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1982

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### Recommended Citation

Germain, Kenneth B. (1982) "The Supreme Court's Opinion in the Inwood Case: Declination of Duty," *Kentucky Law Journal*: Vol. 70: Iss. 3, Article 6.

Available at: <https://uknowledge.uky.edu/klj/vol70/iss3/6>

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# The Supreme Court's Opinion in the *Inwood* Case: Declination of Duty\*

BY KENNETH B. GERMAIN\*\*

## INTRODUCTION

In October of 1981, the United States Supreme Court granted certiorari<sup>1</sup> to consider an issue which had become a raging controversy<sup>2</sup> in the law of unfair trade practices: whether a drug company that had originated and popularized a prescription drug marketed under a particular trademark and sold in capsule form could enjoin competition from "generic" drug manufacturers which had carefully copied not only the drug's unpatented formula but also the capsule's specific color combination. More particularly, the issue involved whether the "generic" drug manufacturers' provision of their products to pharmacies might unlawfully facilitate infringement in the form of passing off by unscrupulous pharmacists wishing to make special profits. The passing off is done by charging the higher price attributable to the branded drug while actually supplying the less expensive generic equivalent.

Undoubtedly, it was gratifying to trademark-unfair competi-

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<sup>1</sup> *Ives Laboratories, Inc. v. Darby Drug Co.*, 638 F.2d 538 (2d Cir. 1981), cert. granted, 102 S.Ct. 386 (1981).

<sup>2</sup> In broad terms the "controversy" is whether a company selling a "branded" drug in a capsule having a "distinctive" combination of colors that has obtained a "secondary meaning" can preclude competition from a generic drug company selling the identical pharmaceutical formulation put up in a capsule having the same combination of colors. The following recent cases dealt with this issue: *SK&F Co. v. Premo Pharmaceutical Laboratories, Inc.*, 625 F.2d 1055 (3d Cir. 1980); *Merrell-National Laboratories, Inc. v. Zenith Laboratories, Inc.*, 579 F.2d 786 (3d Cir. 1978); *Boehringer Ingelheim G.m.b.h. v. Pharmadyne Laboratories, Inc.*, 211 U.S.P.Q. 1163 (D.N.J. 1980); *Hoffman La Roche, Inc. v. Premo Pharmaceutical Laboratories, Inc.*, 210 U.S.P.Q. 374 (D.N.J. 1980); *A.H. Robins Co. v. Medicine Chest Corp.*, 206 U.S.P.Q. 1015 (E.D. Mo. 1980). For a discussion of some of these cases, see Germain, *The Thirty-Fourth Year of Administration of the Lanham Trademark Act of 1946*, 71 TRADEMARK REP. 285, 501-08 (1981).

tion lawyers and academic aficionados alike that the Court would finally deem it appropriate to review a major case which combined an intriguing issue of trademark law per se with some equally intriguing issues involving section 43(a) of the Lanham Act. In 1967 the Court decided its one and only case under the Lanham Trademark Act of 1946<sup>3</sup>—and then only on the relatively peripheral remedial issue of attorneys' fees.<sup>4</sup> Since then, it has refused to consider many cases of considerable concern involving a broad range of issues.<sup>5</sup> However, section 43(a) has been a real "comer" of late<sup>6</sup> despite the Court's steadfast refusal to accept any cases pertaining to it.<sup>7</sup>

*Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*,<sup>8</sup> the case that was before the Court, also involved a significant issue of the law of "product simulation"—an area the Court had entered into like gangbusters in 1964<sup>9</sup> and had striven to adjust and rein-

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<sup>3</sup> 15 U.S.C. §§ 1051-1127 (1976 & Supp. III 1979).

<sup>4</sup> *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714 (1967).

<sup>5</sup> *See, e.g.*, *Amstar Corp. v. Domino's Pizza, Inc.*, 615 F.2d 252 (5th Cir. 1980), *cert. denied*, 449 U.S. 899 (1980) (infringement-related goods doctrine); *Mushroom Makers, Inc. v. R.G. Barry Corp.*, 580 F.2d 44 (2d Cir. 1978), *cert. denied*, 439 U.S. 1116 (1979) (infringement-related goods doctrine); *Miller Brewing Co. v. G. Heileman Brewing Co.*, 561 F.2d 75 (7th Cir. 1977), *cert. denied*, 434 U.S. 1025 (1978) (salvation of "generic" marks); *Union Carbide Corp. v. Ever-Ready, Inc.*, 531 F.2d 366 (7th Cir. 1976), *cert. denied*, 429 U.S. 830 (1976) ("incontestability"); *Maier Brewing Co. v. Fleischmann Distilling Corp.*, 390 F.2d 117 (9th Cir. 1968), *cert. denied*, 391 U.S. 966 (1968) (infringement-related goods doctrine).

