection.<sup>7</sup>

Utility patents protect functional aspects of products that are novel, useful and nonobvious, and, unlike trade dress protective measures, do not consider public perceptions of the goods' origin.<sup>8</sup> Utility patents currently provide twenty years protection from the filing date of the patent application.<sup>9</sup> They secure "the right to exclude others from making, using, offering for sale or selling the invention throughout the United States."<sup>10</sup> The Supreme Court in *TrafFix Devices, Inc. v. Marketing Displays, Inc.* determined that an expired utility patent itself is strong evidence of functionality, which precludes trade dress protection.<sup>11</sup>

### III. PETITIONER'S ARGUMENT

Petitioner TrafFix Devices, Inc. ("TrafFix") argued that an expired utility patent is useful and therefore functional.<sup>12</sup> Because functional devices cannot receive trade dress protection, TrafFix contended, Marketing Displays, Inc. ("MDI") could not prevail on a trade dress claim for its expired utility patent.<sup>13</sup> MDI marketed and sold a spring-mounted, wind-resistant sign stand under the name "WindMaster."<sup>14</sup> MDI's patents for the stand, used primarily in road construction, expired in 1989.<sup>15</sup> TrafFix created a similar product through reverse engineering in Korea, the "WindBuster."<sup>16</sup>

First, TrafFix claimed that "the patent system establishes a public right to copy and use the subject of expired patents."<sup>17</sup> TrafFix argued that allowing MDI to make a trade dress claim for its expired utility patent would "raise grave constitutional concerns."<sup>18</sup> The consideration for the limited monopoly

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<sup>5</sup> See 15 U.S.C. §1125(a)(3); Hugh C. Hansen, *Utility Patents and Trade Dress: Mutually Exclusive or Overlapping Forms of Protection*, PREVIEW U.S. SUP. CT. CAS., Nov. 20, 2000.

<sup>6</sup> See Hansen, *supra* note 5 (citing *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992)).

<sup>7</sup> See *id.* (citing *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205 (2000)).

<sup>8</sup> See *id.*

<sup>9</sup> See *id.*

<sup>10</sup> 35 U.S.C. § 154(a)(1) (1994).

<sup>11</sup> See *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 121 S. Ct. 1255, 1260 (2001).

<sup>12</sup> See Petitioner's Brief at 10, *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 121 S. Ct. 1255 (2001) (No. 99-1571).

<sup>13</sup> See *id.* at 10.

<sup>14</sup> See Respondent's Brief at 2, *TrafFix* (No. 99-1571).

<sup>15</sup> See Petitioner's Brief at 6, *TrafFix* (No. 99-1571).

<sup>16</sup> See *id.* at 6-7.

<sup>17</sup> *Id.* at 12.

<sup>18</sup> *Id.* at 10. "Congress may not create patent monopolies of unlimited duration." *Id.* at

of patent protection is that the inventor's application informs the public of how to put the invention to use when the patent expires.<sup>19</sup> Consistent with this balance, trademark and unfair competition law may not restrict the public's use of the subject of expired patents.<sup>20</sup> MDI obtained its patent by meeting the usefulness requirement and received a seventeen-year monopoly on the use of its discovery.<sup>21</sup> Traffix argued that allowing MDI to receive trade dress protection for its expired patent would fundamentally upset the constitutional balance between granting monopolies to inventors and securing rights to the public when those patents expire.

Second, Traffix argued that "federal trade dress law does not and could not defeat the public's right to copy and use product configurations that are the subject of expired patents."<sup>22</sup> Trade dress law is a relatively recent development, and is not constitutionally equivalent to patent protection.<sup>23</sup> When creating federal trademark protection, Congress did not intend to disrupt the underlying patent system.<sup>24</sup> Consistent with this approach, neither functional nor useful product features receive trademark protection.<sup>25</sup> Traffix reverse engineered MDI's product, engaging in a fair and honest means of discovery.<sup>26</sup> Furthermore, Traffix created significant improvements upon MDI's product, one of the goals of the patent system.<sup>27</sup>

Finally, Traffix claimed that "the public's right to copy from expired patents should not be subordinated to a factbound, competitive need inquiry."<sup>28</sup> The Sixth Circuit bases functionality upon whether a particular product configuration is a competitive necessity, finding a configuration functional when it affects the cost, quality, or desirability of a competitor's product.<sup>29</sup> This test is "an indeterminate, judge-made inquiry," creating perpetual rights in the useful arts.<sup>30</sup> Traffix argued that no Supreme Court precedent exists to justify equating functionality with competitive need.<sup>31</sup> Applying a competitive-need based functionality test, Traffix asserted, creates uncertainty,

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11 (quoting *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989)).

