Saint Louis University Public Law Review

Volume 25
Number 1 *Strife, Liberty & the Pursuit of Privacy: The Conflict Between Freedom of Information and Privacy in the Post-9/11 ERA (Volume XXV, No. 1)*

Article 11

2006

Has the Law of Products Liability Spoiled the True Purpose of Trademark Licensing? Analyzing the Responsibility of a Trademark Licensor for Defective Products Bearing its Mark

Jennifer Rudis Deschamp

HAS THE LAW OF PRODUCTS LIABILITY SPOILED THE TRUE PURPOSE OF TRADEMARK LICENSING? ANALYZING THE RESPONSIBILITY OF A TRADEMARK LICENSOR FOR DEFECTIVE PRODUCTS BEARING ITS MARK

I. INTRODUCTION

The scope of the United States' marketplace is constantly growing. For instance, online shopping, one of the driving forces of this expanding marketplace, provides consumers with advantages that old-fashioned malls and markets simply cannot deliver.[1] Propelled by an underlying motivation to make it easier for consumers to spend their money, this shopping method allows consumers to complete purchases in a matter of minutes. When shopping online, a consumer may view merchandise and compare prices of items from hundreds of companies without ever leaving his or her home.

Nevertheless, the present online shopping phenomenon highlights important concerns for consumers regarding trademark licensing and products liability that existed long before the birth of the Internet. These issues mainly concern a consumer's decision-making process when buying a product. How does he or she know it will be safe? Will this product suit his or her particular needs? Will the product last? Online shopping makes the answers to these questions even more pertinent since consumers may make hurried, less informed decisions and are usually unable to physically examine the item before they purchase it from an online seller.

Consumers, whether consciously or not, often base their purchase decisions on trademarks by using them as quality indicators.[2] Therefore, it intuitively follows that consumers should be more inclined to shop online because they rely on trademarks as a purchasing guide. Consumers may not be able to inspect the product before they purchase it, but they are reassured that

1. According to the United States Department of Commerce, online shopping or "e-commerce" has grown from 0.6 percent of total retail sales in the fourth quarter of 1999 to nearly 2.0 percent in the third quarter of 2004. U.S. CENSUS BUREAU, QUARTERLY RETAIL E-COMMERCE SALES 3RD QUARTER 2004, *available at* http://www.census.gov/mrts/www/data/html/04Q3.html (last visited Oct. 21, 2005). In the fourth quarter of 1999, e-commerce sales accounted for 4,640 millions of dollars in sales, but the corresponding number in the third quarter of 2004 was 17,614. *Id.*

2. David J. Franklyn, *The Apparent Manufacturer Doctrine, Trademark Licensors, and the Third Restatement of Torts*, 49 CASE W. RES. L. REV. 671, 678 (1999).

the goods will be of the same quality as goods they previously purchased bearing the same trademark.[3] Consumers are generally not concerned with determining if the trademark identifies the manufacturer or if it is, in fact, a licensed trademark as long as they experience consistent quality from a particular mark.[4] However, when a consumer is injured by the product, he or she may look to both the manufacturer and trademark licensor as responsible parties.[5]

Courts have recognized that, "in light of the contemporary popularity of licensing agreements for trademarked products in substitution for the traditional direct marketing of goods by the trademark owners," the issue of trademark licensor liability for a defective product is of vital importance to the commercial marketplace.[6] It was inevitable that the popularity and continued growth of trademark licensing would present a question for judicial determination.[7] "The marketplace is the common denominator of franchising as a fact and strict tort liability as a law, and the two were bound to join in issue for resolution by the court."[8]

This casenote will specifically inquire into the degree to which trademark licensors should be held liable for licensing a product that has been manufactured by a third party and is defective upon reaching the consumer. The current law regarding this question has failed to develop uniformly across state jurisdictions. Some courts suggest that a trademark licensor simply has a responsibility to the consumer if a licensed product, manufactured by a third party, merely bears its name.[9] Alternatively, other courts base the liability of a trademark licensor on its corresponding role in the advertising, manufacture, design and distribution of the licensed product.[10] The following discussion will analyze these theories and discuss the proper role of a trademark owner or licensor in the licensing of its trademark on a product manufactured by a third party.