<sup>6</sup> *See generally* Germain, *Unfair Trade Practices Under Section 43(a) of the Lanham Act: You've Come A Long Way, Baby—Too Far, Maybe?*, 49 IND. L.J. 84 (1973-74), *reprinted in* 64 TRADEMARK REP. 193 (1974); 6 PATENT L. REV. 323 (1974); 13 PUBLISHING, ENTERTAINMENT, ADVERTISING L.Q. 215 (1974).

<sup>7</sup> *See, e.g.*, *Vibrant Sales, Inc. v. New Body Boutique, Inc.*, 652 F.2d 299 (2d Cir. 1981), *cert. denied*, 102 S. Ct. 1257 (1982) (necessity for proof of "secondary meaning" in trade dress cases); *International Order of Job's Daughters v. Lindeburg & Co.*, 633 F.2d 912 (9th Cir. 1980), *cert. denied*, 452 U.S. 941 (1981) (protectability of "aesthetically functional" jewelry designs); *Boston Professional Hockey Ass'n v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004 (5th Cir. 1975), *cert. denied*, 423 U.S. 868 (1975) (protectability of cloth insignia "patches"); *Fur Information & Fashion Council, Inc. v. E.F. Timme & Son*, 501 F.2d 1048 (2d Cir. 1974), *cert. denied*, 419 U.S. 1022 (1974) (restriction to misrepresentations concerning "inherent qualities" of goods or services); *Colligan v. Activities Club of New York, Ltd.*, 442 F.2d 686 (2d Cir. 1971), *cert. denied*, 404 U.S. 1004 (1971) (consumer "standing to sue"); *Bernard Food Indus., Inc. v. Dietene Co.*, 415 F.2d 1279 (7th Cir. 1969), *cert. denied*, 397 U.S. 912 (1970) (actionability of "disparagement").

<sup>8</sup> 102 S. Ct. 2182 (1982).

<sup>9</sup> *See* *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). These companion cases combined to

terpret on four occasions<sup>10</sup> while turning away at least one excellent opportunity<sup>11</sup> for clarification. Suffice it to say, then, that hopes were dashed when, in June of 1982, the Court resolved the *Inwood Laboratories* capsule-colored case on a procedural ground (bad) and left only scant (worse) and sometimes unsatisfactory (worst) suggestions regarding the merits of the matter.<sup>12</sup> This behavior, in this author's view, constituted a disappointing "declination of duty" worthy of comment.

### I. THE SCENE SET BY THE COURT

Fully one-half of the Court's rather brief opinion was devoted to scene-setting, *i.e.*, the statement of the "issue" before the Court and the history of the lower courts' multiple resolutions of the case.<sup>13</sup> Justice O'Connor's majority opinion started well enough with a basically sound statement of the crucial "issue":

This action requires us to consider the circumstances under which a manufacturer of a generic drug, designed to duplicate the appearance of a similar drug marketed by a competitor under a registered trademark, can be held vicariously liable for infringement of that trademark by pharmacists who dispense the generic drug.<sup>14</sup>

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hold sweepingly that unpatented, uncopyrighted product "configurations" (*i.e.*, shapes) could not be protected under state laws of unfair competition, because such laws were preempted by federal law under the Supremacy Clause.

<sup>10</sup> See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979) (state law allowing enforcement of contractual agreement regarding royalty payments on an unpatented item not preempted by federal law; *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562 (1977) (state law of "misappropriation" of a performer's "right of publicity" not preempted by federal law; *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974) (state trade secret laws not preempted by Federal Patent Act); *Goldstein v. California*, 412 U.S. 546 (1973) (state law prohibiting "tape piracy" of matter not qualifying as "copyrightable" subject matter under the then-prevailing Copyright Act of 1909 not preempted by federal law). See generally *Germain, Sears/Compco Revisited: May Products and Packages Be "Simulated" in the Late Seventies?*, 1978 AM. PAT. L.A. BULL. 160, 169-170.

<sup>11</sup> *Truck Equip. Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210 (8th Cir. 1976), *cert. denied*, 429 U.S. 861 (1976).

<sup>12</sup> *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S. Ct. at 2182, *rev'g* *Ives Laboratories, Inc. v. Darby Drug Co.*, 638 F.2d 538 (2d Cir. 1981).

<sup>13</sup> *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 455 F. Supp. 939 (E.D.N.Y. 1978), *aff'd*, 601 F.2d 631 (2d Cir. 1979), *on remand*, 488 F. Supp. 394 (E.D.N.Y. 1980), *rev'd*, 638 F.2d 538 (2d Cir. 1981).

<sup>14</sup> 102 S. Ct. at 2184.

