

Mediation spells trade dress success

Richard Posell explains why mediation may be a particularly attractive option for resolving trade dress disputes

Mediation is a process of dispute resolution that is familiar to trade mark practitioners. Mediation at an early stage is uniquely useful in trade dress cases that are particularly unpredictable, expensive to litigate, often highly technical and unsuited to judicial resolution.

The laws of trade dress reflect a sometimes fruitless effort to objectify the subjective. Trade dress doctrine protects the total overall commercial image of a product or service. The Lanham Act protects trade dress by creating a cause of action against an infringing “symbol, or device, or any combination thereof”. Based on this almost limitless description, the conceptual breadth and vagueness of trade dress is breathtaking. The US Supreme Court has approved as protectable trade dress ranging from the entire ambience of a restaurant (*Two Pesos, Inc v Taco Cabana, Inc* [1992]) to the simplicity of a single colour, at least where there is secondary meaning (*Qualitex Co v Jacobsen Products Co, Inc* [1995]).

Not surprisingly, ancillary rules of infringement have been developed to help objectify and narrow the otherwise subjective task of identifying protectable trade dress. How well these rules aid in predicting outcomes is debatable.

The need to be different

First, to be protectable, the dress must be “inherently distinctive”. While in some cases, inherent distinctiveness is clear (picture the curved and ribbed shape of the classic Coca-Cola bottle), in others, particularly in product configuration cases, the task of proving sufficient distinctiveness is difficult. In *Duraco Products, Inc v Joy Plastic Enterprises* (1994), the Third Circuit adopted an elaborate test for distinctiveness in a case involving the configuration of Grecian-style plastic planters. Inherent distinctiveness, said the Court, means unusual and memorable, conceptually separate from the product, and likely to serve primarily as a designator of origin. The Second Circuit has declined to follow that definition, however, asking simply whether the design “was likely to be understood as an indicator of the product’s source” (*Landscape Forms, Inc v Columbia Cascade Company* [1997]). Not coincidentally, *Landscape Forms* involved the manufacture and sale of outdoor furniture, and its facts inspired the wholly fictional Lawnco case described in this article (see box). *Landscape Forms* is inspirational in another sense: it is representative of one of those Dickensian legal sagas that bounce up and down from the trial courts to the appellate courts and back again over a period of years, highlighting the cost and unpredictability of this type of litigation. The case is a cautionary tale on the benefit of a negotiated business solution. In the end, the Court of Appeals sent the matter back to the trial court for more evidence of distinctiveness, but one is left with the sense that the plaintiff’s best shot fell short. Depending on the use of design and colour in our hypothetical outdoor furniture case (see box opposite), Lawnco may face equal difficulty in proving its trade dress is distinctive enough to be protected.

Uselessness can be useful

The second requirement for trade dress protectibility is that it be non-functional. This requirement was developed to prevent trade mark protection from inhibiting the right to effective competition in useful (as opposed to reputational) features (*Qualitex*). It is a major issue in almost every product configuration trade dress case, and despite countless court opinions, the subject remains elusive in application. Many features of a product are functional because they do something practical. That quality is called “*de facto* func-

One-minute read



As litigation costs continue to rise amid increasing economic turmoil, companies may want to consider mediation to resolve IP disputes. There are a number

of benefits to doing so. First, many of the reasons parties are often reluctant to mediate can be explained as little more than myths. Second, particularly in trade dress cases, which can be highly subjective and where case law is often inconsistent, mediation may prove especially effective. Finally, the flexible nature and low cost of mediation can allow parties more freedom to negotiate agreements that succeed where judicial relief often fails.

The laws of trade dress reflect a sometimes fruitless effort to objectify the subjective

Time to mediate: hypothetical

Lawnco, an American based international manufacturer of outdoor furniture, is suddenly faced with competition in the US by a foreign company (Foreignco) based in a country with an emerging economy. Foreignco produces a product that looks very much like Lawnco's product but is less expensive (and, Lawnco believes, of lesser quality.) Lawnco's furniture prominently bears the Lawnco trade mark and Foreignco's furniture is sold under a different and distinguishable mark. Even though Lawnco's word trade mark is not infringed, Lawnco has evidence that, because of the distinctive appearance of its product, potential customers will be confused about the source.

