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TRADE DRESS AND UNFAIR COMPETITION: WHO HAS THE RULE BOOK?

by
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To say, as the Ninth Circuit recently did in *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837 (1987), that trade dress infringement under the Lanham Act is a complicated area of law, is a considerable understatement. The reality is that trade dress and unfair competition litigation is a confused area of the law. No one really knows what the rules are, and they change from circuit to circuit. The Ninth Circuit recently wrestled with the problem in an attempt to bring some order to the mayhem.

The problem manifests itself when competitors try to use the powerful weapons embodied in Section 43(a) of the Lanham Act to protect unregistered trademarks, including "trade dress," from being copied by competitors. The argument flows that use or adoption by a competitor of a deceptively similar "trade dress" to that of the plaintiff's will cause confusion amongst consumers about the source of the goods. The competitor will be unjustly benefited from a consumer's perceived association of the products of the competitor with those of the plaintiff. Product manufacturers and marketers have been using the provisions of the Lanham Act to protect their products and markets, as well as, to harass and prevent other competitors from attempting to compete with them with increasing frequency.

"Trade dress" refers to the appearance of a product. The trade dress laws protect "primarily" non-functional features of a product and those functional features which have developed secondary meaning, i.e., have come to be associated by consumers as products from a source, as distinguished from the products of others. Functional features are defined as those that are essential for the use or purpose of the product, and those which affect its cost or quality. To determine if a feature is functional, it must be assessed in the overall design and it need not be analyzed individually.

If a plaintiff can establish that one or more of the features of his product are non-functional and have achieved secondary meaning, or source identifying significance, it can prevent competitors from adopting and using those features. Even the innocent adoption of features which are confusingly, or deceptively, similar to those which are protectible under the Lanham Act can be enjoined. The only countervailing consideration to such broad protection for functional features is the constitutional concern against hindering competition, or of "impinging on the rights of others to compete in the sale of products". These concerns, however, are overcome when alternative designs are available. Where there are no alternative designs, the features are deemed essential or utilitarian and they can be freely copied or used.

In the *Fuddruckers* case, plaintiff *Fuddruckers, Inc.* sought to use Section 43(a) of the Lanham Act to protect various elements of its restaurant design and decor. *Fuddruckers* claimed that its design concept had come to be associated in the minds of consumers with a single source, namely itself, and that the adoption by *Doc's B.R. Others, Inc.* of a similar decor and design concept was misleading and confusingly similar. By this case, *Fuddruckers* sought to expand trade dress protection to "elements employed in marketing restaurant services". The case was tried before a jury and the jury held that a restaurant's decor, menu layout and style of service may acquire source identifying significance and thereby become protectible trade dress, but that *Fuddruckers* trade dress had not acquired secondary meaning in the Phoenix area at the time that *Doc's* opened. The jury also held that there was no likelihood of confusion between the two establishments.

The Ninth Circuit reversed and remanded for retrial because the trial court had failed to issue any jury instructions on functionality and because the trial court had ordered that *Fuddruckers* must show that it had achieved secondary meaning in the Phoenix area. The trial court also erred by failing to instruct the jury that even reverse confusion, i.e., belief by consumers that *Fuddruckers* was associated with *Doc's*, as opposed to the other way around, would be sufficient to establish a likelihood of confusion.

The Ninth Circuit, however, failed to decide whether plaintiff or defendant must carry the burden of functionality, leaving that issue unresolved. Decisions in other circuits have held that functionality is a defense for which defendant carries the burden, but at least one recent decision out of the district court of New Jersey has placed that burden on the plaintiff. In that case the plaintiff was required to show that his claimed trade dress was protectible under the Lanham Act.

In the Fuddruckers case the Ninth Circuit also required that the functionality analysis focus on the whole collection of elements taken together, since independent elements may be functional with a whole being found non-functional. The court held that a plaintiff "cannot prevent others from using any particular color or feature, but can protect a combination of visual elements 'that taken together . . . may create a distinctive visual impression'." Applying this test, a plaintiff must show, if the burden is his, that the competitors product creates a similar visual impression to his, and that the competitors product will function just as well without the similar features. Plaintiff would also have to show that the cost or quality of the product are not affected by not incorporating those features. A defendant, if the burden is his, would have to show that there are few, if any, alternate choices and that the cost, quality and utility of the product would be affected if the use of the features is prohibited. The Ninth Circuit properly held that functionality is a question of fact.

