

WHAT'S IN A NAME? POSSIBLY, STRICT LIABILITY AS AN APPARENT MANUFACTURER

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In *Lou v. Otis Elevator Co.*,¹ the Massachusetts Appeals Court held that a trademark licensor who participates substantially in the design, manufacture, or distribution 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.² 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 Otis's involvement meant that it was being held strictly liable for "its own role in placing a dangerous product in the stream of commerce."³

I. The Facts of *Lou v. Otis Elevator*

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



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in a Chinese department store. 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 Company, Ltd. (CTOEC). CTOEC had both a trademark licensing agreement and a technical cooperation agreement with Otis Elevator Company (Otis), 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's "know-how," as defined in the agreement, and with a "broad range of

¹ 77 Mass. App. Ct. 571 (2010).

² *Id.* at 581.

³ *Id.* at 582.

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 bore no other trade name or mark.

On these facts, the Massachusetts 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 in plaintiffs’ favor, in the amount of \$3,500,000, plus an additional \$3,300,000 in prejudgment interest. The Massachusetts Supreme Judicial Court subsequently denied Otis’s request for further appellate review.⁴

In its decision, the *Lou* court traced the development of the “apparent manufacturer” doctrine, first recognized in Massachusetts in 1915, and 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. The court’s approach, replicated below, is helpful in analyzing the extent to which trademark licensors can involve themselves in the design and manufacturing process before subjecting themselves to strict liability under § 14.

II. Development of the Apparent Manufacturer Doctrine

Massachusetts first recognized the “apparent manufacturer doctrine” in *Thornhill v. Carpenter-Morton Co.*⁵ In that case, a paint supplier was treated as the manufacturer of a can of flammable oil stain where the supplier put its own name on the can, without any reference to the actual manufacturer, so that “its representation to the purchasing public that it was the manufacturer must be taken as essentially true.”⁶ Almost twenty years later, the drafters of the Restatement (First) of Torts (1934) used the *Thornhill* case as the basis for its illustration of the principles set forth in § 400 of the First Restatement, titled “Vendor Selling As His Own Product Chattel Made By Another.” Section 400 provided, in relevant part:

One who puts out as his own product a chattel manufactured by another is subject to the same liability as though he were its manufacturer.

⁴ An interesting note about the *Lou* case is that the parties apparently agreed that the trial judge should instruct the jury under Chinese product 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.

⁵ 220 Mass. 593 (1915).

⁶ *Id.* at 597.

Comment:

- a. The words “one who puts out a chattel” include anyone who supplies it to others for their own use or for the use of third persons, either by sale or lease or by gift or loan.
....
- d. The rule stated in this Section applies only where the chattel is so put out as to lead those who use it to believe that it is the product of him who puts it out. The fact that the chattel is sold under the name of the person selling it may be sufficient to induce such a belief, but this is not always so, as where the goods are marked as made for the seller, without stating the name of the maker, or where the seller is known to carry on only a retail business.

The apparent manufacturer doctrine, as codified in the First Restatement, was rooted in principles of consumer reliance. Thus, in the *Thornhill* case, and in cases following *Thornhill*, the courts looked for evidence demonstrating that a purchaser believed that the product had been manufactured by the defendant, and relied on that belief in purchasing the product.⁷

⁷ See, e.g., *Burkhardt v. Armour & Co.*, 161 A. 385 (Conn. 1932) (where can prominently displayed the Armour name and trademark on the label, and did not identify actual manufacturer, ordinary person would

III. The Restatement (Second) of Torts

In 1965, the “apparent manufacturer doctrine” was re-codified at § 400 of the Restatement (Second) of Torts. The language of § 400 and of comment (a), as quoted above, remained the same. Comment (d) was rewritten to reflect the expansion of the doctrine since publication of the First Restatement, and to make specific reference to trade names and trademarks. Comment (d) provided, in relevant part:

Thus, one puts out a chattel as his own product when he puts it out under his name or affixes to it his trade name or trademark. When such identification is referred to on the label as an indication of the quality or wholesomeness of the chattel, there is an added emphasis that the user can rely upon the reputation of the person so identified. The mere fact that the goods are marked with such additional words as “made for” the seller, or describe him as a

have inferred that Armour guaranteed safety of can’s contents); *Carney v. Sears, Roebuck & Co.*, 309 F.2d 300 (4th Cir. 1962) (holding Sears liable for defects in ladder manufactured by another, where purchaser relied on Sears’s advertising and on representations made by Sears’s salesperson as to quality of ladder); cf. *Hamson v. Standard Grocery Co.*, 103 N.E.2d 233 (Mass. 1952) (declining to impose tort liability on distributor of ketchup bottle, where actual manufacturer’s name appeared on label and defendant was identified on label only as the distributor of the product).

distributor, particularly in the absence of a clear and distinctive designation of the real manufacturer or packer, is not sufficient to make inapplicable the rule stated in this Section. The casual reader of a label is likely to rely upon the featured name, trade name, or trademark, and overlook the qualification of the description of source.

