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Wiggle Room: Problems and Virtues of the *Inwood* Standard

RIAN C. DAWSON*

INTRODUCTION

Think of the last time you stood in line at the pharmacy waiting to pick up a prescription. Normally behind the pharmacy counter are rows and rows of shelves lined with nondescript white containers, each filled with different medication, and each (usually) labeled according to its content: name, brand, dosage, and so on. But these medications do not come to the pharmacy that way. Instead, the pharmacist transfers the different medications from their manufacturers' or distributors' packaging into the pharmacy's own containers. A consumer only knows whether she got the brand-name or generic form of a drug by virtue of the label on the container she receives; she assumes the pharmacist filled the prescription with the correct form of the drug. Often, the consumer is none the wiser if she paid a name-brand price for generic contents.

It is amidst this landscape of prescription drugs and common pharmaceutical industry practices that *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*,¹ the leading case on contributory trademark infringement liability, takes root. The case, which originated in the Eastern District of New York in 1978,² eventually found its way to the U.S. Supreme Court in the early 1980s. Surprisingly thin for a Supreme Court opinion, the case said precious little; yet it became the anchor for contributory trademark infringement claims. Justice O'Connor devoted the majority of the Court's analysis to the "clearly erroneous" standard of Federal Rule of Civil Procedure 52(a).³ The Supreme Court found that the appellate court failed to abide by the standard when it did not defer to the district court's findings.⁴ Interestingly, Justice

* J.D. candidate, 2016, Indiana University Maurer School of Law; B.A., 2013, Johns Hopkins University. Thank you, Mom and Dad, for always being there in the little ways and the big ways. A special thank you to Dr. Marjorie Fisher for her insightful comments and encouragement throughout the drafting process. My thanks to Professor Mark D. Janis for his help in crafting this topic and the first version of this Note. Thanks to Kenneth B. Germain as well for his sage observations. And finally, thank you to my friends and the staff of the *Indiana Law Journal* who helped shepherd this Note through to publication.

1. 456 U.S. 844 (1982).

2. *Ives Labs., Inc. v. Darby Drug Co.*, 455 F. Supp. 939 (E.D.N.Y. 1978).

3. "Findings of fact, whether based on oral or other evidence, must not be set aside unless clearly erroneous, and the reviewing court must give due regard to the trial court's opportunity to judge the witnesses' credibility." FED. R. CIV. P. 52(a)(6).

4. At trial, Ives presented two separate series of "test shoppings" at pharmacies. *Ives Labs., Inc. v. Darby Drug Co.*, 638 F.2d 538, 543 (2d Cir. 1981). The prescription used in both of the series of test shoppings read "CYCLOSPASMOL—Substitution Permissible." *Id.* In the first series, Ives tested forty-two pharmacies that carried both the brand-name and generic drugs. *Id.* The second series involved forty-one pharmacies selected at random. *Id.* The results of the first series found that six out of eighteen pharmacists mislabeled the generic drug; in the second series, this mislabeling happened in four out of seventeen pharmacies. *Id.* Additionally, Ives discovered that in nine out of seventeen instances where patients retained bottles of

O'Connor's opinion stopped before either reaching the merits of the case or discussing the questions presented in the certiorari petition.⁵ Indeed, based on the petition, one would have expected the Supreme Court to address trade dress issues, such as protectability of capsule color, rather than a contributory infringement issue. But, since it was handed down in 1982, the case has been cited mainly for its contributory trademark infringement standard.⁶ Although the case addressed the manufacturer-distributor context, the *Inwood* standard has been extended to franchises,⁷ flea markets,⁸ and even online service providers.⁹

This Note investigates the origins of *Inwood* that led to the slim opinion with wide influence. It argues that the very vagueness for which scholars and practitioners have decried *Inwood* is the case's greatest virtue: *Inwood* provides a flexible standard that has allowed the common law to evolve and address new business models. Part I discusses the origins of contributory infringement in intellectual property. Part II investigates the *Inwood* case and the climate of trademark law at the time *Inwood* was litigated. It also dissects the majority opinion and Justice White's concurrence. Part III examines the *Inwood* standard's evolution at common law to address new business models springing from the Internet, namely online service providers such as Google¹⁰ and eBay.¹¹ This Note concludes by suggesting that *Inwood's* vague standard has allowed the necessary flexibility for the development of secondary liability in trademark cases at common law. Looking forward, this Note posits that as new industries—particularly e-commerce and online service providers—continue to develop, trademark law should continue tailoring the *Inwood* standard to them. And where new technology is concerned, trademark law should provide these emerging business models with a statutory safe harbor from contributory

prescribed generic cyclandelate, the bottles had been mislabeled with the trademarked name Cyclospasmol. *Id.* The court found that “[t]his pattern of illegal substitution and mislabeling in New York is precisely the sort of showing which we held would be probative of plaintiff’s [Lanham Act] § 32 claim, stating that ‘a manufacturer or wholesaler would be liable under § 32 if he suggested, even if only by implication, that a retailer fill a bottle with the generic capsules that apply Ives’ mark to the label.’ The additional evidence introduced by Ives at trial was clearly sufficient to establish a § 32 violation.” *Id.* (internal quotation omitted).

5. In its petition, *Inwood* presented two questions. First, “[w]hether the truthful, comparative use of another’s trademark in labeling and advertising gives rise to liability for trademark infringement” and second, “[w]hether Section 32 of the Lanham Act (15 U.S.C. § 1114) grants a trademark owner monopoly rights in the color of its product.” Petition for Writ of Certiorari at i, *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982) (No. 80–2182), 1981 U.S. S. Ct. Briefs LEXIS 568, at *1.

6. Indeed, even trademark textbooks use *Inwood* to illustrate the concept of contributory trademark infringement. See, e.g., GRAEME B. DINWOODIE & MARK D. JANIS, TRADEMARKS AND UNFAIR COMPETITION: LAW AND POLICY 574–81 (2007).

7. *E.g.*, *Mini Maid Servs. Co. v. Maid Brigade Sys., Inc.*, 967 F.2d 1516, 1521 (11th Cir. 1992).

8. *E.g.*, *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264–65 (9th Cir. 1996); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148–49 (7th Cir. 1992).

9. *E.g.*, *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 104–06 (2d Cir. 2010).

10. *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144 (4th Cir. 2012).

11. *Tiffany*, 600 F.3d 93.

infringement liability.¹² Such statutory provisions give plaintiffs boundaries to, and defendants protection from, an otherwise broad cause of action.