One shortcoming of this statement is that it inappropriately refers to "vicarious liability," a concept of legal responsibility for another's tortious conduct because of a pre-existing legal relationship between the relevant parties. The Court should have characterized the issue as "contributory infringement," which is a term used to indicate an "aiding and abetting" type of behavior by the party sought to be held liable.<sup>15</sup> Another problem is that the plaintiff, a manufacturer of brand name drugs, admitted that the defendants' generic drugs were not only similar to its own product, but actually "bioequivalent," *i.e.*, medically identical.<sup>16</sup>

The Court's opinion proceeded to detail the facts of the controversy in the context of modern generic drug substitution laws, which often permit or require pharmacists to fill prescriptions for branded drugs with lower-priced generic equivalents.<sup>17</sup> It pointed out that some manufacturers of generic drugs follow the "normal industry practice" of expressly touting their goods in catalogs sent to pharmacists and other professional intermediaries as "equivalent" or "comparable" to adjacently listed branded drugs.<sup>18</sup> In discussing the handling of this case by the lower courts, the Supreme Court summarized the "contributory infringement" nature of the plaintiff's claim in the current case: that the manufacture and sale of pharmaceutically equivalent drugs in look-alike capsules would facilitate passing off defendant's products to unknowing consumers who thought they were receiving plaintiff's branded product (CYCLOSPASMOL), and thus contribute to the infringement of plaintiff's registered trademark.

The *Inwood Laboratories* case had been brought under the Lanham Act's basic infringement provision, section 32,<sup>19</sup> which

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<sup>15</sup> Since the Court later referred to the correct theory, both by name and statutory section, *id.* at 4594-95, it is clear that the Court understood the nature of the issue before it.

<sup>16</sup> *Id.* at 4593 n.5.

<sup>17</sup> *Id.* at 4593 n.4 (citing Note, *Consumer Protection and Prescription Drugs: The Generic Drug Substitution Laws*, 67 Ky. L.J. 384 (1978-79)).

<sup>18</sup> *Id.* at 4593.

<sup>19</sup> Trademark Act of 1946 (Lanham Act) § 32, 15 U.S.C. § 1114 (1976), reads in pertinent part:

(1) Any person who shall, without the consent of the registrant—

includes particular provisions for "contributory infringement" of the sort alleged (section 32(1)(b)). It also was brought under the section governing "unfair competition" (section 43(a)),<sup>20</sup> on the basis that the defendants had committed "false designations of origin" of the source of manufacture of their products by copying the external appearance of plaintiff's capsules. The plaintiff's early attempt to attain preliminary injunctive relief was rebuffed on the joint grounds that the section 32 claim was not supported by evidence of the requisite "knowing and deliberate instigation" of infringement and the section 43(a) claim was not supported by evidence of the color combination's "nonfunctionality" and "secondary meaning."<sup>21</sup> In affirming this decision, largely because it

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(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.

shall be liable in a civil action by the registrant for the remedies hereinafter provided. Under subsection (b) of this section, the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.

<sup>20</sup> Trademark Act of 1946 (Lanham Act) § 43(a), 15 U.S.C. § 1125(a) (1976), reads:

Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

<sup>21</sup> *Ives Laboratories, Inc. v. Darby Drug Co.*, 455 F. Supp. 939, 946-51 (E.D.N.Y. 1978), *aff'd*, 601 F.2d 631 (2d Cir. 1979), *on remand*, 488 F. Supp. 394 (E.D.N.Y. 1980), *rev'd*, 638 F.2d 538 (2d Cir. 1981), *rev'd* 102 S. Ct. at 2182.

agreed that the record lacked necessary facts, the Second Circuit advised the district court that the proper test for "contributory infringement" was broader than the lower court had thought:

[A] manufacturer . . . would be liable under § 32 if he suggested, even if only by implication, that a retailer fill a bottle with the generic capsules and apply [plaintiff's] mark to the label, or continued to sell capsules containing the generic drug which facilitated this to a druggist whom he knew or had reason to know was engaging in the practices just described.<sup>22</sup>

When the above test was applied at trial on remand, the district court found the evidence fell short of the mark on the section 32 claim.<sup>23</sup> It also ruled that the color combination used on plaintiff's capsules was not protected under section 43(a) because it was "functional" (in that it helped patients, pharmacists, and emergency room personnel to identify the content of the capsules, and in that some elderly patients associated color schemes with therapeutic effects).<sup>24</sup> Moreover, the section 43(a) claim failed for lack of proof that the color schemes had developed a "secondary meaning."<sup>25</sup> When the Second Circuit reconsidered the case it reversed<sup>26</sup> on what appeared to be factual grounds of disagreement with the district court, but without expressly relying on the well-known "clearly erroneous" rule.<sup>27</sup> The Supreme Court, in turn, reversed<sup>28</sup> the Second Circuit on the procedural issue alone, but managed to perpetuate, and, indeed, exacerbate some of the major substantive problems inherent in the case.