Courts interpreting this revised comment developed inconsistent rules as to whether, and under what circumstances, the “apparent manufacturer” doctrine applied to trademark licensors. Some courts concluded that, pursuant to comment (a) of § 400, a licensor does not “put out” a product as his own unless he “sells, leases, gifts, or loans the product.”⁸

Other courts, relying on the language of comment (d), concluded that trademark licensors could be held liable as ostensible manufacturers, even in the absence of evidence of participation in the chain of distribution, where the licensor’s name appeared on the product and there was no prominent

disclosure of the actual manufacturer.⁹

A majority of courts, however, carved out a middle position on § 400, concluding that a trademark licensor could be deemed an apparent manufacturer if the plaintiff demonstrated a sufficient level of involvement in or control over the manufacturing or distribution process. For example, in *Torres v. Goodyear Tire & Rubber Co.*,¹⁰ the court held that Goodyear was strictly liable for damages caused by tread separation in a tire that had been designed by one licensee and manufactured by another licensee, because Goodyear’s ability to control the design, manufacturing, and marketing of the tires was “pervasive.”¹¹ In *City of Hartford v. Associated Constr. Co.*,¹² the court held that the licensor of a trademarked roofing product could be held strictly liable for injuries resulting from its

⁸ See *Nelson v. International Point Co.*, 734 F.2d 1084 (5th Cir. 1984) (refusing to extend liability to a trademark licensor that was not also a manufacturer or distributor of the product); *Harmon v. National Automotive Parts Ass’n*, 720 F. Supp. 79, 81 (1989) (§ 400 did not extend to trademark licensor because licensor did not sell, gift, lease or loan the automotive battery that caused plaintiff’s injury).

⁹ See, e.g., *Carter v. Joseph Bancroft & Sons Co.*, 360 F. Supp. 1103, 1107 (E.D. Pa. 1973) (reference to manufacturer’s name on clothing tag, without clear statement of company’s role as manufacturer, did not relieve trademark licensor of liability); *Connelly v. Uniroyal, Inc.*, 389 N.E. 2d 155, 162-63 (Ill. 1979) (licensor is integral part of marketing enterprise, and its participation in profits reaped by placing defective product into stream of commerce justifies imposition of strict liability); *Brandimarti v. Caterpillar Tractor Co.*, 527 A.2d 134, 139 (Pa. 1987) (holding Caterpillar to same standard of liability as seller of forklift, where Caterpillar’s trade name, and no other, was conspicuously displayed on the forklift).

¹⁰ 786 P.2d 939 (Ariz. 1990).

¹¹ *Id.* at 942.

¹² 384 A.2d 390 (Conn. 1978).

application, where the trademark owner specified the raw materials to be used in formulating the product, provided the compounder with specific instructions on the formulation of the product, and retained and exercised control over the methods and manner of its application.¹³ Under this middle approach, however, a defendant's mere status as a trademark licensor, without more, did not subject the licensor to the same strict liability principles applicable to product sellers.¹⁴

IV. The Restatement (Third) of Torts

In the Third Restatement, published in 1998, the drafters moved the "apparent manufacturer" concept to § 14, and rewrote the section and the comments. As the drafters recognized, some aspects of the apparent manufacturer doctrine as articulated in the First and Second Restatements were no longer relevant, because § 402A of the Second Restatement imposes strict liability on all sellers in the chain of distribution, whether or not they manufactured the product.¹⁵ The doctrine retains relevance, however, to the extent that a plaintiff is attempting to impose strict liability on a defendant

outside the distribution chain. In this regard, comment (d) to § 14 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 a 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 this 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

¹³ *Id.* at 396-397.

¹⁴ See *Burkett v. Petrol Plus of Naugatuck, Inc.*, 579 A.2d 26 (Conn. 1990) (absence of any involvement on General Motors's part in production, marketing or distribution of defective transmission fluid bearing the GM trademark precluded a finding that GM was apparent manufacturer).

¹⁵ See Rest. (3d) of Torts: Product Liability, § 14, comment (a).

substantially” in the design, manufacture or distribution of a product. Further, the few cases that have been decided 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.¹⁶ At the other end of the spectrum are cases such as *Automobile Ins. Co. of Hartford Connecticut v. Murray, Inc.*,¹⁷ 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’s specifications, developed its own quality control protocol after it found the manufacturer’s protocol

lacking, developed an operations manual that referenced only Scotts’s 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 this spectrum. The evidence in *Lou* demonstrated that Otis’s 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*. It is possible that, had the *Lou* case been brought in another jurisdiction, the case might have come out differently. In *Ellis v. Dixie-Narco*,¹⁸ 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 testified that Coca-Cola had the authority to require its trademarked machines to be secured to a wall or floor. Despite this 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

¹⁶ 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, 238-239 (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).

¹⁷ 571 F. Supp.2d 408 (W.D.N.Y. 2008).

¹⁸ 1999 WL 373793 (D. Oregon 1999).

obtain UL approval for its own machines.

V. Conclusion

In sum, the existing case law 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 these 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.

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