I. CONTRIBUTORY INFRINGEMENT IN INTELLECTUAL PROPERTY AND ITS
DEVELOPMENT IN TRADEMARK LAW

The theory of contributory infringement in intellectual property borrows from tort law.¹³ Contributory infringement provides for liability of defendants who, instead of directly infringing, induced the direct infringer or had some knowledge of the direct infringer's behavior.¹⁴ Thus, not only can a plaintiff recover from the direct infringer, but she can recover from those who "knew of and materially contributed to [the] infringing behavior."¹⁵ Patent and copyright law both originally borrowed this theory from the common law and eventually created independent statutory bases for it.¹⁶

Contributory infringement in patent and copyright law developed within forty years of each other.¹⁷ One source traces the doctrine in patent law to an 1871 case from Connecticut.¹⁸ Copyright law adopted its own definition of the doctrine in the 1910s. Initially, courts only recognized liability for intentional acts.¹⁹ In 1911, the U.S. Supreme Court held that a defendant was liable for contributory copyright infringement because it "not only expected but invoked by advertisement the use of its film version of the [work] in a manner that would violate the novelist's reproduction right."²⁰ One year later, the Court defined contributory patent infringement as "the intentional aiding of one person or another in the unlawful making, or selling, or using of the patented invention."²¹ Eventually, the doctrine would extend past intentional acts to encompass a wide variety of behaviors and

12. See 17 U.S.C. § 512(c) (2012).

13. Charles W. Adams, *Indirect Infringement from a Tort Law Perspective*, 42 U. RICH. L. REV. 635, 636–37 (2008).

14. Mark Bartholomew & Patrick F. McArdle, *Causing Infringement*, 64 VAND. L. REV. 675, 678 (2011).

15. *Id.* (internal quotation omitted).

16. See generally 35 U.S.C. § 271 (2012) (patents); 17 U.S.C. § 501 (2012) (copyrights).

17. See Adams, *supra* note 13, at 650; Bartholomew & McArdle, *supra* note 14, at 684.

18. See Adams, *supra* note 13, at 650.

19. *Id.* Adams claims the origin of contributory infringement is the 1871 Connecticut case *Wallace v. Holmes*, 29 F. Cas. 74 (C.C.D. Conn. 1871) (No. 17,100), which involved a patent granted for the improvement of lamps. Specifically, the opinion states:

The defendants have not, perhaps, made an actual pre-arrangement with any particular person to supply the chimney to be added to the burner; but, every sale they make is a proposal to the purchaser to do this, and his purchase is a consent with the defendants that he will do it, or cause it to be done. The defendants are, therefore, active parties to the whole infringement, consenting and acting to that end, manufacturing and selling for that purpose.

Wallace, 29 F. Cas. at 80.

20. Bartholomew & McArdle, *supra* note 14, at 684 (citing *Kalem Co. v. Harper Bros.*, 222 U.S. 55, 62–63 (1911)) (internal quotation marks omitted).

21. *Id.* (citing *Henry v. A. B. Dick Co.*, 224 U.S. 1, 33–34 (1912)).

types of “material contribution.”²² Part of this extension owed to “[n]ew technologies [that] permitted others to utilize and manipulate intellectual property in new ways.”²³

Unlike in the patent and copyright arenas, contributory trademark infringement has no independent statutory basis.²⁴ Its doctrine was completely judicially created, though it did borrow from patent and copyright—especially the latter.²⁵ While *Inwood* is the case courts cite for the contributory infringement standard, the shadows of the standard it enunciated can be traced back to two cases decided before Congress passed the Lanham Act²⁶: *William R. Warner & Co. v. Eli Lilly & Co.*²⁷ and *Coca-Cola Co. v. Snow Crest Beverages, Inc.*²⁸ Examining the facts of these cases and how industry practice supplements each may help in understanding why trademark law has not adopted a statutory solution, and instead continues to be a judicially developed doctrine that treats contributory infringement seemingly case by case.²⁹

The first case, *Eli Lilly*, involved quinine—a white, powdery antimalarial³⁰—and its combination with chocolate; mixing the two supposedly enhanced the substance’s palatability.³¹ Two different pharmaceutical companies marketed this quinine-chocolate preparation: Eli Lilly under the name Coco-Quinine and its competitor under

22. Despite the enlargement of the doctrine, both copyright and patent are not without “safe harbors.” *See id.* at 688–89; *see also* 35 U.S.C. § 271(c) (2012); *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984) (“[T]he sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.”).

23. *Bartholomew & McArdle*, *supra* note 14, at 684. Bartholomew and McArdle state that the entertainment industry spearheaded this expansion of the doctrine in copyright law: “Courts, prodded by a strategic litigation campaign coordinated by leaders in the entertainment industry, came to fear that this technology would unjustly enrich secondary actors at the expense of originators and destroy the latter’s creative incentives.” *Id.* (internal citation omitted).

24. In patent law, this statutory basis comes from 35 U.S.C. §§ 271(b)–(c) (2012). In copyright, the Digital Millennium Copyright Act addresses contributory infringement. *See* 17 U.S.C. § 512(c) (2012).

25. *See, e.g.*, *Perfect 10, Inc. v. Visa Int’l Serv., Ass’n*, 494 F.3d 788, 795 (9th Cir. 2007) (“We have found that a defendant is a contributory infringer if it (1) has knowledge of a third party’s infringing activity, and (2) induces, causes, or materially contributes to the infringing conduct.” (internal quotation omitted)).

26. The Lanham Act is the primary federal trademark statute in the United States. Codified at 15 U.S.C. § 1051, the Lanham Act provides for the mechanics of trademark registration, 15 U.S.C.A. § 1051 (West 2009 & Supp. 2015), and prohibits unfair trade practices related to trademarks, such as false designations of origin and false descriptions, 15 U.S.C.A. § 1125 (West 2009 & Supp. 2015).

27. 265 U.S. 526 (1924).

28. 64 F. Supp. 980 (D. Mass. 1946).

29. Unlike patent and copyright law, the doctrine of contributory trademark infringement still mainly exists in the realm of the common law. It is not statutorily defined. *See* 35 U.S.C. § 271(b)–(c) (2012) (patents); 17 U.S.C. § 512(c) (2012) (copyrights).

30. *Quinine*, NAT’L INSTS. HEALTH, <http://www.nlm.nih.gov/medlineplus/druginfo/meds/a682322.html> [perma.cc/8YW9-QQWA] (last revised Feb. 1, 2011).

31. *Eli Lilly*, 265 U.S. at 529.

