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# Trademark Licensor Liability for Defective Products Under U.S. Law

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Trademark licensing in all its forms — promotional, collateral and classical — has become an increasingly large and dynamic part of the global economy. It has been reported that in the United States alone manufacturers paid nearly \$6 billion in licensing royalties in 2003. Although nearly one third of all global commerce in trademark licensing is generated outside the United States, many of those licensed goods are eventually floated into the U.S. stream of commerce.

While the majority of trademark licensing agreements involve “mere” or “pure” licensing, under which the trademark owner does little more than give another (usually a manufacturer) permission to use its trademark, in other instances the trademark owner will involve itself to some degree in the design and manufacture of the licensed product. In both instances, trademark licensors who do not actually manufacture the licensed product need to consider the various theories of products liability that U.S. plaintiffs might use to hold them liable when claimed defects in licensed goods give rise to personal injury litigation.

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Preliminarily, trademarks registered in the United States enjoy legally enforceable protection against infringement under the Lanham Act. The consideration for this protection — on pain of trademark abandonment — is the licensor's assumption of a legal duty to exercise control over the quality of goods sold under its mark, which the Lanham Act, unfortunately, does not otherwise define. Although this statutory “quality control” obligation does not itself give rise to products liability, it has befuddled some courts, leading them to subject trademark licensors to questionable liability for product defects.

In brief, trademark licensors are subject to products liability in the U.S. legal system under either the “enterprise” theory of liability or the “apparent manufacturer” doctrine.

## THE ‘ENTERPRISE’ THEORY

Under the enterprise theory of liability, the analytical approach adopted by a majority of U.S. courts, nonmanufacturing trademark licensors who exercise “substantial control” over the



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manufacture or sale of licensed goods are deemed the “functional equivalent” of the manufacturer and subjected to strict liability — that is, liability without fault — for any design, manufacturing or warning defects that render the product “defective” and “unreasonably dangerous” under §402A of the Restatement (Second) of Torts. With substantial control — sometimes called “participatory connection” — as its predicate, the enterprise theory implicitly presumes nonliability for minimally involved trademark licensors.

While the intensely fact-specific nature of the “control” inquiry makes it difficult to divine predictive rules or tests from the case law, as a general matter this much can be said with confidence about the reach of the enterprise theory: Trademark licensors who provide licensees with detailed specifications and standards for the manufacture, design or distribution of the licensed product are commonly subjected to products liability by U.S. courts under the enterprise theory.

### THE ‘APPARENT MANUFACTURER’ DOCTRINE

Trademark licensors also face negligence-based products liability under the apparent manufacturer doctrine of the Restatement (Second) of Torts §400, which provides that “one who puts out as his own product a [good] manufactured by another is subject to the same liability as though he were its manufacturer.”

Although a small number of U.S. courts used this doctrine in the 1970s to subject trademark licensors to products liability for no more than “mere” licensing, most courts since then have — consistent with the doctrine’s original purpose — limited its application to trademark licensors who actually sell or distribute the licensed goods, generally making the apparent manufacturer doctrine a less viable theory of liability against trademark licensors. This, in fact, is the approach taken by the new Restatement (Third) of Torts §14, which expressly limits the doctrine to product sellers and distributors and by terms

specifically exempts “mere” or “pure” trademark licensors from its operation.

Unfortunately, the traditional restriction on this doctrine’s application — to those who “put out” a good as their own by sale, lease, gift or loan — is sometimes still overlooked by courts.

### SUMMARY

On the whole, a trademark licensor’s products liability exposure in the United States under a mere or pure licensing agreement is real but generally low, provided it does not sell or distribute the licensed product. Thereafter, the risk rises in proportion to the amount and nature of any control the trademark owner exercises over the design, manufacture or distribution of the licensed product or the licensee’s operations (when, for instance, the licensee is the licensor’s wholly owned subsidiary).

Summing up, a good rule of thumb for a trademark licensor to follow in walking the tightrope of U.S. products liability risk is to make the licensee as autonomous as possible, consonant with the licensor’s obligation under the Lanham Act to exercise “quality control” over its mark. While less control is better from a risk management perspective, almost any type of control can be a slippery slope to products liability in U.S. courts.

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