This note will first review the development and general function of trademarks. Accordingly, the note will address the historical development of trademark licensor liability for defective products. It will then discuss the

3. Trademark licensing is defined in this article as a contractual agreement whereby the owner of a trademark licenses its mark to another party, usually, but not necessarily, for an agreed price. This arrangement permits the trademark licensee to place the trademark on its products. *See id.* at 672 n.1.

4. Arthur Schwartz, *The Foreign Trademark Owner Living with American Products Liability Law*, 12 N.C. J. INT'L L. & COM. REG. 375 (1987).

5. *Id*.

6. City of Hartford v. Associated Constr. Co., 384 A.2d 390, 393 (Conn. Super. Ct. 1978).

7. *Id*.

8. *Id*.

9. Dudley Sports Co. v. Schmitt, 279 N.E.2d 266, 273 (Ind. Ct. App. 1972).

10. Kennedy v. Guess, Inc., 806 N.E.2d 776, 786 (Ind. 2004).

aforementioned theories of trademark licensor liability. Next, it will focus on the Indiana Supreme Court's recent decision in *Kennedy v. Guess*,[11] its corresponding implications. Finally, the note will provide criticisms and reinforcing commentary regarding the *Kennedy* court's decision and possible solutions for bringing consistency to the area of trademark licensing and products liability.

II. BACKGROUND

A. Definition and function of a trademark

The term "trademark" generally refers to "any word, name, symbol or device, or any combination thereof . . . to identify and distinguish his or her goods. . .from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown."[12] Trademarks are used for four general purposes: to identify a particular seller's goods and distinguish them from goods sold by other sellers; to represent that all goods bearing the trademark are controlled by a single source; to represent that all goods bearing the trademark are of equal quality; and as a marketing device.[13] Furthermore, a trademark also allows buyers to easily identify and purchase the products that previously satisfied their needs.[14]

Moreover, trademark owners may use their trademarks for distinct objectives. In one instance, a trademark may be used to indicate that the trademark owner is the actual manufacturer and seller of the product.[15] On the other hand, it is also common for a trademark owner to license the use of his or her trademark for placement on goods manufactured by a third party.[16] The Coca-Cola Company is a classic example of licensing a trademark for use on goods produced by a third party.[17] Coca-Cola has even moved beyond licensing solely to bottling companies to profiting by licensing its trademark for use on items such as clothing, hats, and beach towels manufactured by independent companies.[18]

11. *Id*. at 776.
12. 15 U.S.C. § 1127 (2000).
13. J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 3:2 (4th ed. 1996).
14. *Id*.
15. Arthur Schwartz, *The Foreign Trademark Owner Living with American Products Liability Law*, 12 N.C. J. INT'L L. & COM. REG. 375 (1987).
16. *Id*.
17. Alfred M. Marks, *Trademark Licensing Towards a More Flexible Standard*, 78 TRADEMARK REP. 641, 648 (1988).
18. *Id*.

B. Licensing of Trademarks

Historically, the common law did not favor the practice of licensing trademarks for use on products manufactured by an entity other than the trademark owner.[19] Initially, because a trademark was perceived only as a physical source indicator of goods, trademark owners were not allowed to license their marks to others.[20] Licensing trademarks was deemed an illegal practice primarily because it deceived consumers as to the true source of the goods.[21] Nevertheless, this theory of trademarks became incompatible with the surge of mass production in the early 1900s, which corresponded with the onset of the Industrial Revolution.[22] It was apparent that a system allowing for the licensing of trademarks would be advantageous to industry, because businesses could license an established trademark for the design of a product and then outsource the manufacturing of that product to another company.[23] Such an arrangement would also allow a business to expand its product offerings and provide additional work for independent manufacturers.[24]

The courts responded to these industrial developments by formulating a more expansive theory of trademarks that shifted the perspective of trademarks from a "source indicator" to a guarantee of satisfaction.[25] This "guarantee theory" was widely embraced and refined into the "quality assurance theory;" thus, a trademark indicated that "similarly marked goods" were "of a consistent level of quality."[26] These judicial formulations became actual rules when Congress passed the Lanham Trademark Act in 1946.[27]

In analyzing the objectives of the Lanham Trademark Act, the court in *Shell Oil Co. v. Commercial Petroleum, Inc.* held that, "[o]ne of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark."[28] The court determined that "[f]or this purpose the actual quality of the goods is irrelevant; it is the control of quality that a trademark holder is entitled to maintain."[29] Furthermore, "the right to control the quality of the

19. MCCARTHY, *supra* note 13, at § 3:8.

20. *Id*. at § 18:39.