Foreignco purposely copied the general shape and colour scheme of Lawnco's furniture, but there are some differences in colour and shape. The overall impression of Foreignco's furniture design is one of similarity to the Lawnco product. In its foreign markets, the laws protecting industrial design and trade dress are either lax or non-existent, so the importer is surprised to receive a cease and desist letter from Lawnco's attorneys. Wisely, Foreignco hires US lawyers of its own, and discovers the uncertain path on which it has inadvertently embarked. Foreignco's counsel knows that the time to mediate and resolve this dispute is now.

tionality" but is not disqualifying. Thus, Coca-Cola bottles are hollow and otherwise designed to hold fluid, but that *de facto* functionality doesn't prevent trade mark protection. Similarly, the design of Lawnco's table and chairs may still be protectable, even though part of that design is four legs. However, if Coca-Cola's bottle design works better than other designs, because it prevents leaking, or dissipation of the carbonation, or in some other way, it would be deemed "*de jure* functional" and denied trade dress protection. Even if there are other ways to accomplish similar functionality (proving, in effect, that the design is not necessary to the designated function and was selected for copying by the defendant in order to confuse the public), the offending design may be held to be *de jure* functional. If you think this issue is easy to apply, consider the cases of *Brunswick Corporation v British Seagull Limited* (Fed Cir 1994) and *Leatherman Tool Group, Inc v Cooper Industries* (9th Cir 1999).

In *Brunswick*, the plaintiff claimed trade dress protection in the single colour (black) of its marine outboard engines. The decision focused not on distinctiveness and secondary meaning, but on the issue of functionality. The defendants did not claim that the colour black affected the operation of the engine; instead, they claimed that it made the product more saleable. The Court agreed, and held that black in an outboard engine was *de jure* functional because it was compatible with a wide variety of boat colour schemes and made the engine look smaller. Making the product more desirable to customers was a *de jure* function of the designated trade dress.

In *Leatherman*, the appearance of a multi-functional pocket tool was held to be *de jure* functional because the entire appearance was based on a series of functional parts. Even though there were other similar tools on the market with a variety of appearances that did the same thing, none of them functioned in exactly the same way as Leatherman's tool.

A confusing standard

The third factor in trade dress protection is the likelihood of confusion. The analysis here is similar to the one made in conventional trade mark cases. Thus, in *Adidas-America, Inc v*

Payless Shoesource, Inc, the court used the identical analysis for both trade mark and trade dress claims that Payless was selling shoes that appeared confusingly similar to Adidas' famous products. As in other trade mark cases, the individual elements are not compared to determine similarity of design; rather, it is the "general impression conveyed to the public by the entirety of the dress" (*Lang v Retirement Living Publishing Co* [2d Cir 1993]).

Unfortunately, general impressions are subjective and subjectivity only increases with the generality of design. Moreover, as in trade mark cases, similarity in trade dress is usually the result of copying. Knocking off a successful competitor is a technique as old as competition itself. In classic trade mark cases an opinion of counsel can be a reliable safety net, but in trade dress cases, attorneys are more reluctant to give written opinions that can be relied upon. While an intention to confuse is not a required element of trade mark infringement, it is also true that it can raise the presumption "...that an intended similarity is likely to cause confusion" (*Harlequin Enters, Ltd v Gulf & Western Corp* [2d Cir 1981]). While purposeful copying is present in almost every trade dress case to some degree, its importance varies from case to case, and not in any predictable way.

In *Merriam-Webster, Inc v Random House, Inc* (2d Cir 1994), the publication of a dictionary which purposely copied the plaintiff's bright red dust jacket, prominently used the generic word "Webster" with a descriptive term, and had the word "Collegiate" or "College" on the cover was held to be not infringing as a matter of law. In overturning a jury verdict to the contrary, the court relied in part on the difference in word marks and gave short shrift to the element of bad faith. On the other hand, in *Inverness Corporation v Whitehall* (SDNY 1987), purposeful copying of an overall packaging design of a cosmetic product played an important role in deciding there was a likelihood of confusion, even though the word marks on the competing products were prominent and different.

This brief compilation hardly does justice to the intricacies of trade dress law. Practitioners handling such cases are usually burdened with a case-by-case analysis and know that an educated guess at the outcome is the most they can hope for. Moreover, the evolution of trade dress law is case-driven; legislative attention is rare. This means that more and smarter lawyers make the practice more complex, and there is no countervailing institutional pressure to simplify.

Judicial hurdles

In an increasingly expensive litigation environment, the last thing any business needs is a trade dress dispute. Because of the subjective, *ad hoc* and complex nature of this practice, resolution is likely to come at significant cost. But investing in trade dress – the business' most valuable and least changeable mode of communicating with the marketplace – may be necessary. Trade dress cases are fact-intensive, usually interstate or international, document-driven and require experts and surveys. Most are filed in federal court, a speedy but expensive forum. It is not unusual for the cost of litigating these cases to exceed \$1 million.

Judicial relief in trade dress cases usually fails to address many issues that concern both sides. Injunctive orders and monetary awards are blunt instruments at best, and may never be obtained, or may be inadequate in amount or scope.

In addition to the legal uncertainty we have described, many of these cases are highly technical, particularly when issues of functionality are pursued. In our Lawnco case, the

strengths, tolerances and durability of furniture design, finishes, and materials may all become issues as Lawnco tries to show that none of the dress it seeks to protect is functional. Asking judges and juries to decide these matters is often a gamble, even if the claimant is right on the law and facts.