Quin-Coco.³² Lilly's product was a leader in the market.³³ Salesmen for its competitor went through great pains to convince druggists that Quin-Coco was a substitute for Lilly's Coco-Quinine.³⁴ In fact, as the Supreme Court noted in its opinion, "some of petitioner's salesmen suggested that, without danger of detection, prescriptions and orders for Coco-Quinine could be filled by substituting Quin-Coco."³⁵ The U.S. Supreme Court ultimately held the manufacturer liable for the "palm[ing] off" of its product to consumers:

[T]he testimony discloses many instances of passing off by retail druggists of petitioner's preparation when respondent's preparation was called for. . . . The wrong was in designedly enabling the dealers to palm off the preparation as that of the respondent. . . . One who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury.³⁶

This would later become the first part—active inducement—of the *Inwood* standard.³⁷

Likewise, *Coca-Cola* represents another harbinger of the *Inwood* standard. Coca-Cola sued Snow Crest over its product Polar Cola.³⁸ Coca-Cola argued that Snow Crest should be held liable for the infringing acts of bars that served drinks made with Polar Cola instead of Coca-Cola when patrons asked for the drink to be made with "coke."³⁹ Further, Coca-Cola argued that Snow Crest had induced bartenders to pass off Polar Cola as Coca-Cola.⁴⁰ The district court dismissed the lawsuit, and the court of appeals affirmed.⁴¹ The district court found no evidence supporting the plaintiff's contention. It explained:

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.⁴²

Moreover, *Coca-Cola* set out a reasonable person standard for contributory infringement: a claim for liability could survive only if the defendant knew or

32. *Id.* at 527–28.

33. In fact, Eli Lilly's Coco-Quinine was the first product of its kind to be sold in mass quantities. *See id.* at 529.

34. *Id.* at 529–30.

35. *Id.* at 530.

36. *Id.* at 530–31.

37. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

38. *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 987–89 (D. Mass. 1946).

39. *Id.*

40. *Id.*

41. *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 162 F.2d 280, 287 (1st Cir. 1947).

42. *Coca-Cola*, 64 F. Supp. at 989 (internal quotation omitted).

reasonably should have known that her actions would result in infringement by another.⁴³ Later, *Inwood* would incorporate this into its “or has reason to know” enunciation.⁴⁴ This articulation of knowledge by *Coca-Cola* and *Inwood* suggests that nonfeasance, not misfeasance, was the root of the contributory infringement cause of action.⁴⁵ Courts, however, continue to follow the reasonable person limitation mentioned in *Coca-Cola* and endorsed by *Inwood*.⁴⁶ Subsequent cases would interpret this provision and link it to the doctrine of willful blindness.⁴⁷

II. THE STORY BEHIND *INWOOD*

This Part examines the underlying story of *Inwood* in an effort to explain how such a thin opinion, which reversed and remanded the case based on a misuse of the clear-error standard,⁴⁸ achieved such a wide influence in the realm of trademark secondary liability.

A. High Hopes

By the early 1980s, the Lanham Act had been in effect for almost four decades,⁴⁹ yet the Supreme Court had heard only one trademark case under it.⁵⁰ To say the least, trademark law, especially secondary liability, had an unknown topography. When *Inwood* petitioned for certiorari, and when the Supreme Court granted review, the case appeared to have the potential to offer clarity to several areas of trademark law. Given the questions *Inwood* presented in its petition, such as the protectability of

43. *Id.* at 988–89; see Mark Bartholomew & John Tehranian, *The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law*, 21 BERKELEY TECH. L.J. 1363, 1379–80 (2006).

44. See *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

45. See *id.*

46. “Today, courts continue to follow the limitations of the *Snow Crest* decision, imposing no affirmative duty to investigate or take precautions against trademark infringement by a third party, barring some specialized knowledge of the infringement at issue.” Bartholomew & Tehranian, *supra* note 43, at 1380.

47. See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 109 (2d Cir. 2010); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

48. *Inwood*, 456 U.S. at 855–58.

49. The Lanham Act was passed on July 5, 1946. Act of July 5, 1946, Pub. L. No. 79-489, 60 Stat. 427 (1946) (codified at 15 U.S.C. §§ 1051–1129 (2012)).

50. *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714 (1967) (holding that plaintiff could not recover attorney’s fees as a separate element of recovery). The court denied certiorari to several trademark cases during this time, many of which dealt with a broader range of issues. See, e.g., *Amstar Corp. v. Domino’s Pizza, Inc.*, 615 F.2d 252 (5th Cir.) (infringement-related goods doctrine), *cert. denied*, 449 U.S. 899 (1980); *Walt Disney Prods. v. Air Pirates*, 581 F.2d 751 (9th Cir. 1978) (comparing trademarks to determine whether infringement took place), *cert. denied sub nom. O’Neill v. Walt Disney Prods.*, 439 U.S. 1132 (1979); *Miller Brewing Co. v. G. Heileman Brewing Co.*, 561 F.2d 75 (7th Cir. 1977) (generic marks), *cert. denied*, 434 U.S. 1025 (1978); *Union Carbide Corp. v. Ever-Ready Inc.*, 531 F.2d 366 (7th Cir.) (incontestability), *cert. denied*, 429 U.S. 830 (1976).

capsule trade dress, the case could have enunciated far more significant holdings than it did.⁵¹ Scholars have derided the opinion as vague,⁵² and one has even suggested that after briefing, the Supreme Court should have withdrawn its grant of certiorari rather than decide the case based on a Federal Rule of Civil Procedure.⁵³ To understand the perceived importance of *Inwood* and the subsequent letdown, it is necessary to understand what questions practitioners anticipated *Inwood* would answer based on Inwood's petition for certiorari.

The case involved two claims: one under Lanham Act section 32⁵⁴ and the other under Lanham Act section 43(a).⁵⁵ Because the wordmark Cyclospasmol was

51. *E.g.*, Kenneth B. Germain, *The Supreme Court's Opinion in the Inwood Case: Declination of Duty*, 70 Ky. L.J. 731 (1982).

52. *See, e.g., id.* at 733; *see also* Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 105 (2d Cir. 2010).

53. Telephone Interview with Kenneth B. Germain, Of Counsel, Wood Herron & Evans LLP (Oct. 30, 2014). Indeed, Justice White even questioned the legitimacy of the Court's decision in the case because of the Supreme Court's own internal rules. *See infra* Part II.C.

54. Section 32 of the Lanham Act reads:

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

(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) hereof, 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.

15 U.S.C. § 1114(1) (2012).

55. Section 43(a) of the Lanham Act reads:

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

(2) As used in this subsection, the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State

registered, section 32 applied to both the direct infringement claim and the contributory infringement claim.⁵⁶ The first question, as presented, asked the Supreme Court to consider contributory infringement in the pharmaceutical context.⁵⁷ The second question was brought under section 43(a), an unfair competition provision, and related to capsule trade dress protection.⁵⁸ Because capsule trade dress protection was undefined in the law, and because identical trade dress was the fulcrum of the case, it appeared as if trade dress—not contributory infringement—would be the central issue the Court resolved. The opposite proved to be true.

The anticipation surrounding the section 43(a) issue was a product of intellectual property jurisprudence at the time. In the 1960s, the intellectual property community was turned on its side by two cases: *Sears, Roebuck & Co. v. Stiffel Co.*⁵⁹ and *Compco Corp. v. Day-Brite Lighting, Inc.*⁶⁰ These companion cases, decided by the Supreme Court in 1964, held that federal patent and copyright laws preempted the common law doctrine of unfair competition.⁶¹ Put simply, the *Sears-Compco* doctrine stated that after an author's or inventor's copyright or patent expired, that author or inventor could not rely on the common law to maintain her exclusive rights.⁶² This doctrine only applied to copyright and patent law; it remained to be seen whether the doctrine would extend to trademark law.⁶³ Because of *Inwood's* question relating to capsule trade dress, it appeared as though the Court might finally answer this question.