21. *Id*.

22. Kevin Parks, *"Naked" Is Not a Four-letter Word: Debunking the Myth of the "Quality Control Requirement" in Trademark Licensing*, 82 TRADEMARK REP. 531, 533 (1992).

23. *Id*.

24. *Id*.

25. *Id*. at 532-34.

26. MCCARTHY, *supra* note 13, at § 3:10.

27. 15 U.S.C. § 1051-1127 (2000); K Mart Corp. v. Cartier, Inc., 486 U.S. 281 (1988).

28. Shell Oil Co. v. Commercial Petroleum, Inc., 733 F. Supp. 40, 44 (N.C. W.D. 1989) (quoting El Greco Leather Prods. Co. v. Shoe World, 80 F.2d 392, 395 (2nd Cir. 1986)).

29. *Id*.

goods sold under the holder's trademark becomes more important each day as the field of products liability increases."[30]

Thus, the Lanham Trademark Act states that a trademark will be considered abandoned when the licensor neglects to maintain sufficient control.[31] This provision, however, is difficult to apply because the Act does not specify the necessary degree of control that the licensor must exercise in order to retain ownership of the licensed trademark.[32] Therefore, the courts are forced to make these determinations on a case-by-case basis and by applying varying state provisions. Such discretionary and subjective judgments preclude the development of a governing uniform standard and set the stage for a variety of decisions. As a result, state courts maintain various perspectives of when licensors should or should not be held liable for injury caused by a defective product. Numerous courts have recognized theories of strict liability by way of the apparent manufacturer doctrine.[33] Other courts have used theories of negligence to properly appropriate liability among trademark licensors.[34] Still, other courts impart liability on licensors based on a stream of commerce theory.[35] The following section will discuss a variety of perspectives regarding trademark licensor liability.

C. Theories of Liability

1. The Stream of Commerce Theory[36]

Some courts have held that a trademark licensor should be held strictly liable as a seller or manufacturer when the licensor has helped to place the

30. *Id*.

31. 15 U.S.C. § 1127 (2000).

32. *Id*. The courts accordingly categorize trademark licensing into controlled licensing and naked licensing. City of Hartford v. Associated Constr. Co., 384 A.2d 390, 395 (Conn. Super. Ct. 1978). Controlled licensing is not considered an abandonment of the owner's trademark. On the other hand, naked licensing, or licensing without licensor supervision may be considered an abandonment of the trademark. The courts draw this distinction to minimize the risk that the public will be deceived. Additionally, the "purpose of the law is effectuated when the licensor exercises supervision and control over the operations of the licensees." *Id*.

33. *See* Dudley Sports Co. v. Schmitt, 279 N.E.2d 266, 273 (Ind. Ct. App. 1972); Stones v. Sears, Roebuck & Co., 558 N.W.2d 540, 544 (Neb. 1997); Brandimarti v. Caterpillar Tractor Co., 527 A.2d 134, 139 (Pa. Super Ct. 1987).

34. *See* E.I. du Pont de Nemours & Co. v. McCain, 414 F.2d 369, 373 (5th Cir. 1969).

35. *See* Kosters v. Seven-Up Co., 595 F.2d 347 (6th Cir. 1979); City of Hartford v. Associated Constr. Co., 384 A.2d 390, 397 (Conn. Super. Ct. 1978).