<sup>19</sup> See *id.* at 16-17. "Disclosure is the quid pro quo of the right to exclude." *Id.* at 17 (quoting *Kewanee Oil Co. v. Bicron Corp.*, 41 U.S. 470, 484 (1974)).

<sup>20</sup> See *id.* at 17.

<sup>21</sup> See *id.* at 21.

<sup>22</sup> *Id.* at 24.

<sup>23</sup> See *id.*

<sup>24</sup> See *id.* at 29.

<sup>25</sup> See *id.*; see also Lanham Act, 15 U.S.C. § 1125(a)(3). "[F]unctional marks should be dealt with under the patent law." See Petitioner's Brief at 30, *Traffix* (No. 99-1571) (quoting H.R. REP. NO. 106-250, at 7 (1999)).

<sup>26</sup> See Petitioner's Brief at 35, *Traffix* (No. 99-1571) (citing *Kewanee Oil Co. v. Bicron Corp.*, 41 U.S. 470, 476 (1974)).

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

<sup>28</sup> *Id.* at 37.

<sup>29</sup> See *id.* at 38 n.14. "To be functional in the trade dress sense, the feature must be necessary to afford a competitor the means to compete effectively." *Id.* (quoting *Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277, 297 (7th Cir. 1998), *cert. denied*, 525 U.S. 929 (1998)).

<sup>30</sup> See *id.* at 38.

<sup>31</sup> See *id.* at 39.

increases threat of litigation, and stifles competition.<sup>32</sup>

#### IV. RESPONDENT'S ARGUMENT

First, MDI claimed that unfair competition and patent laws do not conflict because each protects different rights.<sup>33</sup> “[T]he courts have consistently held that a product’s different qualities can be protected simultaneously, or successively, by more than one statutory means for protection of intellectual property.”<sup>34</sup> Because the Lanham Act garners its power from the Commerce Clause, trademark law is authorized by the Constitution, and cannot be preempted by patent law.<sup>35</sup> While patents protect inventions, trade dress rights identify and protect the source of the product.<sup>36</sup> In order to receive protection, trade dress must be both distinctive and non-functional.<sup>37</sup> The absence of a patent is only one factor when considering the functionality requirement.<sup>38</sup> MDI argued that TrafFix confused utility and functionality.<sup>39</sup> Every product has utility – without it there would be no incentive to make it – but functionality “relates to the need of competitors to copy the product design in order to compete in the marketplace.”<sup>40</sup> Furthermore, trade dress protection is not the equivalent of a perpetual patent because trade dress and patent law provide for different remedies.<sup>41</sup> MDI argued that it would not receive a monopoly if the Court allowed it to enforce its trade dress.<sup>42</sup>

Second, MDI argued that there is no absolute right to copy subject matter disclosed in an expired patent.<sup>43</sup> The right to copy has many exceptions and is subordinate to other compelling policy interests, such as unfair competition laws.<sup>44</sup> MDI claimed that the cases TrafFix cited to support its argument for the right to copy are both factually distinctive and not as expansive as TrafFix represented them.<sup>45</sup> These cases, contended MDI, do not limit federal trade

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<sup>32</sup> See *id.* at 41-42.

<sup>33</sup> See *id.* at 10.

<sup>34</sup> *Id.* (quoting *Kohler Co. v. Moen, Inc.*, 12 F.3d 632, 638 (7th Cir. 1993)).

<sup>35</sup> See *id.* at 12-13. “Federal trademark protection cannot be preempted by patent law.” *Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277, 285 (7th Cir. 1998).

<sup>36</sup> See Respondent’s Brief at 16-17, *TrafFix* (No. 99-1571).

<sup>37</sup> See *id.* at 17-19. MDI claims they have established secondary meaning, distinctiveness, through significant advertising and sales for over twenty years, and recognition in the marketplace. See *id.* at 18-19.

<sup>38</sup> See *id.* at 21.

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

<sup>40</sup> *Id.* at 22.

<sup>41</sup> See *id.* at 24. The standard relief for patent infringement is complete injunctive relief, whereas trade dress remedies are more varied – including disclaimers, changing product appearance, or corrective advertising to eliminate likelihood of confusion. See *id.*

<sup>42</sup> See *id.* at 26.

<sup>43</sup> See *id.* “[T]here is ‘no provision of patent law, statutory or otherwise, that guarantees to anyone an absolute right to copy the subject matter of an expired patent.’” *Id.* at 27 (quoting *Midwest Indus. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1362 (1999)).

<sup>44</sup> See *id.* at 27.