## II. WHAT THE SUPREME COURT DID RESOLVE

The controlling issue in the Supreme Court's opinion, the

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<sup>22</sup> *Ives Laboratories, Inc. v. Darby Drug Co.*, 601 F.2d 631, 636 (2d Cir. 1979), *aff'g*, 455 F. Supp. 939 (E.D.N.Y. 1978).

<sup>23</sup> *Ives Laboratories, Inc. v. Darby Drug Co.*, 488 F. Supp. 394, 397 (E.D.N.Y. 1980), *rev'd*, 638 F.2d 538 (2d Cir. 1981), *rev'd*, 102 S. Ct. at 2182.

<sup>24</sup> *Id.* at 398-99.

<sup>25</sup> *Id.* at 399-401.

<sup>26</sup> *Ives Laboratories, Inc. v. Darby Drug Co.*, 638 F.2d at 538. The court reversed on the section 32 ground only and did not reach the section 43(a) claims.

<sup>27</sup> FED. R. CIV. P. 52(a).

<sup>28</sup> *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S. Ct. at 2182.

“clearly erroneous” rule,<sup>29</sup> is a matter beyond the purview of this article. However, as a preliminary to its discussion, the Court did confirm the correctness of the “test” for “contributory infringement” earlier urged by the Second Circuit:

As the lower courts correctly discerned, liability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another. Even if a manufacturer does not directly control others in the chain of distribution, it can be held responsible for their infringing activities under certain circumstances. Thus, *if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer is contributorially responsible for any harm done as a result of the deceit.*<sup>30</sup>

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<sup>29</sup> The *Inwood* Court, relying upon *Pullman-Standard v. Swint*, 102 S. Ct. 1781 (1982) and *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 123 (1969), noted that the rule “recognizes and rests upon the unique opportunity afforded the trial court judge to evaluate the credibility of witnesses and to weigh the evidence.” 102 S. Ct. at 2188. In addition, the Court took the Second Circuit to task for reexamining and redeciding a number of purely factual matters already decided by the district court without claiming—as would have been difficult if not impossible in light of the district judge’s carefully considered analysis—that the resolutions of these matters had been “clearly erroneous.” *Id.* at 2188-90. Finally, the Court concluded:

By rejecting the District Court’s findings simply because it would have given more weight to evidence of mislabeling than did the trial court, the Court of Appeals clearly erred. Determining the weight and credibility of the evidence is the special province of the trier of fact. Because the trial court’s findings concerning the significance of the instances of mislabeling were not clearly erroneous, they should not have been disturbed.

*Id.* at 2189.

The Supreme Court’s express determination that the trial court’s factual findings had not been “clearly erroneous” drew a critical comment from Justice Rehnquist, who apparently felt that the question of whether the district judge’s findings were “clearly erroneous” should have been remanded to the appellate court for consideration under the correct standard. *Id.* at 4598 (Rehnquist, J., concurring). More interestingly, Justice White criticized the Court’s opinion on the ground that the “clearly erroneous” rule had not been presented as a basis for certiorari—except on the issue of “functionality”—and thus should not have been considered by the Court. *Id.* at 4596 & n.1 (White, J., concurring). He also opined that “it is doubtful in my mind [whether] this fact-bound issue would have warranted certiorari.” *Id.* at 4596. In fact the Court might have derived the “clearly erroneous” rationale from the oral argument of the Solicitor General in his role as *amicus curiae*. See *Drug Color Case Argued Before Supreme Court*, 568 PAT. TRADEMARK & COPYRIGHT J. (BNA) AA-1, AA-2 (Feb. 25, 1982).

<sup>30</sup> *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S. Ct. at 2188 (emphasis

In an interesting footnote,<sup>31</sup> Justice O'Connor rejected Justice White's argument made in his concurring opinion that the Second Circuit had "watered down" the appropriate standard for "contributory infringement" by indicating (in its second opinion) that defendants would be liable if they "*could reasonably anticipate* that their generic drug product would be by a substantial number of druggists be substituted illegally . . . ."<sup>32</sup> Justice O'Connor believed that the Second Circuit had indeed made its determination on the basis of its originally-stated standard,<sup>33</sup> and noted that the "could reasonably anticipate" approach would have been erroneous.<sup>34</sup> Justice White, however, was not so willing to exonerate the Second Circuit (or the Supreme Court majority) and stated emphatically:

The mere fact that a generic drug company can anticipate that some illegal substitution will occur to some unspecified extent, and by some unknown pharmacists, should not by itself be a predicate for contributory liability. I thus am inclined to believe that the Court silently acquiesces [sic] in a significant change in the test for contributory infringement.<sup>35</sup>

On this matter a few points are noteworthy. First of all, Justice White properly accused the other Justices of imperiling the integrity of the stricter rule since the majority opinion actually refers to the Second Circuit as having premised its second opinion upon its belief that defendants "reasonably could have anticipated misconduct by a substantial number of . . . pharmacists . . . ."<sup>36</sup> Second, Justice White probably was correct in believing that the Second Circuit intended a "watered down" rule since it expressly linked its use of the phrase "could reasonably anticipate" to its earlier standard by saying that "[the use of look-

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added) (citing *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530-31 (1924); *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946), *aff'd*, 162 F.2d 280 (1st Cir.), *cert. denied*, 332 U.S. 809 (1947)).