36. It is important to note that in Indiana, the stream of commerce theory of liability, as described in this section, is similar, if not the same as, the theory in the following section of the Restatement (Second) of Torts § 400. *Dudley Sports Co*., 279 N.E.2d at 273. For the purposes of this casenote, the theories are separated since case law from other state jurisdictions distinguishes the two theories.

product in the stream of commerce. In considering the rationale of strict tort liability being imputed upon trademark licensors, one court ascribed to the theory that,

> [T]here is no reason why the strict tort liability analysis could not be expanded to include the licensor of a trademark. As an important factor in supplying goods, the trademark owner is engaged in an activity in which experience dictates that some injuries can be anticipated. If he were himself producing the product, it is likely that the strict tort analysis would be applicable. It seems not to be in the public interest to allow one to escape this responsibility through the simple maneuver of entering a licensing agreement.[37]

In *Hartford v. Associated Construction Co.*, the plaintiff brought an action against multiple defendants after suffering property damage related to the use of defendants' defective roof insulation.[38] In *Hartford*, the owner of the registered trademark for all-weather roofing insulation licensed its mark to several entities for distribution throughout the United States and Canada.[39] The roofing insulation failed to prevent moisture from entering the roof, and cracks developed, causing the roof to leak.[40] The product not only proved to be defective and unsafe, but also caused the plaintiff to suffer damage to his property.[41]

The *Hartford* court determined that the trademark licensor had "formulated, designed, advertised, manufactured, distributed and sufficiently controlled . . . and issued specifications and instructions for its trademark product."[42] Additionally, the licensor received financial compensation for the licensing of the product.[43] Even more, the court found that the licensor had retained sufficient control over the nature and quality of the product.[44] With

37. *City of Hartford*, 384 A.2d at 397 (citing Note, *Tort Liability of Trademark Licensors*, 55 IOWA L. REV. 693 (1970)). The "strict tort analysis" mentioned in this section refers to the Restatement (Second) of Torts § 402A where the law of strict tort liability has been codified. RESTATEMENT (SECOND) OF TORTS, § 402A (1965). § 402A, entitled Special Liability of Seller of a Product for Physical Harm to the User or Consumer, provides that: "(1) One who sells any product in a defective condition unreasonably dangerous to the user or consumer or to his property is subject to liability for physical harm thereby caused to the ultimate user or consumer, or to his property, if (a) the seller is engaged in the business of selling such a product, and (b) it is expected to and does reach the user or consumer without substantial change in the condition in which it is sold. (2) The rule stated in Subsection (1) applies although (a) the seller has exercised all possible care in the preparation and sale of his product, and (b) the user or consumer has not bought the product from or entered into any contractual relation with the seller." *Id*.

38. *City of Hartford*, 384 A.2d at 392.

39. *Id.*

40. *Id*.

41. *Id*.

42. *Id*.

43. *Id.*

44. *City of Hartford,* 384 A.2d at 392.

these considerations, the court held the licensor strictly liable for damages caused by the defective product.[45] The court summarized its decision, noting that, if a trademark licensor is a "link in the marketing enterprise, which placed a defective product within the stream of commerce," strict liability in tort should then apply to the trademark licensor.[46]

In *Kosters v. Seven-Up Co.*, the court also recognized that the doctrine of strict liability applied to non-sellers or manufacturers such as franchisors if they were involved in placing the product in the stream of commerce.[47] The court provided guidelines to determine whether a non-seller should be held strictly liable by considering: (1) the risk created by approving the distribution of an unsafe product, (2) ability and opportunity to eliminate the unsafe character of the product, (3) the consumer's lack of knowledge of the danger, and (4) the consumer's reliance on the trade name which suggests that the franchisor guarantees the product.[48]

In *Kosters*, the plaintiff consumer removed a six-pack of Seven-Up bottles from a grocery shelf.[49] On her way to the store cash register, a bottle slipped out of the carton and exploded when it fell to the floor.[50] Plaintiff was blinded in one eye by a shattered fragment of glass.[51] The defective carton was actually designed and manufactured by a company separate from Seven-Up, which then sold it to a Seven-Up franchisee.[52] The agreement between Seven-Up and its franchisee stipulated that cases, bottles and crowns used for Seven-Up must be approved by the Seven-Up Company.[53]

The *Kosters* court thus had to determine if strict liability for breach of implied warranty extended to a franchisor that retained the right of control over the product and consented to its distribution, but did not actually manufacture or sell the product.[54] Here, the licensor exercised control over the "type, style, and design" of the carton.[55] The court reasoned that, because Seven-Up managed and controlled the system of distribution and further consented to use the specified type of carton in question, it should be in the position of a supplier of the product for purposes of tort liability.[56]

45. *Id*. at 397.

46. *Id*.