While the uncertainty about *Sears-Compco* lurked in the background, other unresolved questions surrounded section 43(a). By the mid 1970s, federal trademark law in this area still lacked shape.⁶⁴ Section 43(a) claims had been vigorously

acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.

(3) In a civil action for trade dress infringement under this chapter for trade dress not registered on the principal register, the person who asserts trade dress protection has the burden of proving that the matter sought to be protected is not functional.

15 U.S.C. § 1125(a) (2012).

56. See 15 U.S.C. § 1114(1) (“Any person who shall, without the consent of *the registrant*” (emphasis added)) (implying necessarily that the mark in question must be registered).

57. This first question asked, “[w]hether the truthful, comparative use of another’s trademark in labeling and advertising gives rise to liability for trademark infringement.” Petition for Writ of Certiorari, *supra* note 5, at *1.

58. *Id.*

59. 376 U.S. 225 (1964).

60. 376 U.S. 234 (1964).

61. GREGORY J. BATTERSBY & CHARLES W. GRIMES, *THE LAW OF MERCHANDISE AND CHARACTER LICENSING* § 7:7, Westlaw (database updated Sept. 2015).

62. *Id.*

63. See 1 CHARLES E. MCKENNEY & GEORGE F. LONG III, 1 *FEDERAL UNFAIR COMPETITION: LANHAM ACT* § 43(a) § 5:7 (2015).

64. See, e.g., Kenneth B. 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) (examining the expansion of certain sections of the Lanham Act and aspects of the Act’s application that still lacked clarity).

litigated since the passage of the Lanham Act, but the Supreme Court had never granted certiorari on a section 43(a) issue.⁶⁵ Especially in the prescription drug market, the question of functionality—whether a generic manufacturer could copy a capsule’s specific color combination—was a controversial issue that invited resolution.⁶⁶

Given this background, when certiorari was granted it appeared as if *Inwood* would put to rest some of these concerns: it was a section 43(a) case that seemed ripe for the Supreme Court to determine both whether *Sears-Compco* attached and whether capsule trade dress was protectable. The *Inwood* opinion, however, answered none of these questions. In fact, it never reached the merits of the case.⁶⁷ The peculiarities of the decision, explored below, added to the frustration over the Court’s refusal to reach the merits of the case. To understand the peculiarities of the opinion, however, it is first necessary to understand the facts of the case.

B. The Beginnings of *Inwood*

In the 1950s, Ives Laboratories obtained a patent for a drug, chemically identified as cyclandelate.⁶⁸ For several years, Ives marketed and sold the drug under the registered trademark Cyclospasmol.⁶⁹ Cyclospasmol, available by prescription only, was a leader in treating vascular disease in elderly patients.⁷⁰ Ives used arbitrarily colored pill capsules to differentiate doses: blue for its 200 mg dose and blue and red for its 400 mg dose.⁷¹

The company’s cyclandelate patent expired in April 1972.⁷² And by 1976, *Inwood*, a subsidiary of Forest Laboratories, and several other generic companies had begun marketing generic equivalents of Cyclospasmol.⁷³ Part of the generic companies’ marketing strategy was to advertise their pills as the cheaper chemical equivalents of Cyclospasmol.⁷⁴ *Inwood* and the other generic companies used the same color capsules and corresponding dosages as the Ives product.⁷⁵ Predictably,

65. Germain, *supra* note 51, at 732.

66. *See id.* at 731.

67. *See Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 855–59 (1982).

68. *Id.* at 846.

69. *Id.*

70. Petition for Writ of Certiorari, *supra* note 5, at *11.

71. *Id.*

72. Petition for Writ of Certiorari, *supra* note 5, at *45–46.

73. *Id.* at *45–48.

74. This was a standard industry marketing practice. *Inwood* and the other generic companies involved in this litigation were drug manufacturers who sold to wholesale distributors and hospital pharmacies rather than directly to dispensing pharmacists. Petition for Writ of Certiorari, *supra* note 5, at *47 Their sales were made primarily through catalogs. *Ives Labs., Inc. v. Darby Drug Co.*, 638 F.2d 538, 541 (2d Cir. 1981). Because Cyclospasmol was available by prescription only, Ives employed around 230 “detail” men who would visit doctors’ offices to distribute samples and promotional pamphlets. Ives also advertised in professional magazines. *Id.* at 540–41. Whether the practices of these generic companies were nefarious actions in the guise of legitimate industry custom is outside the purview of this Note.

75. *Inwood*, 456 U.S. at 847.

Ives sought an injunction, arguing that the generic companies infringed its trademark.⁷⁶ The first in a series of cases was decided in 1978.⁷⁷

The time at which Ives chose to file its lawsuit was deliberate. In 1977, New York enacted a drug substitution law.⁷⁸ The new statute encouraged the sale of lower-priced generic equivalents as a matter of public policy.⁷⁹ The New York statute altered the traditional practice under which a pharmacist was required to dispense a particular brand name if that name was specified on a prescription; as a result of the statute, pharmacists could now substitute the generic drug if it was available.⁸⁰ This backdrop created the perfect set of circumstances that gave rise to the *Inwood* litigation. Just before New York enacted the statute, Ives sought to prohibit the generic companies from doing exactly what the statute encouraged: using the colors of the brand-name drug—in this case both the blue and the blue and red color schemes for the cyclandelate capsules—despite it being a practice that had been ongoing for at least two years before Ives filed its complaint.⁸¹

Ives alleged claims under section 32 and section 43(a) of the Lanham Act, as well as New York unfair competition law.⁸² Under the section 32 claim, Ives alleged that some pharmacists had dispensed generic drugs mislabeled as Cyclospasmol.⁸³ It argued that the generic manufacturers used lookalike capsules and catalog entries that compared prices to induce pharmacists to substitute the generics for Cyclospasmol.⁸⁴ Likewise, the section 43(a) claim alleged false advertising: Ives claimed that the generic manufacturers falsely designated the origin of their products by copying Ives's capsule colors and promoting the generics as equivalent to Cyclospasmol.⁸⁵ Ives further argued that the colors were not functional and that they developed secondary meaning to consumers.⁸⁶

The district court's first opinion denied Ives's request for preliminary injunctive relief.⁸⁷ Subsequently, the court of appeals affirmed the denial.⁸⁸ The second district court opinion dismissed Ives's complaint because it found the evidence—fifteen instances in which the generic was improperly substituted for Cyclospasmol—to be too insignificant to support a cause of action for contributory infringement.⁸⁹ The court of appeals then reversed the district court, giving more weight to the evidence

76. *Id.* at 851; see *Ives Labs., Inc. v. Darby Drug Co.*, 455 F. Supp. 939, 941 (E.D.N.Y. 1978).

