

Trademark licensors potentially subject to strict liability

By Erin K. Higgins



In *Lou v. Otis Elevator Co.*, 77 Mass. App. Ct. 571 (2010), the Appeals Court held that a trademark licensor who participates substantially in the design, manufacture or distribu-

tion of a licensee's products may be held strictly liable for product defects, even if the licensor was not an actual link in the distribution chain.

In its decision, the court recognized that no prior reported Massachusetts case had applied the "apparent manufacturer" doctrine to a non-seller. *Id.* at 581.

In the circumstances of the *Lou* case, however, the court concluded that extension of the doctrine to a non-seller trademark licensor was warranted, because the extent of the defendant's involvement meant that it was being held strictly liable for "its own role in placing a dangerous product in the stream of commerce." *Id.* at 582.

Facts of 'Lou v. Otis Elevator'

The plaintiffs in *Lou* were the parents of a 4-year-old boy whose hand became stuck in a gap between the skirt panel and the treads of an escalator in a Chinese department store.

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The boy was a Massachusetts resident who had traveled with his parents to visit his Chinese grandparents. The escalator was manufactured and sold by China Tianjin Otis Elevator Co., Ltd., or CTOEC.

CTOEC had both a trademark licensing agreement and a technical cooperation agreement with Otis Elevator Co., a New Jersey corporation.

Pursuant to the trademark agreement, Otis licensed to CTOEC the right to use the Otis trademark within China. Pursuant to the technical cooperation agreement, Otis agreed to furnish CTOEC with Otis' "know-how," as defined in the agreement, and with a "broad range of technical and managerial support."

Additionally, evidence at trial established that Otis had assigned management personnel to the CTOEC factory in China, including individuals responsible for management of escalator production.

Further, the escalator that caused the injury prominently bore the Otis trademark, on the comb plates at the top and bottom of the escalator, and no other trade name or mark.

On those facts, the Appeals Court found that the trial judge correctly had instructed the jury that a non-seller trademark licensor who participates substantially in the design, manufacture or distribution of the licensee's products may be held liable under Massachusetts law as an apparent manufacturer.

The court therefore affirmed the jury's verdict of \$3.5 million, plus an additional \$3.3 million in pre-judgment interest.

The Supreme Judicial Court subsequently denied Otis' request for further appellate review.¹

Restatement (Third) of Torts

In its decision, the *Lou* court traced the development of the "apparent manufacturer"

doctrine, first recognized in Massachusetts in 1915.

The court expressly adopted the most recent formulation of that doctrine, found in the Restatement (Third) of Torts: Products Liability, §14 (1998), and specifically comment (d) to that section, which sets forth a specific rule applicable to trademark licensors.

Comment (d) provides:

"The rule stated in this Section does not, by its terms, apply to the owner of a trademark who licenses a manufacturer to place the licensor's trademark or logo on the manufacturer's product and distribute it as though manufactured by the licensor. In such a case, even if purchasers of the product might assume that the trademark owner was the manufacturer, the licensor does not 'sell or distribute as its own product manufactured by another.' ...

"Trademark licensors are liable for harm caused by defective products distributed under the licensor's trademark or logo when they participate substantially in the design, manufacture, or distribution of the licensee's products. In these circumstances they are treated as sellers of the products bearing their trademarks."

In adopting that formulation, the drafters of the Third Restatement moved away from the earlier emphasis on a consumer's reliance on the presence of a trademark as indicative of "an assurance of quality," in favor of an approach that focuses on whether the trademark owner in fact actively worked to assure the quality of the trademarked product.

Section 14 and its comments do not define what it means to "participate substantially" in the design, manufacture or distribution of a product.

Further, the few cases that have been de-

cided since the Third Restatement was published in 1998 have not shed much light on the question.