47. David J. Franklyn, *Toward a Coherent Theory of Strict Tort Liability for Trademark Licensors*, 72 S. CAL. L. REV. 1, 29 (1998).

48. *Id*. at 29-30.

49. Kosters v. Seven-Up Co., 595 F.2d 347, 349-50 (6th Cir. 1979).

50. *Id*. at 350.

51. *Id*.

52. *Id*.

53. *Id*.

54. *Id*. at 352.

55. Kosters, 595 F.2d at 352-53.

56. Franklyn, *supra* note 47, at 29-30.

Alternatively, other courts have refused to hold trademark licensors strictly liable if they are not sufficiently involved with the product to be considered to have placed it in the stream of commerce. For instance, in *Burkert v. Petrol Plus of Naugatuck, Inc.*, the court specifically found that a licensor could not be held liable for injuries resulting from a defective product licensed in its name when the licensor's role in the product's development was very limited.[57] In this instance, the licensor did not test the transmission fluid to see if it satisfied company specifications, and the chemical formulas of the fluid bearing the trademark varied among each licensee.[58] Additionally, the licensor did not receive financial compensation in exchange for the licensing of its trademark; rather, the company licensed the product to ensure that an adequate supply of the product was available.[59] The *Burkert* court held that the licensor's limited involvement in the manufacturing and distribution of the product precluded its characterization as a "seller" subject to liability within the context of liability of trademark licensors.[60]

In other instances, courts have held that the act of licensing in and of itself is sufficient to hold a trademark licensor strictly liable for injuries sustained from a defective product.[61] In *Connelly v. Uniroyal, Inc.*, plaintiff brought suit for personal injuries sustained while driving an automobile with defective tires bearing the licensor's trademark.[62] The *Connelly* court determined that "[a] licensor is an integral part of the marketing enterprise, and its participation in the profits reaped by placing a defective product in the stream of commerce presents the same public policy reasons for the applicability of strict liability which supported the imposition of such liability on wholesalers, retailers and lessors."[63]

Thus, the *Connelly* court concluded that licensor participation in the distribution of the licensed product is not a necessary element for the application of strict liability.[64] The court recognized that the purpose of strict liability is to place liability on the entities that created the risk or reaped the profits by placing a product in the stream of commerce regardless of the negligence of the manufacturer.[65] Because the court lends importance to

57. Burkert v. Petrol Plus of Naugatuck, Inc., 579 A.2d 26 (Conn. 1990).

58. *Id*. at 29.

59. *Id*.

60. *Id.* at 31. A product seller is defined under the Connecticut Product Liability Act as "any person or entity, including a manufacturer, wholesaler, distributor, or retailer who is engaged in the business of selling such products whether the sale is for resale or use or consumption." CONN. GEN. STAT. ANN. § 52-572(m) (1991).

61. Connelly v. Uniroyal, Inc., 389 N.E.2d 155 (Ill. 1979).

62. *Id*. at 157.

63. *Id*. at 163.

64. *Id*. 162-63.

65. *Id*. at 163.

consumers' beliefs based on the presence of a trademark, it is wholly irrelevant that the defendant may not have participated in the chain of distribution.[66]

2. The Restatement (Second) of Torts § 400 and the Apparent Manufacturer Doctrine[67]

In a variation of the strict liability doctrine, other courts have used the theory under § 400 of the Restatement (Second) of Torts, which states that a licensor of a trademark should be held liable when the licensor "put out" the licensee's product as his own.[68] In *Brandimarti v. Caterpillar Tractor Co.*, the plaintiff was injured when a forklift overturned that bore the licensor's trademark.[69] Here, the court reasoned that, even though the licensor did not participate in the manufacturing or distribution of the forklift, the licensor conspicuously displayed its trademark on the product.[70] The court determined that it was appropriate to extend § 400 liability to a trademark owner who "held out" a product manufactured by the subsidiary as its own for the following reasons: (a) the trademark is equivalent to an assurance to the user of the product quality, and (b) reliance by the user that the trademark licensor has required the product to satisfy its specifications.[71] Thus, the *Brandimarti* court broadly interpreted the apparent manufacturer doctrine because it did not require a showing of actual reliance by the plaintiff.[72]

66. *Connelly*, 389 N.E.2d at 163.