<sup>45</sup> See *id.* at 27-29.

dress law and do not support TrafFix's absolute right to copy rule.<sup>46</sup>

Finally, MDI argued that the existence of an expired utility patent does not foreclose the acquisition of trade dress rights in a product disclosed in the patent.<sup>47</sup> Of the five courts of appeals which have addressed the interaction of patent and trade dress law, four (the Fifth, Sixth, Seventh and Federal Circuits) have found that the existence of a utility patent does not foreclose trade dress protection.<sup>48</sup> Even the Tenth Circuit, which reached an opposite result, does not support a broad absolute rule like the one sought by TrafFix.<sup>49</sup> Congress added support to those circuits upholding trade dress rights when it amended the Lanham Act to recognize trade dress protection for nonfunctional aspects of a product configuration.<sup>50</sup> MDI claimed that it sought trade dress protection not for the subject matter of the expired patents, but only for the distinctive nonfunctional aspects of its sign.<sup>51</sup>

Because functionality is the primary determinative test for trade dress protection, the existence of MDI's patent was of limited relevance here.<sup>52</sup> The question was whether TrafFix and other competitors can compete in the relevant market without MDI's product features.<sup>53</sup> If they can not, the trade dress is functional and therefore unprotectable.<sup>54</sup> MDI claimed its product features are not functional because six other major companies have made competing signs that appear different, but are equivalent in performance.<sup>55</sup> Furthermore, MDI claimed that TrafFix was unclear as to what MDI's patent covers.<sup>56</sup> The drawings of the patents do not show MDI's trade dress.<sup>57</sup> Adopting a per se rule, argued MDI, would force manufacturers to choose between patent protection or trade dress rights.<sup>58</sup> TrafFix's proposed rule, MDI asserted, would cause consumer confusion by allowing copying of any trade dress disclosed in an expired utility patent.<sup>59</sup> The rule, MDI contended,

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<sup>46</sup> See *id.* at 29-30.

<sup>47</sup> See *id.* at 30.

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

<sup>49</sup> See *id.* at 31; *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995).

<sup>50</sup> See Respondent's Brief at 31-32, *TrafFix* (No. 99-1571) (citing H.R. REP. NO. 106-250, at 11 (1999)).

<sup>51</sup> See *id.* at 32.

<sup>52</sup> See *id.* at 33. "The ultimate test of legal functionality 'is whether recognition of trademark rights would significantly hinder competition.'" *Id.* (quoting *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 170 (1995)).

<sup>53</sup> See *id.*

<sup>54</sup> See *id.*

<sup>55</sup> See *id.* at 34.

<sup>56</sup> See *id.* at 35. "A patent protects the invention defined by the claims, it affords no protection to features that are merely disclosed." *Id.* (citing *Dawson Chemical v. Rohm & Haas Co.*, 448 U.S. 176, 221 (1980)).

<sup>57</sup> See *id.* at 36. The public, therefore, could have used MDI's trade dress up until the time it acquired secondary meaning, so long as it did not infringe the patents. See *id.*

<sup>58</sup> See *id.* at 37-38.

<sup>59</sup> See *id.* at 38-39. "For example, the famous and distinctive shape of the Coca-Cola bottle, the Volkswagen Beetle, and the Porsche 911 automobile, just to name a few, are all disclosed in expired utility patents." *Id.* The public relies on these shapes as shorthand

would also harm patent law because manufacturers would limit disclosure so as not to forfeit trade dress rights.<sup>60</sup> MDI argued that these problems could be avoided by denying trade dress protection to functional product configurations, rather than adopting a per se rule.<sup>61</sup>

## V. AMICUS CURIAE ARGUMENT

The International Trademark Association (“INTA”) submitted an amicus brief in support of neither party, but instead proposing a compromise. INTA claimed that there is no inconsistency created by the trade dress protection features disclosed in a utility patent.<sup>62</sup> INTA argued that the starting point for trade dress analysis should be a recognition that product designs can be protectable trade dress.<sup>63</sup> “In appropriate cases, the extension of trade dress protection to product features creates no constitutional issue, even if those features are disclosed in a utility patent.”<sup>64</sup> Furthermore, the requirements for Lanham Act protection, INTA asserted, prevent any possible conflict with patent law.<sup>65</sup> The Lanham Act’s distinctiveness requirement is more difficult to prove with trade dress formerly protected by a utility patent because the evidence must show that the secondary meaning does not stem from the patent.<sup>66</sup> The INTA noted that trade dress and patent law exist independently and “the termination of either has no legal effect on the continuance of the other.”<sup>67</sup>

The relevant inquiry in this case was trade dress functionality.<sup>68</sup> As all Circuits other than the Tenth have found, a finding of nonfunctionality prevents a conflict between trade dress and patent law.<sup>69</sup> The INTA concurred with the Sixth Circuit’s finding that a utility patent does not necessarily preclude trade dress protection.<sup>70</sup> The INTA contended, however, that the court may not have provided proper guidance for the functionality requirement on remand.<sup>71</sup> “INTA submits that the significance of a disclosed feature in a utility patent is two-fold: First, functionality cannot be determined as a matter of law by reference to the claims alone. Second, however, claims of utility

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source identifiers. *Id.*

<sup>60</sup> *See id.* at 40.