Even if legal principles are properly applied, and factual predicates rightly decided, will the injunctive relief sought sufficiently prevent the defendant from making changes in design that may later pass muster in a courtroom, but not in the plaintiff's boardroom? From the defendant's point of view, how can it be assured that a change in design will avoid additional litigation with the plaintiff? Finally, where will the injunction apply and how can it be enforced in other jurisdictions? Even if Lawnco is successful in the trial court, and survives an appeal, how does that success prevent Foreignco from selling its product elsewhere? The laws of trade dress, or industrial design as it is called in other jurisdictions, vary widely throughout the world, and in some markets, as in Foreignco's home territory, are limited or are unlikely to be enforced.

Several other factors to consider in seeking a judicial determination of a trade dress claim are the availability of confidentiality in documents, testimonial evidence and results and the problem of hometown bias (perceived or real) in international or inter-state cases.

Enter mediation

Mediation is infinitely flexible in comparison to the limits of judicial relief. Negotiated agreements eliminate or substantially reduce risk and cost. In the hypothetical example above, Lawnco has invested substantial resources in the successful design of its product. Now, it is faced with spending large amounts on litigation that may not work. On the other hand, its competitor sees an opportunity to break into the US market with a less-expensive product, but needs a safe design and marketing programme that will not spawn continuous litigation. Instead of suing, or shortly after filing a complaint, counsel seek out a mediator with technical and trade dress expertise to facilitate an early settlement. It succeeds. Here are the elements of their negotiated settlement:

- 1) Foreignco agrees to redesign its product and submit that new design to Lawnco for approval. Time limits for submission and approval are established, and the design submission is directed to one or two specific people at Lawnco.
- 2) A method of expedited dispute resolution is established if disapproval is contested. The parties eliminate likelihood of confusion and functionality as issues to be resolved. The only issue to be decided is the overall similarity of appearance between the specific design in which Lawnco claims protection and Foreignco's new design.
- 3) Lawnco waives any claim for damages or attorneys' fees.
- 4) Lines of commerce and geographical limits on the agreement are established. Foreignco can sell only its new design

On managingip.com

vitaminwater wins round 1 against rival shampoo (September 2008)
 Payless ordered to stop using American Eagle brand (July 2008)
 Payless settlement signals trade mark trouble (June 2008)
 Adidas awarded record amount for trade mark infringement (May 2008)

Mediation myths

Mediation has come a long way, but myths about its effectiveness and applicability still abound. Most are simply not true. Mediation is effective at any time, but some believe that mediation is not applicable in the following circumstances:

- Where one party is virtually certain it will win. Certainty in trade dress cases is rare. If the case is clear, it should be clear to both sides. If not, someone is failing to assess the risk. Tried cases reflect a mistake in valuation by one side or another. Your mediator can get both sides to make a proper assessment, and reach an accord that reflects that assessment.
- Where there is no continuing relationship with the other side. This is a puzzling but persistent myth. In fact, in most mediated cases the parties have no relationship either before or after the dispute. This factor has no bearing on the likelihood of a settlement, although it may affect the nature of that settlement.
- Where it is believed that the other side won't participate in good faith. A good mediator can sniff out a bad faith participant rather quickly and either change tactics or terminate the mediation.
- Where discovery is not yet completed. This is the mother of all mediation myths. Lawyers are skilled at investigating facts and assessing risk. Mediators are skilled at helping parties separate the important from the trivial. Millions of business agreements are negotiated every day with no discovery. International arbitrations involving large sums are resolved with little or no discovery. The existence of a fact or the validity of a claim are factors to be considered; they do not have to be decided. After a full mediation to settlement, it is amazing how unnecessary that critical discovery will seem.

in the US and western Europe, but is not restricted in other markets.

- 5) Foreignco is allowed a defined period within which to sell off or redeploy the existing inventory in stores and its own warehouses. Orders placed and accepted before the date of settlement may be completed.
- 6) Releases for past acts apply to this product but not to unknown products or activities.
- 7) The settlement is confidential. Neither party may issue press releases or otherwise publish any information about the agreement, but each may tell its employees on a need-to-know basis that the case is settled and that Foreignco will be selling a different product in the specified territories.

The next time that a new trade dress case comes across your desk, seriously consider an early mediation. At its failed worst, it can help both sides understand the nature and scope of the case and appreciate the issues that may get the case settled later. At its best, early mediation will establish its proponents as practical businesspeople, save the participants significant amounts of money for which they undoubtedly have better uses, and create an environment of certainty in creating and marketing product designs.



Richard E Posell

© Richard E Posell 2008. The author is a full-time mediator and arbitrator with JAMS in Santa Monica, California



THE RESOLUTION EXPERTS®

Santa Monica Resolution Center
310-392-3044
www.jamsadr.com