67. Although most courts simply refer to the theory under § 400 as holding licensors liable for "holding out" to the consumer as if they had manufactured the product, the *Kennedy* court appropriately refers to it as the "apparent manufacturer doctrine." Kennedy v. Guess, Inc., 806 N.E.2d 776, 784 (Ind. 2004). Therefore, when discussing strict liability under § 400 throughout this casenote, the author will refer to § 400 and the apparent manufacturer as one in the same. The general idea from both of the theories is that, when a consumer expects that the licensor is the manufacturer or controlled the production of the product, the licensor should be held liable based on this appearance. *See Id.;* RESTATEMENT (SECOND) OF TORTS § 400 (1965).

68. RESTATEMENT (SECOND) OF TORTS § 400. 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. Comment (d) indicates that generally an actor puts out a product as his own in two situations. The first situation occurs when the actor seems to be the actual manufacturer of the product. The second situation occurs when the product appears to have been manufactured particularly for the actor. Thus, in the first occurrence, the actor "frequently causes the chattel to be used in reliance upon his care in making it; in the second, he frequently causes the chattel to be used in reliance upon a belief that he has required it to be made properly for him and that the actor's reputation is an assurance to the user of the quality of the product." On the contrary, when it is readily apparent that the actor's sole association with the product is that of a distributor of it, the rule will not apply since he is not considered to be holding it out as his own. *Id.*

69. 527 A.2d 134, 135 (Pa. Super. Ct. 1987).

70. *Id*. at 139-40.

71. *Id*.

72. Franklyn, *supra* note 2, at 694.

Additionally, in *Dudley Sports Co. v. Schmitt*, the plaintiff suffered extensive facial injuries when a baseball pitching machine spontaneously hit the plaintiff in the face with its throwing arm.[73] Dudley Sports' label was the only name affixed to the machine even though it was actually manufactured by another company.[74] Dudley had an agreement with that company to be the exclusive distributor of the machine; however, neither the label on the machine nor Dudley's advertising gave consumers notice of this agreement.[75]

The court held defendant Dudley liable for negligence citing the authority under § 400 Restatement (Second) Torts.[76] The court concluded that the imposition of liability was straightforward.[77] The plaintiff was induced to believe that defendant had manufactured the product because its name was exclusively on the product.[78] Moreover, the court stated that "[w]hen products are held out in this manner, the ultimate purchaser has no available means of ascertaining who the true manufacturer is. By this act of concealment, the vendor vouches for the product and assumes the manufacturer's responsibility as his own."[79]

Reaching a contrary conclusion to the *Dudley Sports* court, the court in *Burkert v. Petrol Plus of Naugatuck, Inc.*, where the plaintiff was damaged by defective transmission fluid, held that the licensor could not be held strictly liable under § 400 Restatement (Second) of Torts as an "apparent manufacturer" without playing a more significant role in the production, distribution or marketing of the product.[80] In reaching the decision that the licensor of the trademark did not "put out" the transmission fluid as its own, the court specifically looked at the fact that the licensor was not involved in the sale, lease, or loan of the transmission fluid.[81]

Some courts have chosen to impart liability on licensors under theories of negligence according to their involvement with a defective product. In *E.I. du Pont de Neumours & Co. v. McCain*, plaintiff brought a products liability action against the licensor after he suffered severe bodily injuries and his parents' home was destroyed in conjunction with his use of defendant licensor's water repellant compound.[82] Plaintiff was applying the compound

73. Dudley Sports Co. v. Schmitt, 279 N.E.2d 266, 272 (Ind. Ct. App. 1972).

74. *Id*. at 271.

75. *Id*.

76. *Id*. at 273.

77. *Id*.

78. *Id.*

79. *Dudley Sports Co.*, 279 N.E.2d at 273.

80. 579 A.2d 26, 33 (Conn. 1990)

81. *Id*.