<sup>31</sup> *Id.* at 2188 n.13.

<sup>32</sup> *Id.* at 4597 (White, J., concurring) (quoting *Ives Laboratories, Inc. v. Darby Drug Co.*, 638 F.2d 538, 543 (2d Cir. 1981)) (emphasis added by Justice White).

<sup>33</sup> See the text accompanying note 22 *supra* for the original test used by the Second Circuit.

<sup>34</sup> 50 U.S.L.W. at 4595 n.13.

<sup>35</sup> *Id.* at 2192 (White, J., concurring).

<sup>36</sup> *Id.* at 2189.

alike capsules] amounted to a suggestion, at least by implication, that the druggists take advantage of the opportunity to engage in such misconduct."<sup>37</sup> Third, Justice White—and by implication Justice O'Connor—was wrong in indicating that existing authorities provided no basis for the “could reasonably anticipate” approach. To the contrary, some of the authorities relied upon by the Court<sup>38</sup> and others<sup>39</sup> not cited refer to this now-discredited standard. Nevertheless, the Court’s clarification—if Justice O'Connor can be taken at her word—may amount to this: no one will be considered a “contributory infringer” unless he knowingly creates a *particular* risk of infringement by a *particular* intermediary.

### III. WHAT THE SUPREME COURT LEFT UNRESOLVED

In general the opinion left the seasoned reader with an un-

<sup>37</sup> *Ives Laboratories, Inc. v. Darby Drug Co.*, 638 F.2d at 543, *quoted in* 102 S. Ct. at 2192 (White, J., concurring).

<sup>38</sup> For example, seeds of uncertainty about the proper standard for contributory infringement are contained in the oft-cited *Coca-Cola* case:

Before he can himself be held as a wrongdoer or contributory infringer one who supplies another with the instruments by which that other commits a tort, must be shown to have knowledge that the other will or can reasonably be expected to commit a tort with the supplied instrument. The test is whether wrongdoing by the purchaser “might well have been anticipated by the defendant.”

*Coca-Cola v. Snow Crest Beverages, Inc.*, 64 F. Supp. at 989 (citations omitted) (quoting *Reid, Murdoch & Co. v. H.P. Coffee Co.*, 48 F.2d 817, 819 (8th Cir. 1931), *cert. denied*, 284 U.S. 621 (1931)). See note 39 *infra* for another observation by the court in *Reid, Murdoch & Co.*

Similar seeds exist in Professor McCarthy’s treatise in at least two places. Professor McCarthy states: “If a manufacturer knowingly produces a product with a mark closely similar to plaintiff’s mark, this alone may be held to constitute liability for placing in retailers’ hands an instrument of consumer deception.” 2 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 25:2, at 175 (1973). He also notes: “The supplier’s liability for his distributor’s wrongful use of a trademarked product turns on whether a reasonable person in the supplier’s position would realize . . . that he himself . . . had produced a situation which created temptation or an opportunity for wrong . . .” *Id.* at 175-76.

<sup>39</sup> See, e.g., *Union Carbide Corp. v. Ever-Ready, Inc.*, 531 F.2d at 384 (“[I]t is unfair competition for a person to put a product into a dealer’s hands which a producer can reasonably anticipate may be easily passed off as the goods of another.”); *Reid, Murdoch & Co. v. H.P. Coffee Co.*, 48 F.2d at 819-20 (“The acts of these retail merchants [in passing off defendant’s goods bearing a particular trademark previously established by another

easy feeling that the Supreme Court did not have a sound appreciation of the "big picture." For example, why else did the Court fail to put the *Inwood Laboratories* case in perspective by referring to other capsule-color cases?<sup>40</sup> In particular the Court's opinion left unresolved two crucial issues in unfair trade laws:<sup>41</sup> the modern status of the Sears-Compco doctrine and the proper role of section 43(a) in unfair competition claims. Additionally, the Court failed to address the issue of the availability and scope of the "functionality" defense in either of these two areas.