At one end of the spectrum are cases in which the trademark licensor's involvement is limited to the execution of a licensing agreement. See *Harrison v. B.F. Goodrich Co.*, 881 So.2d 288, 293 (Ct. App. Miss. 2004) (where undisputed evidence showed that Goodrich was not directly involved in design, manufacture or distribution of tires, existence of trademark licensing agreement was insufficient to subject Goodrich to strict liability under §14); *Iragorri v. United Technologies Corp.*, 285 F. Supp. 2d 230, 238-39 (D. Conn. 2003) (granting summary judgment for trademark licensor on strict liability claims, where plaintiff introduced no evidence of licensor's actual involvement in distribution, marketing or manufacture of product).

At the other end of the spectrum are cases such as *Automobile Ins. Co. of Hartford Connecticut v. Murray, Inc.*, 571 F. Supp. 2d 408 (W.D.N.Y. 2008), in which Scotts was held liable as the apparent manufacturer of a defective lawnmower bearing the Scotts trademark.

In *Murray*, the court found that Scotts provided the manufacturer with manufacturing specifications for the lawnmower; retained an outside consultant to review the specifications; sent quality control personnel to visit the manufacturing facility on multiple occasions to ensure compliance with Scotts' specifications; developed its own quality control protocol after it found the manufacturer's protocol lacking; developed an operations manual that referenced only Scotts' name and provided a Scotts toll-free number for customer complaints; and issued the limited warranty described in the operations manual.

The *Lou* case falls in the middle of that spectrum. The evidence in *Lou* demonstrated that Otis' involvement was more than that of a "mere licensor," but it certainly did not advertise its connection to the product as prominently as the licensor in *Murray*.

Had the *Lou* case been brought in another jurisdiction, the case might have come out

differently. See, e.g., *Ellis v. Dixie-Narco*, 1999 WL 373793 (D. Oregon).

In *Ellis*, the court held that Coca-Cola could not be held strictly liable for injuries caused by a vending machine that fell on and killed a user, even though Coca-Cola specified general design criteria for its trademarked machines, tested sample machines before authorizing the use of its trademarks, and produced a witness who

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testified that Coca-Cola had the authority to require its trademarked machines be secured to a wall or floor.

Despite that evidence of involvement in quality control and testing, the court determined that Coca-Cola had not participated substantially in the design of the vending machine at issue.

The court apparently found it significant that Coca-Cola's quality control standards and testing were directed only to the machine's appearance, energy efficiency and refrigeration capabilities, and that Coca-Cola relied on each manufacturer to obtain UL approval for its own machines.

Conclusion

In sum, the existing caselaw as to whether a trademark licensor has "participated substantially" in the design, manufacture or distribution of its licensed products, resulting in strict liability for injuries caused by those products, is somewhat inconsistent and can be difficult to reconcile.

In those jurisdictions in which the apparent manufacturer doctrine is recognized, however, a court likely will find the following factors significant in determining whether there has been "substantial participation":

(1) the extent to which the licensing agreement and any corollary agreements provide the licensor with the right to specify and control the means and methods of design, manufacture, marketing and distribution of the product;

(2) the extent to which the licensor actually and regularly availed itself of those rights;

(3) whether the licensor had employees stationed at the licensee's manufacturing facility to oversee production and compliance with the licensor's standards; and

(4) whether the licensor's name appears on the product or any marketing material concerning the product, and whether another entity is expressly identified on the product or on marketing materials as the actual manufacturer of the product.

A trademark licensor, of course, has a vested interest in policing the use of its marks so that the mark's value is not diminished by its appearance on substandard products.

It therefore may be difficult for a licensor to limit its oversight of licensees to the degree necessary to ensure that it is not held strictly liable as an apparent manufacturer.

Thus, the best advice for trademark licensors may be to require that the product label clearly identifies the licensee as the manufacturer of the product, under license to the licensor. MLW

Endnote

¹An interesting note about the *Lou* case is that the parties apparently agreed that the trial judge should instruct the jury under Chinese products liability law. At the charge conference, however, the trial judge advised the parties that he was unable to so instruct the jury, because the parties' experts had offered sharply divergent opinions as to what that law provided.