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The Precedent: Federal Circuit Clarifies Functionality Doctrine in CeramTec v. CoorsTek

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AUTHORED ARTICLE | 1.30.2025

In this edition of *The Precedent*, we outline the recent federal circuit decision in *CeramTec v. CoorsTek*.

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Overview

The U.S. Court of Appeals for the Federal Circuit recently upheld the Trademark Trial and Appeal Board's (the Board) 2022 decision to cancel CeramTec GmbH's (CeramTec) trade dress protections for the color pink in its hip joint implant components.

Issues

1. Whether the Board's finding that CeramTec's registered trade dress was functional based upon the Morton-Norwich factors was correct.
2. Whether the Board erred by categorically precluding the defense of unclean hands in cancellation proceedings involving functionality.

Holdings

1. The Board's finding that CeramTec's registered trade dress was functional was correct under both the Morton-Norwich factors and the Supreme Court's ruling in *Traffix Devices Inc. v. Marketing Displays Inc.*
2. If the Board's intent was to categorically preclude the unclean hands defense from functionality proceedings it was done in error, and this defense remains available.

Background and Reasoning

The Federal Circuit affirmed that the products' pink color resulting from the inclusion of chromium oxide in the zirconia-toughened alumina ceramic is functional and ineligible for trade dress protection. This decision was supported by CeramTec's previous utility patent and public statements pertaining to the same material, which indicated that the pink color was a byproduct of the material's composition and used to enhance the ceramic's hardness. The ruling is an interesting development in the intersection between patent and trade dress protection principles.

CeramTec held a utility patent, U.S. Patent 5,830,816 (the '816 patent), for the chemical composition of its artificial hip components. The patented composition is made from zirconia-toughened alumina (ZTA) ceramic with chromium oxide (chromia), which at a certain level produces a pink color in the component. Upon the expiration of the '816 patent in 2013, CeramTec sought a registered trade dress for the pink color.

In 2014, CoorsTek Bioceramics, a competitor of CeramTec, sought a declaratory judgment to invalidate CeramTec's registered trade dress in the District of Colorado. CoorsTek simultaneously initiated cancellation proceedings against the registered trade dress with the Board. The Board found that the pink color claimed by CeramTec was functional and canceled CeramTec's registered trade dress. CeramTec appealed to the Federal Circuit, arguing that the Board incorrectly applied the functionality analysis under *In re Morton-Norwich Products, Inc.* and should not have precluded CeramTec from asserting the unclean hands defense.

On appeal, CeramTec disputed the Board's Morton-Norwich analysis which weighs the following factors to determine whether trade dress is functional:

1. the existence of a utility patent disclosing the utilitarian advantages of the design;
2. advertising materials in which the originator of the design touts the design's utilitarian advantages;
3. the availability to competitors of functionally equivalent designs; and
4. facts indicating that the design results in a comparatively simple or cheap method of manufacturing the product.

In analyzing the first factor, the Federal Circuit reviewed the Board's considerations of the claims, specification, and prosecution history of the '816 patent. Within the '816 patent, CeramTec claimed that chromia has a functional benefit of hardening the ZTA ceramic while also improving the toughness, stability and decreasing brittleness of the product. The Federal Circuit found that these listed benefits were advantages of chromia in the design, weighing in favor of utility. CeramTec also challenged the Board's application of the Supreme Court's ruling in *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, which held that utility patents are strong evidence of functionality, under this factor. CeramTec argued that *TrafFix* should only be applied in circumstances where a patent explicitly discloses functionality and where the patent and trade dress are for the same subject. The Federal Circuit disagreed with this narrowed interpretation and explained that utility patents can be strong evidence of functionality in a trade dress without these conditions being met.

While CeramTec did not challenge the Board's finding under the second Morton-Norwich factor, CeramTec argued that its third factor findings regarding the availability of functionally equivalent designs were in error. In particular, CeramTec asserted that the Board overlooked evidence of designs that are at least functionally equivalent to its ceramic hip components. The Federal Circuit disagreed, citing evidence challenging the functional equivalence of other brands and found it improper for the court to reweigh the evidence in record. As for the fourth factor regarding whether the design results in a comparatively simple or cheap method of manufacturing the product, the federal Circuit affirmed the Board's finding of the factor to be neutral. Again, the Federal Circuit cited conflicting evidence in the record that would not lead to a finding for CeramTec.

In CeramTec's last argument on appeal, it challenged the Board's categorical rejection of the unclean hands defense from functionality proceedings. The Federal Circuit clarified that the Board's language against the defense was too strong, and that the Board's rule explicitly provides for the unclean hands defense. This means that defendants can still assert that parties who have committed fraud, bad faith, or other inequitable acts should be barred from equitable relief. In its closing, the Federal Circuit explained that if the Board intended to bar an unclean hands defense from all functionality proceedings, that would be an error, but in this case, it was a harmless error.

Takeaways

In light of this precedential decision, attorneys should continue to conduct thorough due diligence on their clients' expired patents, promotional materials and public statements to ensure that no admissions are made that could later be used to argue functionality in trademark or trade dress disputes.