The second crucial factor required for a trade dress to be protectable, a showing of secondary meaning, or source identifying significance in the claimed combination of features. In the Fuddruckers case, Fuddruckers claimed trade dress rights in the concept of open food preparation areas visible to customers, glassed-in display cases for its various food items, bulk storage of food items in customer areas, use of bulk size containers for its soft drinks, cheeses in crockpots, and institutional sized containers of condiments. Fuddruckers also uses ubiquitous two-by-four white tiles on its walls, bar and counters, as well as neon signs, many mirrors, brown and white checked flooring and tablecloths, directors chairs and exterior yellow awning. Fuddruckers claimed it need not establish secondary meaning because its trade dress was "inherently distinctive" and federal registration of service marks is available for "inherently distinctive" service marks without proof of secondary meaning. The Ninth Circuit noted that the term "inherent distinctiveness" is merely a term of art describing any mark which has acquired secondary meaning, but it did offer a definition for the term independent of that observation. The court held that "inherent distinctiveness" means "arbitrary or uncommon," but that Fuddruckers trade dress was not inherently distinctive.

The secondary meaning requirement was also tested against Fuddruckers' claim that it need not establish secondary meaning in the Phoenix area and Doc's claim that it must. The Ninth Circuit acknowledged the rule allowing co-existence of remote good faith users of a similar or identical mark, but it also recognized that that rule has limited, or no applicability, where the services involved are ambulatory, or where consumers may be exposed to both service providers. The Ninth Circuit therefore imposed a requirement that Fuddruckers show that it had established its secondary meaning among some "substantial portion of consumers nationally".

Of interest is the fact that although Fuddruckers claimed to be a national restaurant chain, it has only penetrated a limited number of regional markets. As a result, the Ninth Circuit's decision to use a national arena creates more havoc than it sorts. Arguably, any enterprise might be able to avoid having to show that it has achieved secondary meaning in a particular market where it claims rights by simply arguing that it intended to be "national" in scope and hopes at some point to ultimately achieve its objective.

Ultimately, there is no recognized standard on how secondary meaning can be established. Some courts have found that evidence of copying is sufficient to establish secondary meaning. The courts rationalize there would be "no reason to copy a non-functional feature except to capitalize on an already existing secondary meaning". The Ninth Circuit in Fuddruckers agreed that copying is relevant to infer secondary meaning but held that the burden of proof on secondary meaning did not shift where intentional copying is found. The court noted that copying can be justified by economic benefits of functional features which constitute the trade dress.

The final hurdle that a plaintiff must leap to win a trade dress infringement action is to prove the existence of a likelihood of confusion. If there is no likelihood of confusion, the competitor may not be enjoined even if the plaintiff's trade dress is protectible and has achieved secondary meaning. Some courts however will use the existence of the likelihood of confusion to infer the existence of secondary meaning.

A likelihood of confusion, whether direct or reverse, can be shown by (a) the existence of actual confusion; (b) intent of the competitor to copy in adopting the mark; (c) similarities of the marks; (d) similarities of the products; (e) similarities of the marketing channels; and (f) the strength of the mark. As the Ninth Circuit noted, an intent to copy is given great weight in likelihood of confusion analyses. In some cases courts will even use

similarity of the products to infer copying and an intent to copy.

And so the apparently awesome task for the plaintiff in trade dress cases in fact turns out to be a collapsible standard. Where there is similarity of products, an intentional copying can be inferred, which in turn has been used by some courts to infer the existence of a likelihood of confusion and secondary meaning. As a result, since many of these same courts will impose the burden of proof on functionality on the defendant, all that plaintiff needs do is file his complaint and allege similarity of the products and intentional copying and wait and watch the defendant try to squirm out of that one. Section 43(a) actions under the Lanham Act are indeed a powerful competitive tool.

It is unclear whether Congress intended 43(a) to be so expansive. There is no doubt that 43(a) was intended to be an effective tool against unfair competition but was it intended to create the mayhem it does? That which is not protected by patent or copyright can be freely copied, at least according to the United States Supreme Court. The provisions of the Lanham Act however, have created new protections for otherwise unprotectable subject matter. Trade dress rights established under the Lanham Act are perpetual in nature, and are not limited in time as are patent and copyright interests.

Competitors are being forced to be highly defensive in developing products to avoid liability for trade dress infringement. For example, they should conduct market studies of existing products, compare the features of their intended product with those of existing products and assess the functionality of the features within the whole design. They must adopt alternative designs where possible, and attempt to avoid the consequences of litigation by seeking advice of counsel familiar with product design, intellectual property rights and competitive business practice litigation early in the development stages.

Until the courts apply more uniform standards and analysis in trade dress cases, and until limitations to the use of Section 43(a) of the Lanham Act are better defined, plaintiffs will continue to lay claim to product features and combinations of such features. In the long run, the "winner" will probably not be the "innovator" or the aggressive "marketer" who actually came up with the unique product designs, or actually established genuine consumer acceptance for the product. The winner will be the aggressive litigator who can early restrict the range of product development of his competitors. P>

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