The Sears-Compco doctrine, derived from the Supreme Court's two 1964 landmark cases holding that federal law preempts certain state unfair competition laws,<sup>42</sup> has been discussed and debated since the Court pronounced<sup>43</sup> the doctrine until the present.<sup>44</sup> Incredibly, in the *Inwood Laboratories* case, which involved product simulation by duplication of medicinal formula, capsule colors and configuration, the Court relegated the doctrine to one passing comment and citation in a scant footnote on "functionality."<sup>45</sup> Such treatment, which breeds disrespect for the doctrine at best and suggests that it is doomed at worst, cannot be explained away on the basis that the lower court opinions and briefs to the Court did not illuminate this aspect of the con-

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company] might well have been anticipated by the defendant."); RESTATEMENT (SECOND) OF TORTS § 713 (Tent. Draft No. 8, 1963) ("One falsely markets goods or services if, though making no false representation himself, he acts in a manner which he knows is likely to invite his purchasers to market them as those of another.").

<sup>40</sup> See note 2 *supra* for cases dealing with the capsule-color issue.

<sup>41</sup> A third matter was left totally untouched but for a fleeting remark in Justice White's concurrence: "[T]he purpose of the Lanham Act was to codify and unify the common law of unfair competition and trademark protection." *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S. Ct. at 2191. The relative obscurity of this brief reference is ironically advantageous since the remark indicates an unduly narrow view of the Act, which contains a crucial section providing for nationwide constructive notice of all Principal Register registration, Lanham Act § 22, 15 U.S.C. § 1072 (1976), plus some other statutory benefits resulting from registration.

<sup>42</sup> See note 8 *supra* for a discussion of the holdings in *Sears* and *Compco*.

<sup>43</sup> See, e.g., *Product Simulation: A Right or a Wrong?*, 64 COLUM. L. REV. 1178 (1964).

<sup>44</sup> See, e.g., Dannay, *The Sears-Compco Doctrine Today: Trademarks and Unfair Competition*, 67 TRADEMARK REP. 132 (1977); Note, *The Problem of Functional Features: Trade Dress Infringement Under Section 43(a) of the Lanham Act*, 82 COLUM. L. REV. 77, 82-85 (1982).

<sup>45</sup> *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S. Ct. at 2186 n.10.

troversy;<sup>46</sup> on the contrary, the briefs and opinions directly addressed the pivotal problems. Indeed, the Court may have decreed the demise of the doctrine in the last paragraph of Justice O'Connor's opinion:

Although the District Court also dismissed [plaintiff's] claims alleging that the [defendants] violated § 43(a) of the Lanham Act and the *state unfair competition law*, the Court of Appeals did not address those claims. Because § 43(a) prohibits a broader range of practices than does § 32, *as may the state unfair competition law*, the District Court's decision dismissing [plaintiff's] claim based upon those statutes must be independently reviewed.<sup>47</sup>

Such pointed references to the availability of state law underline the disabled—or moot—status of the Sears-Compco doctrine. It is submitted that a major doctrine, when no longer considered useful—perhaps because of a change in judicial personnel<sup>48</sup>—should not be allowed merely to drift off into oblivion, leaving practitioners and others to speculate as to its disappearance.

As to the “functionality” issue, which has been a thorny matter for years,<sup>49</sup> Justice O'Connor's opinion only made an inconclusive, cryptic reference. “Functionality” involves the question of whether a product feature is “functional” and therefore un-

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<sup>46</sup> See *Ives Laboratories, Inc. v. Darby Drug Co.*, 455 F. Supp. at 945, 947-49, *Supreme Court Urged to Preclude Exclusive Rights in Drug Colors*, 557 PAT. TRADEMARK & COPYRIGHT J. (BNA) A-5 (Dec. 3, 1981) (summarizing petitioners' brief to the Supreme Court); *Supreme Court Urged to Endorse Exclusive Rights in Drug Colors*, 562 PAT. TRADEMARK & COPYRIGHT J. (BNA) A-2, A-3 (Jan. 14, 1982) (summarizing respondent's brief to the Supreme Court).

<sup>47</sup> *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S. Ct. at 2190 (emphasis added). *Accord id.* at 4598 (Rehnquist, J., concurring) (“I agree with the Court that the case should be remanded to the Court of Appeals to review the District Court's dismissal of [plaintiff's] claims under § 43(a) . . . and its state law claims.” (emphasis added)).

<sup>48</sup> The only Justices on the 1982 Court who were also on the 1964 Court are Justices Brennan, Stewart, and White. Interestingly, in the current case, Justice White is the only one who comes anywhere near acknowledging the Sears-Compco heritage. See *id.* at 2192-93 (White, J., concurring) (discussion of “functionality”).