<sup>61</sup> *See id.*

<sup>62</sup> *See* Brief of the International Trademark Association as Amicus Curiae at 7, *Traffix* (No. 99-1571).

<sup>63</sup> *See id.* at 7-8.

<sup>64</sup> *Id.* at 9.

<sup>65</sup> *See id.* at 10. The requirements for Lanham Act protection include the use in commerce requirement, the distinctiveness requirement, the nonfunctionality requirement and the likelihood of confusion test for liability. *See id.* at 11-13.

<sup>66</sup> *See id.* at 14 (quoting *Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d at 277, 294 (7th Cir. 1998), *cert. denied*, 525 U.S. 929 (1998)).

<sup>67</sup> *Id.* at 14 (quoting *Midwest Indus. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1362 (Fed. Cir. 1999), *cert. denied*, 120 S. Ct. 527 (1999)).

<sup>68</sup> *See id.* at 15.

<sup>69</sup> *See id.*

<sup>70</sup> *See id.* at 16.

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

nevertheless may be highly probative of functionality.”<sup>72</sup> The court of appeals avoided assessing the functionality of the dual-spring design by treating it as one of a combination of other functional elements. However, the resulting combination of functional features, asserted INTA, is not protectable under trade dress law.<sup>73</sup>

Finally, INTA claimed that protection of nonfunctional elements is critical to competition.<sup>74</sup> INTA contended that while few product features protected by expired utility patents will meet the stringent prerequisites for trade dress protection, the Court must protect those that do.<sup>75</sup> Nonfunctional elements do not create monopolies in an underlying utilitarian good.<sup>76</sup> A functional design, asserted INTA, must not receive trade dress protection, but a per se prohibition on protection for designs disclosed in a utility patent without a functionality requirement undermines the purpose of trademark law.<sup>77</sup> Moreover, INTA argued, courts “should not discourage competition in the interest of promoting it.”<sup>78</sup>

## VI. THE COURT’S DECISION

The Supreme Court agreed with INTA that the relevant inquiry is functionality and held that MDI’s patent had “vital significance in resolving the trade dress claim” because it is strong evidence of functionality.<sup>79</sup> The Court placed the burden of proving non-functionality on MDI and noted that they could not carry the burden because the claimed spring design was necessary for the sign’s operation.<sup>80</sup> This finding relied on precedent that established that the party asserting a trade dress claim has the burden of proving non-functionality.<sup>81</sup> MDI obtained the patents by claiming that the particular spring design was necessary, and, without denying its prior representations, it could not prove non-functionality.<sup>82</sup>

The Supreme Court found that the court of appeals inquiry into whether competitors could develop other designs was unnecessary because there is no obligation to re-work functional elements.<sup>83</sup> Rewarding innovation, noted the Court, is the sole province of patent law, and the Lanham Act will not extend

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<sup>72</sup> *Id.* at 16. Although functionality is a factual inquiry, the relevant factors, in addition to a utility patent, include the nature of advertising, existence of viable alternatives, inherent utility of design, and plaintiff’s intent in adopting the design. *See id.* at 17.

<sup>73</sup> *See id.* at 21.

<sup>74</sup> *See id.*

<sup>75</sup> *See id.* (citing *Levi Strauss & Co. v. Bell Bell, Inc.* 632 F.2d 817, 821 n.5 (9th Cir. 1998)).

<sup>76</sup> *See id.* at 22.

<sup>77</sup> *See id.* at 22-23.

<sup>78</sup> *Id.* at 22.

<sup>79</sup> *See TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 121 S. Ct. 1255, 1260 (2001).

<sup>80</sup> *See id.*

<sup>81</sup> *See id.* at 1261 (citing *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 165 (1995)).

<sup>82</sup> *See id.* MDI claimed in its patent application that the design prevented twisting that could damage the sign. *See id.*

<sup>83</sup> *See id.* at 1262.

the ability to prevent competitors from copying a design.<sup>84</sup> The Court did not, however, go so far as to adopt Traffix's position that a holder of an expired utility patent can never claim trade dress protection, instead relying on functionality to solve trade dress protection cases.<sup>85</sup>

## VII. CONCLUSION

The Supreme Court rejected Traffix's proposed per se rule, which would have prevented trade dress protection of any product configuration disclosed in an expired utility patent, instead choosing to focus on functionality. This will, however, foreclose most claims for trade dress protection where an expired utility patent exists because the burden of proving non-functionality is a heavy one. Copying of expired utility patents is likely to increase now, as competitors will be unlikely to face trade dress claims. Once a functional element is disclosed in a utility patent, trade dress protection is precluded.

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

<sup>85</sup> *See id.* at 1263.