77. See *Ives*, 455 F. Supp. at 939 (opinion dated August 2, 1978).

78. See *Petition for Writ of Certiorari*, *supra* note 5, at *14 (citing N.Y. Educ. Law, §§ 6810, 6816, 6816-a (McKinney Supp. 1981)).

79. *Id.*

80. *Id.*

81. *Id.* at *16.

82. *Inwood*, 456 U.S. at 849. In a footnote, the Court noted that because the state law claim was not discussed in the Second Circuit's decision, which was the decision the Court was reviewing, the Court would not address it in its opinion. *Id.* at 849 n.6.

83. *Id.* at 849–50.

84. *Id.* at 850.

85. *Id.*

86. *Id.* at 850–51.

87. *Ives Labs., Inc. v. Darby Drug Co.*, 455 F. Supp. 939 (E.D.N.Y. 1978).

88. *Ives Labs., Inc. v. Darby Drug Co.*, 601 F.2d 631 (2d Cir. 1979).

89. *Ives Labs., Inc. v. Darby Drug Co.*, 488 F. Supp. 394 (E.D.N.Y. 1980).

of the fifteen instances of passing off than the district court had.⁹⁰ It is this second opinion of the court of appeals that gave rise to Inwood's petition for certiorari.

C. Anatomy of the Opinion

The most important paragraph of the Supreme Court opinion captured the Court's standard for contributory infringement:

[I]f 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 or distributor is contributorially responsible for any harm done as a result of the deceit.⁹¹

Indeed, this endorsement is one of the few triumphs of the opinion. Not only is this declaration the most cited portion of the case, but it is also the touchstone of any secondary liability analysis in trademark law.⁹²

Justice O'Connor, freshly appointed to the bench by President Ronald Reagan in 1981,⁹³ wrote for the majority. She would go on to write several of the Court's intellectual property opinions.⁹⁴ *Inwood* reflects her narrow, fact-specific style; she preferred to look at the cases as they came to her and to ensconce herself in their facts.⁹⁵ Accordingly, *Inwood* explicitly limited itself to the manufacturer-distributor context (though it would later be read to expand to other relationships).⁹⁶ *Inwood* was one of Justice O'Connor's early opinions⁹⁷ and, mainly because of what it fails to say, it is one of the most perplexing. Perhaps some of the opinion's oddities are attributable to the desire to attract a majority. That may explain why the opinion deliberately declined to address the merits of the case and instead limited itself to

90. *Ives Labs., Inc. v. Darby Drug Co.*, 638 F.2d 538 (2d Cir. 1981).

91. *Inwood*, 456 U.S. at 854.

92. *See, e.g.*, J. THOMAS MCCARTHY, 4 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:18 (4th ed. 1996) (recognizing that the Supreme Court's standard stated in *Inwood* is "the general rule").

93. ANN CAREY MCFEATERS, SANDRA DAY O'CONNOR: JUSTICE IN THE BALANCE 13–19 (2005).

94. *E.g.*, *Feist Publ'ns., Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991) (copyright); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) (patent); *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189 (1985) (trademark). *See generally* Keith Aoki, *Balancing Act: Reflections on Justice O'Connor's Intellectual Property Jurisprudence*, 44 HOUS. L. REV. 965 (2007).

95. *See* Aoki, *supra* note 94, at 968 (quoting former O'Connor clerk Professor Marci Hamilton).

96. *Inwood*, 456 U.S. at 854 ("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 or distributor is contributorially responsible for any harm done as a result of the deceit."). *See also supra* notes 7–9 and accompanying text.

97. O'Connor's first term on the Supreme Court bench was from 1981–1982. *See* MCFEATERS, *supra* note 93, at 96.

whether the court of appeals adhered to the right standard of review. More fundamentally, Kenneth B. Germain, a trademark scholar and practitioner, suggested that the Court did not have a “sound appreciation for the ‘big picture,’” which is why it fell back on reversing the case on a procedural ground rather than reaching the merits.⁹⁸

The opinion is compact—only about fourteen full pages.⁹⁹ Over half of these pages, however, recite facts and the case’s comparatively uncomplicated procedural history rather than addressing the issues presented in the certiorari petition.¹⁰⁰ This overemphasis on facts denotes self-consciousness on the part of the Court, and suggests that this is a highly fact-sensitive and situation-dependent decision.¹⁰¹ Justice O’Connor narrowly construed the issue the Court addressed:

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.¹⁰²

The opinion framed only the contributory infringement issue without mention of the section 43(a) capsule trade dress issue.¹⁰³ And even then, there is only one short paragraph dedicated to the contributory infringement legal standard.¹⁰⁴ What is left of the opinion discusses Federal Rule of Civil Procedure 52(a).¹⁰⁵ From the outset, the Court made clear that *Inwood* would not live up to the trademark community’s expectations.

There are technical problems with the Court’s opinion as well. For instance, the Court improperly refers to the theory of liability as “vicarious liability” instead of contributory infringement.¹⁰⁶ Vicarious liability arises strictly from the relationship a third party has with the direct tortfeasor; there is no knowledge requirement.¹⁰⁷ But *Ives*, the original plaintiff in the case, alleged that a party other than the direct tortfeasor (the pharmacists mislabeling the drugs) provided assistance or encouragement to the direct tortfeasor.¹⁰⁸ This is not vicarious liability, but rather the doctrine of contributory liability, which is an action that arises out of the knowledge

98. Germain, *supra* note 51, at 740.

99. *See Inwood*, 456 U.S. at 844–59.

100. *See id.* at 844–53.

101. Arguably, it was. The Court reversed and remanded based on the different weight given to different facts by the Court. Indeed, this may even support an assertion made in Part I, *supra*, and followed up later in Part III, *infra*, that the reason why the doctrine of contributory trademark infringement has resisted formal codification is that it is better suited to case-by-case analysis because it is more industry- and fact-sensitive than copyright.

102. *Inwood*, 456 U.S. at 846.

103. *See id.* at 850–51 n.10.

104. *Id.* at 853–54.

105. *See id.* at 855–59.

106. *See Bartholomew & Tehranian*, *supra* note 43, at 1369; Germain, *supra* note 51, at 734.