<sup>49</sup> See, e.g., *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111 (1938); *Keene Corp. v. Paraflex Industries, Inc.*, 653 F.2d 822 (3d Cir. 1981); *Pagliari v. Wallace China Co.*, 198 F.2d 339 (9th Cir. 1952); *In re Deister Concentrator Co.*, 289 F.2d 496 (C.C.P.A. 1961); Note, *Unfair Competition and the Doctrine of Functionality*, 64 COLUM. L. REV. 544 (1964).

protectible (under both the Sears-Compco doctrine and pre-existing caselaw) or "nonfunctional" and therefore eligible for protection via secondary meaning (under caselaw antedating the Sears-Compco doctrine, under section 43(a), or, apparently, after the current case under state law). Justice O'Connor merely wrote in a footnote:

While the doctrine of functionality is most directly related to the question of whether a defendant has violated § 43(a) . . . a finding of functionality may also be relevant to an action involving § 32. By establishing . . . that uniform capsule colors served a functional purpose, the [defendants] offered a legitimate reason for producing an imitative product.<sup>50</sup>

Suffice it to say that the Court underemphasized the major role that "functionality" plays in the registration context<sup>51</sup> and ignored its effect under state law. (Some worthy food for thought does, however, appear in Justice White's concurring opinion.)<sup>52</sup>

The other crucial area left foggy by the Court concerns section 43(a) of the Lanham Act. Here the major questions<sup>53</sup> include

<sup>50</sup> *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S. Ct. at 2190. One writer cites, but rejects its theories. See Note, *The Problem of Functional Features: Trade Dress Infringement Under Section 43(a) of the Lanham Act*, 82 COLUM. L. REV. 77 (1982).

<sup>51</sup> See *In re Morton-Norwich Prods., Inc.*, 213 U.S.P.Q. 9 (C.C.P.A. 1982); *In re Water Gremlin Co.*, 635 F.2d 841 (C.C.P.A. 1980).

<sup>52</sup> It is my view that a finding of functionality offers a complete affirmative defense to a contributory infringement claim predicated solely on the reproduction of a functional attribute of the product. A functional characteristic is "an important ingredient 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 . . . . Reproduction of a functional attribute is legitimate competitive activity.

*Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S. Ct. at 2192-93 (quoting from *Ives Laboratories, Inc. v. Darby Drug Co.*, 601 F.2d at 643). The Second Circuit decision in turn was quoting, via intermediate cases, from *Pagliero v. Wallace China Co.*, 198 F.2d at 343. This approach is, of course, reminiscent of the Sears-Compco doctrine. Note, however, that Ninth Circuit law was reinterpreted in the recent case of *Vuitton et Fils S.A. v. J. Young Enters., Inc.*, 644 F.2d 769 (9th Cir. 1981).

<sup>53</sup> The Court assumed the § 43(a) phrase "false designation of origin" goes beyond geographical origin to include origin of manufacture as was held years ago in the leading case of *Federal-Mogul-Bower Bearings, Inc. v. Azoff*, 313 F.2d 405 (6th Cir. 1963). The Court raised no issue about it and Justice White spoke approvingly of this interpretation. See *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S. Ct. at 2193 (White, J.,

the appropriate breadth of application of that section and the effect of the "functionality" concept on section 43(a) protection. With regard to the former, the Court willingly waxed ("§ 43(a) prohibits a broader range of practices than does § 32 . . ."),<sup>54</sup> and Justice White agreed.<sup>55</sup> This is all well and good, but is this the best that the Court can do with a major statutory provision about which it has said nothing for thirty-five years? The latter matter of "functionality" was referred to by the Court only in a footnote mentioned earlier in this article.<sup>56</sup> Justice White, however, did provide a concise but helpful discussion, correctly concluding that section 43(a) cases were just as susceptible to the functionality defense as section 32 cases.<sup>57</sup> It is unfortunate that this view—expanded and analyzed—was not made part of the majority opinion.

### CONCLUSION

The *Inwood Laboratories* capsule-color case offered the Supreme Court a major controversy replete with important issues, but the Court decided only a minor part of it—and that not very well. One can only hope that the Court will soon entertain another case raising some of the same issues, but this time accord them the attention they truly deserve.

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concurring). For a recent case calling this interpretation into question, but ultimately acceding due to its precedents, see *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 700-02 (5th Cir. 1981).

<sup>54</sup> *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S. Ct. at 2190.

<sup>55</sup> "As the Court of Appeals noted in [the first appeal], § 43(a) 'goes beyond § 32 in making certain types of unfair competition federal statutory torts' . . ." *Id.* at 4598 (White, J., concurring) (quoting *Ives Laboratories, Inc. v. Darby Drug Co.*, 601 F.2d at 641).

<sup>56</sup> See the text accompanying note 49 *supra* for a part of the majority's discussion of functionality.

<sup>57</sup> I am also mindful that functionality is a defense to a suit under § 43(a) . . . alleging damages to a competitor's "false designation of origin" on a good . . . It would be anomalous for the imitation of a functional feature to constitute contributory infringement for purposes of § 32, while the same activity is not a "false designation of origin" under § 43(a).

*Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S. Ct. at 2193 (White, J., concurring) (citations omitted). Note that Justice White included a caveat: "This is not to suggest that the copying of a functional feature protects a defendant from § 32 liability predicated on active inducement of trademark infringement or protects a defendant who has also reproduced nonfunctional features." *Id.* at 2193 n. 6.

## ADDENDUM

Since the completion of the body of this article, a number of noteworthy developments have occurred. First, in a very brief order bearing a warning that it was not to be cited or relied upon as precedent,<sup>58</sup> the two Second Circuit judges that formed the majority in the second appeal totally rejected the Supreme Court's invitation to reconsider the case with regard to section 43(a) and state unfair competition law principles. The following rather meager explanation was offered:

We affirm the judgment of the district court dismissing the other claims, substantially for the reasons stated by Judge Nickerson in his April 15, 1980, decision, which is predicated upon his findings that the color and shape of defendants' generic cyclandelate look-alike capsules serve functional purposes (e.g., therapeutic effect and identification) and that Ives' trademarked capsules had not acquired a secondary meaning creating the likelihood that it might be perceived as the source of the product. See *American Footwear Corp. v. General Footwear Co.*, 609 F.2d 655, 664 (2d Cir. 1979). We cannot label these findings clearly erroneous. See *Inwood Laboratories, Inc., et al v. Ives Laboratories, Inc.*, --U.S.--, 50 U.S.L.W. at 4596 n.20. For the same reasons the dismissal of the state law unfair competition claims must stand.<sup>59</sup>

About one month later a "petition for rehearing with suggestion for a rehearing en banc" was denied without opinion.<sup>60</sup>

Second, since the Supreme Court's decision, two federal district court decisions on the capsule-color controversy have been issued.<sup>61</sup> Intriguingly, in both of these cases state unfair competi-

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<sup>58</sup> *Ives Laboratories, Inc., v. Darby Drug Co.*, No. 80-7314, slip op. at 1 (*nota bene*) (2d Cir. July 7, 1982) (*partially reprinted in* 24 PAT. TRADEMARK & COPYRIGHT J. (BNA) at 412). The court stated: "Since this statement does not constitute a formal opinion of this court and is not uniformly available to all parties, it shall not be reported, cited or otherwise used in unrelated cases before this or any other court." No. 80-7314, slip op. at 1.

<sup>59</sup> *Id.* at 2.

<sup>60</sup> Telephone interview with Marie Driscoll, counsel for Ives Laboratories, Inc. (Sept. 13, 1982).

<sup>61</sup> *American Home Products v. Chelsea Laboratories*, No. 81-3351 (D.N.J. Aug. 5, 1981) (memorandum) (summarized in 24 PAT. TRADEMARK & COPYRIGHT J. (BNA) at 413); *Ciba-Geigy Corp. v. Bolar Pharmaceutical Co.*, No. 82-788 (D.N.J. Aug. 10, 1982) (summarized in 24 PAT. TRADEMARK & COPYRIGHT J. (BNA) at 414).

tion law was successfully invoked and yet virtually no consideration was accorded to whether there was a conflict with the Sears-Compco doctrine. In fact, one of the cases contains a quick statement to the contrary.<sup>62</sup> That same case viewed the Supreme Court's decision as having "no application here," stating that it was only a procedural ("clearly erroneous" rule) decision.<sup>63</sup> The other district court case likewise viewed *Inwood* as limited to procedural matter,<sup>64</sup> and specifically stated that it "does not overrule *SK&F* [*Co. v. Premo Pharmaceutical Laboratories, Inc.*] with respect to the nonfunctionality of drug trade dress,"<sup>65</sup> and further that "[n]othing in [*Inwood*] precludes this court from evaluating the relevant evidence and concluding that the trade dress here in issue is nonfunctional."<sup>66</sup> This case also directly held that because the Supreme Court expressly restricted its opinion in *Inwood* to section 32 situations, then the "reasonable anticipation" standard applied by the Third Circuit in the section 43(a) state law *SK&F* case was still viable in that context.<sup>67</sup> Thus, it is apparent that the immediate reactions to *Inwood* by lower federal courts have been to view it very narrowly indeed.<sup>68</sup>

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<sup>62</sup> In *American Home Products*, the court stated: "There is nothing in these regulatory laws, federal or state, which in any way modifies or reduces the scope of the law of trademarks or unfair competition in the case of prescription medications." No. 81-3351, slip op. at 7.

<sup>63</sup> *Id.* at 12.

<sup>64</sup> No. 82-758, slip op. at 30.

<sup>65</sup> *Id.* at 31.

<sup>66</sup> *Id.*

<sup>67</sup> *See id.* at 36.

<sup>68</sup> For the reactions of a number of well-versed trademark lawyers to the *Inwood* case (along with excerpts from various briefs, etc.), see 72 TRADE-MARK REP. 1-141 (1982).