107. Bartholomew & Tehranian, *supra* note 43, at 1366.

108. *See id.* at 1366–68.

of participation in a wrong—not by virtue of an agency relationship.¹⁰⁹ Another peculiarity of the case is footnote ten.¹¹⁰ Ironically, although the Court never reached the merits on the functionality issue, the footnote has been influential: scholars point to it as the origin of the now-ubiquitous definition of functionality.¹¹¹

Moreover, except for the paragraph in which the Court reaffirms the judicially created doctrine of contributory infringement, the decision in the case hinges on a standard of review issue. This is peculiar, especially in this instance where the case was rife with so many other issues. Justice O'Connor found that the court of appeals erred when it disagreed with the district court's findings of fact and gave more weight to evidence of mislabeling.¹¹² The opinion admonished the court, stating that "[a]n appellate court cannot substitute its interpretation of the evidence for that of the trial court simply because the reviewing court might give the facts another construction, resolve the ambiguities differently, and find a more sinister cast to actions which the District Court apparently deemed innocent."¹¹³

Because of its reliance on procedural reasoning, not every member of the Court joined Justice O'Connor's opinion. In an internal memorandum after the first round of voting, Justice White wrote that he voted to reverse the case primarily because

I thought the Court of Appeals' interpretation of the Lanham Act was wrong—that it permitted a finding of contributory infringement based on the use of non-functional colors without knowledge or intent that passing-off was occurring, unduly watering down what is necessary to prove contributory infringement; and . . . because I was not sure that the Court of Appeals employed the proper standard of review with respect to functionality. I would not have voted to grant on the basis of our own reassessment of the facts under the proper statutory standard or the proper standard of review, and I would rather not reverse on this basis.¹¹⁴

109. *Id.* at 1367.

110. The footnote reads, "In general terms, a product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article." *Inwood*, 456 U.S. at 850 n.10.

111. Even in hornbooks and treatises, *Inwood* is sometimes credited with having promulgated the first modern working definition of functionality under the Lanham Act. *E.g.*, DONALD S. CHISUM, TYLER T. OCHOA, SHUBHA GHOSH & MARY LaFRANCE, UNDERSTANDING INTELLECTUAL PROPERTY LAW 487 (2d ed. 2011); *see also* *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 166 (1995) (holding that color alone may be trademarked when it has acquired secondary meaning and is nonfunctional).

112. *Inwood*, 456 U.S. at 856. *Inwood*'s petition provides a summary of the evidence at issue: "On the question of contributory trademark infringement, Ives' proof was limited to only 15 instances of improper substitution of cyclandelate for Cyclospasmol. Indeed, the Second Circuit found that the 15 instances were restricted to pharmacists who had a 'proclivity toward illegal substitution and did not render *Inwood* and the other companies contributorily liable for the alleged trademark infringement." Petition for Writ of Certiorari, *supra* note 5, at *17–18.

113. *Inwood*, 456 U.S. at 857–58 (internal quotation omitted).

114. Memorandum from Justice Byron White to Justice Sandra Day O'Connor (May 10, 1982) (on file at the Library of Congress Manuscript Division).

From the outset, even after oral argument, Justice White called into question the majority's reasoning and highlighted issues that the majority opinion never reached.¹¹⁵ This internal memorandum also suggests a potential reason why the opinion avoided the merits and focused so precisely on the standard of appellate review: there were too many pertinent issues presented in the case, and too many opinions of the Court, to craft a decision that would attract a majority of the Justices. Justice White's memorandum to Justice O'Connor, partnered with the subsequent concurrence he wrote, further suggests that *Inwood* was a matter of prioritizing issues.¹¹⁶ The contributory infringement issue won, likely because it was the only matter on which the Court could come to a semblance of a consensus.

As Justice O'Connor did in her majority opinion, Justice White narrowly framed the issue the Court addressed as "the legal standard employed by the Second Circuit in finding that a generic drug manufacturer is vicariously liable for trademark infringement committed by pharmacists who dispense the generic drug."¹¹⁷ He noted that the Court endorsed the legal standard the court of appeals employed. But Justice White also highlighted the Court's finding that the court of appeals erred when it set aside factual findings that were not clearly erroneous.¹¹⁸ He took the majority opinion to task and cuttingly questioned its legitimacy. He noted, "[t]he question whether the Court of Appeals had misapplied the clearly-erroneous rule . . . was not presented in the petitions for certiorari," and stated that "[o]ur Rule 21.1(a) states that only the questions set forth in the petition or fairly included therein will be considered by the Court."¹¹⁹ Further criticizing the majority opinion, he wrote that "it is doubtful in my mind that this fact-bound issue would have warranted certiorari."¹²⁰

The standard the court of appeals enunciated troubled Justice White because the court was satisfied merely by the failure to "reasonably anticipate" that illegal substitution by some pharmacists was likely.¹²¹ In requiring only reasonable anticipation, he "believe[d] that the Court of Appeals ha[d] watered down to an impermissible extent the standard for finding a violation of § 32 of the Lanham Act."¹²² He suggested this bar was too low, and that 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.¹²³ Justice White's statement engaged in a debate that has persisted since the Court delivered the *Inwood* decision.¹²⁴ Especially related to

115. *Inwood*, 456 U.S. at 859–60 (White, J., concurring).

116. See Memorandum from Justice Byron White to Justice Sandra Day O'Connor (May 10, 1982) (on file at the Library of Congress Manuscript Division) (writing that he thought the appellate court's interpretation was wrong and that the Supreme Court should not allow the contributory standard to be watered down).

117. *Inwood*, 456 U.S. at 859 (White, J., concurring).

118. *Id.*

119. *Id.*

120. *Id.* (internal quotation omitted).

121. *Id.* at 860–61.

122. *Id.* at 859.

123. *Id.* at 861–62.

124. See, e.g., David H. Bernstein & Michael R. Potenza, *Why the Reasonable Anticipation Standard Is the Reasonable Way To Assess Contributory Trademark Liability in the Online*

online service providers, courts today still grapple with deciding which knowledge standard satisfies the “knowing or having reason to know” part of the *Inwood* standard.¹²⁵

Despite the shortcomings of the opinion that this Part has highlighted, this Note nevertheless contends that *Inwood*'s avoidance of the merits of the case and the vague standard it enunciates are simultaneously the opinion's greatest weaknesses and its greatest strengths; the vagueness has made it stable precedent for decades.¹²⁶ Because *Inwood* resisted stringent guidelines, it has allowed the common law to evolve and adapt to unanticipated applications and the emergence of new business models.¹²⁷ The virtues of *Inwood* become increasingly apparent as technology advances and the Internet continues to flatten the world.¹²⁸ This is most pertinent in the case of online service providers, such as eBay, the online auction site, and others. The next Part outlines the extension of the trademark contributory infringement doctrine into these areas and argues for the adoption of a standard tailored to the online service provider model.

III. EXTENDING THE *INWOOD* STANDARD TO ONLINE SERVICE PROVIDERS

The flexibility of *Inwood*'s vague standard has revealed its value in online service provider cases. This Part examines the two tests that have been developed by the courts for these situations, as well as whether trademark law should codify a contributory infringement safe harbor provision for online service providers akin to that of the Digital Millennium Copyright Act.¹²⁹

A. *East Coast Versus West Coast*

As e-commerce has grown, so has the proliferation of counterfeit goods sold on websites like Amazon and eBay.¹³⁰ While the doctrine of contributory trademark infringement has necessarily evolved to address this issue, *Inwood* remains the springboard for the infringement analysis under the contributory infringement theory

Marketplace, 2011 STAN. TECH. L. REV. 9 (arguing that reasonable anticipation can be satisfied by demonstrating generalized knowledge that infringement is widespread in the marketplace).

125. See *infra* Part III.

126. There are thousands of citing decisions on Westlaw, and every trademark contributory infringement case brought before the court invariably cites to *Inwood* either directly or indirectly. See, e.g., *Coach, Inc. v. Goodfellow*, 717 F.3d 498, 503 (6th Cir. 2013); *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 163 (4th Cir. 2012); *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 104 (2d Cir. 2010); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

127. In fact, in *Fonovisa*, a copyright case, the Ninth Circuit stated that *Inwood* laid down no limiting principle that would require the defendant to be a manufacturer or a distributor. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996).

128. See generally THOMAS L. FRIEDMAN, *THE WORLD IS FLAT: A BRIEF HISTORY OF THE TWENTY-FIRST CENTURY* (3d ed. 2007).

129. 17 U.S.C. § 512(c) (2012).

130. See Rebecca Dunlevy, Note, *Internet Immunity: The Limits of Contributory Trademark Infringement Against Online Service Providers*, 22 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 927, 934–35 (2012).

of liability.¹³¹ As with contributory infringement cases in other contexts, when there is active inducement—a “smoking gun”—the analysis is straightforward and the case is easily decided in favor of the plaintiff.¹³² But often, especially in relation to online service providers, no such smoking gun exists. Given the level of removal between the online service provider, the seller, the consumer, and even the plaintiff in these cases, applying the second part of the *Inwood* standard—“knowing or having reason to know”—proves difficult. The requisite level of knowledge necessary for culpability is the center of the debate.¹³³ In some ways, this is where the specter of *Inwood*’s vague standard comes to haunt the trademark contributory infringement doctrine: in addressing the issue case by case, instead of with a statutory grounding, it risks uneven application.

Within the last fifteen years, two main tests for contributory infringement have been developed related to online service providers. The Second Circuit enunciated one of the tests in *Tiffany & Co. v. eBay*,¹³⁴ and the Ninth Circuit enunciated the other in *Lockheed Martin Corp. v. Network Solutions, Inc.*¹³⁵ Of the two, the Second Circuit’s *Tiffany* test is closer to the *Inwood* standard because it “simply exchanges the product element of the [*Inwood*] test for services without attaching a new tort-based liability element.”¹³⁶ For this reason, some commentators have suggested that it be adopted as the standard in online service provider cases.¹³⁷ *Tiffany* sued eBay claiming that the auction site facilitated the sale of counterfeit jewelry.¹³⁸ The *Tiffany* court recognized intentional inducement as attaching liability.¹³⁹ It also held that liability could attach if the service provider continued to supply its service to one it knows or has reason to know is engaging in trademark infringement.¹⁴⁰ Willful blindness, which in this context occurs when a provider has “reason to suspect that counterfeit . . . goods [are] being sold through its website, and intentionally shield[s] itself from discovering the offending listings,” could fulfill the knowledge requirement.¹⁴¹ In this case, however, the court found that eBay was not willfully blind.¹⁴²

131. This can be readily seen by the way the *Tiffany* court organizes its opinion. In the opinion’s discussion section, the first heading reads, “Does *Inwood* Apply?” *Tiffany*, 600 F.3d at 105.

132. The *Eli Lilly* case is an excellent example. There, the Court found that the defendant’s “agents induced the substitution, either in direct terms or by suggestion or insinuation.” *William R. Warner & Co. v. Eli Lilly & Co.*, 256 U.S. 526, 530 (1924).

133. See generally Matthew C. Berntsen, Note, *Knowledge and Misfeasance: Tiffany v. eBay and the Knowledge Requirement of Contributory Trademark Infringement*, 16 B.U. J. SCI. & TECH. L. 102, 105–07 (2010).

134. 600 F.3d at 105–06.

135. 194 F.3d 980, 983–85 (9th Cir. 1999).

136. Dunlevy, *supra* note 130, at 958. See generally *id.* at 957–63 (describing the knowledge tests).

137. *E.g., id.*

138. *Tiffany*, 600 F.3d at 97–101.

139. *Id.* at 106.

140. *Id.*

141. *Id.* at 109.

142. *Id.* at 110.

The Ninth Circuit's test in *Lockheed* added to the *Inwood* standard. In *Lockheed*, the plaintiff aircraft manufacturer sued a domain name registrar for contributory infringement because its register contained third-party domain names that allegedly infringed Lockheed's "Skunk Works" mark.¹⁴³ Lockheed had initially informed the defendant of the allegedly infringing marks and asked that it cancel those domain name registrations, but because Lockheed did not comply with Network Solutions's dispute resolution policy, Network Solutions took no action.¹⁴⁴ Lockheed contacted the owners of the offending registrations and settled the claims independently before suing Network Solutions for contributory trademark infringement.¹⁴⁵ The *Lockheed* court placed a heavier burden on the plaintiff by requiring evidence of "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark."¹⁴⁶ The court argued that this direct control and monitoring rule was necessary for service providers but that Network Solutions's "rote translation service [did] not entail the kind of direct control and monitoring required to justify an extension of the supplies a product requirement."¹⁴⁷ In short, Network Solutions could not reasonably be expected to monitor the Internet.¹⁴⁸

B. Striking Balances

As *Tiffany* and *Lockheed* show, one of the difficulties in articulating the knowledge requirement is balancing the burdens placed on each party. For instance, if courts set the knowledge bar too low, it could increase frivolous litigation and the burden would be disproportionately high on the defendant to disprove knowledge. This could potentially eliminate legal secondary markets for trademarked goods since those providers have a higher risk of being party to contributory infringement litigation.¹⁴⁹ Conversely, if courts set the bar too high, it might chill otherwise meritorious litigation. Proving such a stringent knowledge element may be cost prohibitive for the plaintiff and culpable parties could escape liability altogether.¹⁵⁰

The knowledge requirement also potentially affects industry practices. A general knowledge requirement, for instance, would force the defendant to be on the defensive to prevent infringement as soon as it suspects possible wrongdoing by one of its users.¹⁵¹ Specific knowledge, conversely, places a heavy burden on the plaintiff to show that the defendant knew of each and every individual seller's infringement. Such an extensive monitoring requirement related to proving specific knowledge may potentially be prohibitively high.¹⁵² In keeping with the spirit of the *Inwood*

143. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 981–83 (9th Cir. 1999).

144. *Id.* at 983.

145. *Id.*

146. *Id.* at 984.

147. *Id.* at 985 (internal quotation marks omitted) (citing *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 962 (C.D. Cal. 1997)).

148. *Id.*

149. Berntsen, *supra* note 133, at 111.

150. *Id.*

151. *See id.* at 112.

152. *See id.*

standard, one commentator argues that the Second Circuit's test in *Tiffany* is essentially the same as *Inwood* except that *Tiffany* swaps a product for a service.¹⁵³ If the object is to align as closely with *Inwood* as possible, then perhaps the *Tiffany* test is the way of the future in contributory trademark infringement actions against online service providers. Recent litigation seems to trend away from imposing the *Lockheed* monitoring requirement.¹⁵⁴

But the *Tiffany* standard is more than just *Inwood* for services. In addition to what it takes from *Inwood*, *Tiffany* creates a more defined and practical gray area within which courts can apply the knowledge requirement.¹⁵⁵ Importantly, the *Tiffany* standard demands more than general knowledge but less than specific knowledge.¹⁵⁶ It also leaves open alternative knowledge theories, such as willful blindness. The Second Circuit stated: "For contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary."¹⁵⁷ This holding keeps with *Inwood*'s narrow standard but also aligns with the Supreme Court's subsequent interpretations of *Inwood* in other cases.¹⁵⁸ It rightly rejects general knowledge. If general knowledge were enough, online service providers would constantly be embroiled in contributory infringement actions merely because of their business model. In *Tiffany*, eBay conceded that it knew generally that there were counterfeit Tiffany goods on its site.¹⁵⁹ With a case so easy to prove—all a plaintiff would need to show is that counterfeiting occurred somewhere on the site without having to provide an example—online service providers would be subject to witch hunts for damages simply because direct infringers chose the provider's site as a sales platform. Moreover, "some contemporary knowledge" is not as narrow as specific knowledge.¹⁶⁰ This is a kinder standard to the plaintiff, as it is not as stringent and leaves open the window of circumstantial evidence. Additionally, contemporary knowledge ensures that the online service provider is not being sued merely for its

153. Dunlevy, *supra* note 130, at 958–59.

154. *See, e.g.,* Coach, Inc. v. Sapatis, 27 F. Supp. 3d 239, 248 (D.N.H. 2014) (finding there was a genuine issue of fact as to whether the owner of a flea market knew of vendors' infringement and whether the owner exercised control over the vendors); Ohio State Univ. v. Skreened Ltd., 16 F. Supp. 3d 905, 921 (S.D. Ohio 2014) (finding willful blindness is proved where the evidence "shows [defendant's] awareness and . . . deliberate inaction or insufficient action to remedy problems"); Gucci Am., Inc. v. Frontline Processing Corp., 721 F. Supp. 2d 228, 249 (S.D.N.Y. 2010) (finding that a manufacturer sufficiently alleged that providers knew or were willfully blind to the fact that a merchant sold counterfeit goods).

155. *See* Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93, 103–10 (2d Cir. 2010).

156. *See id.* at 107–09.

157. *Id.* at 107.

158. *See* Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 439 n.19 (1984) ("If *Inwood*'s narrow standard for contributory trademark infringement governed here, [the plaintiffs'] claim of contributory infringement would merit little discussion. Sony certainly does not 'intentionally induc[e]' its customers[,] . . . nor does it supply its products to identified individuals known by it to be engaging in continuing infringement of [the plaintiffs'] copyrights.").

159. *Tiffany*, 600 F.3d at 110.

160. *Id.* at 107.

business model, but instead because there were genuine infringing acts occurring that the provider knew of and should have stopped.

Tiffany also does not require direct monitoring.¹⁶¹ While the *Tiffany* plaintiffs were concerned that “if eBay is not held liable except when specific counterfeit listings are brought to its attention, eBay will have no incentive to root out such listings from its website,”¹⁶² the Second Circuit pointed out that the private market gives a strong incentive to providers to eradicate counterfeiters.¹⁶³ Indeed, service providers like eBay have such monitoring systems in place where consumers can report counterfeit goods to the provider.¹⁶⁴ In copyright law, as provided in the Digital Millennium Copyright Act, these monitoring systems can legally insulate the provider from contributory infringement claims.¹⁶⁵

Although Congress has not adopted a statutory basis for contributory trademark infringement, the increasing speed at which e-commerce develops (and the new legal issues that come with it) demands that the law evolve. A trademark version of the Digital Millennium Copyright Act’s safe harbor for online service providers would be a step in the right direction. Section 512(c) of the Act provides a framework whereby an online service provider can avoid secondary liability in copyright infringement cases if it follows a set of guidelines.¹⁶⁶ This section limits liability for the service provider if the service provider has a system or “designated agent to receive notifications of claimed infringement.”¹⁶⁷ Such a law has several benefits: it gives potential plaintiffs an outlet to report trademark infringement without having to litigate; it puts providers on notice of counterfeiting activities; it protects those providers who take the reports seriously; and it gives the providers themselves an opportunity to protect their goodwill. Interestingly, trademark law seems to be trending this way organically, as illustrated by *Tiffany*.¹⁶⁸ In *Tiffany*, eBay’s reporting scheme helped absolve it from liability under a theory of willful blindness.¹⁶⁹

As commerce evolves, so too should trademark law. Cases from copyright and patent law continue to offer viable directions that trademark law can take. Unlike copyright and patent law, however, trademark law is a fluid creature of commerce. Perhaps trademark law’s dependence on industry practice is a reason why its contributory infringement doctrine has continued to be a creature of the common law instead of statute. Allowing the doctrine to remain part of the common law is not without its dangers: case-by-case determinations may carve out too many special

161. *See id.* at 108–09.

162. *Id.* at 109.

163. *Id.*

164. *See id.* at 99, 109.

165. *See* 17 U.S.C. § 512(c) (2012).

166. This provision is extensive and includes subsections related to designated agents of the online service provider as well as elements of notification. *See id.* § 512(c)(2).

167. *See id.*

168. *See Tiffany*, 600 F.3d at 99, 109.

169. *Id.* at 109–10. For eBay’s reporting scheme, see *VeRo: Reporting an Infringement*, EBAY.COM, <http://pages.ebay.com/vero/notice.html> [perma.cc/V4V5-CL4L]. This system conforms to all the requirements set forth in section 512 of the Digital Millennium Copyright Act.

circumstances, thereby rendering the law so fact-specific that predicting the outcome of a case becomes impossible.

CONCLUSION

In *Tiffany*, the Second Circuit lamented that “[t]he limited case law leaves the law of contributory trademark infringement ill-defined.”¹⁷⁰ But this is not necessarily a detriment to the law. Whatever frustration the vagueness of the *Inwood* standard has caused, it has nevertheless allowed the common law to apply to numerous contexts. *Tiffany* itself is proof of that. This flexibility has given the *Inwood* standard longevity, and it forces the doctrine to be practical and responsive to the changing business terrain. As new industries are created, the doctrine must continue to adapt as it has, but it should do so industry by industry, not case by case. And although trademark law has resisted it, congressional intervention regarding the doctrine of contributory trademark infringement may be necessary to give some boundaries and predictability to the doctrine’s application to new commercial platforms.

170. *Tiffany*, 600 F.3d at 105.