82. 414 F.2d 369, 371 (5th Cir. 1969). The licensor gave technical advice and advice regarding the proper use of the defective compound. Although the licensor conducted tests on the compound, they were not properly directed towards factors such as safety and flammability. The licensor was also aware that the compound would eventually be sold to the general public. *Id.*

in the basement of his parents' home when the defective product triggered an explosion.[83] A separate company manufactured the product, but defendant duPont agreed to allow the manufacturer to use one of its patented chemicals in the formula.[84] Defendant duPont permitted the use of its trademark on the compound labels to promote sales of the compound.[85] The court held that, because the licensor was involved in the production of the product, failed to properly test it, and deceptively labeled the product to induce consumers into believing that the licensor controlled the quality of the product, the injury was a foreseeable consequence.[86] Therefore, the licensor should be held liable for negligence.[87]

Other courts have determined that the licensor should not automatically be held liable for a negligent failure to exercise control over a product bearing its trademark. In *Burkert v. Petrol Plus of Naugatuck, Inc.*, the court recognized that the Lanham Trademark Act required the licensor to exercise control over the licensed product to maintain ownership of its mark.[88] The court explained that the consequence of a trademark owner's failure to exercise proper control over its licensees already affects the potential loss of the rights associated with the trademark.[89] Thus, the court reasoned that it did not follow that a trademark owner's failure to exercise control should also subject the owner to affirmative liability for negligence for damages caused by a defective product bearing its trademark.[90]

III. INDIANA SUPREME COURT'S ANALYSIS OF *KENNEDY V. GUESS*

A. Facts

The Indiana Supreme Court was presented with a matter of first impression when it was petitioned to hear the case of *Kennedy v. Guess, Inc*.[91] In *Kennedy*, one plaintiff, Mrs. Kennedy, purchased a "Guess" watch for her husband in a department store on November 22, 1996.[92] An umbrella bearing the "Guess" logo was included as a free gift with the purchase of the watch.[93] On May 22, 1998, the other plaintiff, Mr. Kennedy, brought the umbrella to

83. *Id*.
84. *Id*.
85. *Id*.
86. *Id*. at 373-74.
87. *E.I. du Pont de Nemours & Co*., 414 F.2d at 373-74.
88. 579 A.2d 26, 32 (Conn. 1990)
89. *Id*.
90. *Id*.
91. 806 N.E.2d 776, 778 (Ind. 2004).
92. *Id*. at 779.
93. *Id*.

work with him.[94] When a co-worker began swinging the umbrella from its handle, the shaft separated from the handle and struck the plaintiff, causing injuries to his nose and sinus.[95]

The court identified the important parties involved in the case in order to fully understand the nature of plaintiffs' claims. Interasia Bag is a corporation in Hong Kong that actually manufactured the defective umbrella at issue.[96] Callanen is a Connecticut corporation licensed by Guess to market their products, including the umbrella and watch.[97] The plaintiffs' complaint sought damages against Guess, Callanen, and Interasia, asserting claims of negligence and strict liability.[98] Kennedy attempted service on Interasia Bag but failed to locate its place of business.[99] The trial court granted summary judgment for Guess and Callanen on both issues of negligence and strict liability, but the Court of Appeals reversed these decisions for both defendants on both issues.[100] The Supreme Court of Indiana granted transfer of the case to review plaintiffs' claims of strict liability and negligence against Guess and Callanen.[101] The Indiana Supreme Court affirmed in part and reversed in part, vacating the Court of Appeals' decision.[102]

B. The Court Finds That Summary Judgment for Guess Was Proper While Summary Judgment for Callanen Was Improper on the Issue of Strict Liability Based on the Domestic Distributor Exception

The claims brought by plaintiffs in *Kennedy* are governed by Indiana's Product Liability Act (hereinafter "the Code") and by Indiana common law.[103] The Code specifically asserts:

> A person who sells, leases, or otherwise puts into the stream of commerce any product in a defective condition unreasonably dangerous to any user or consumer or to the user's or consumer's property is subject to liability for physical harm caused by that product to the user or consumer or to the user's or consumer's property if: (1) that user or consumer is in the class of persons

94. *Id*.
95. *Id*.
96. *Id*.
97. *Kennedy*, 806 N.E.2d at 779.
98. *Id*.
99. *Id*.
100. *Id*.
101. *Id*..
102. *Id*. at 786-87.
103. *Kennedy*, 806 N.E.2d at 779. Note that numerous defendants were named in the matter of *Kennedy v. Guess*. *Id*. For the purposes of this casenote, we will be focusing the analysis on Guess as the primary defendant. Guess was the only entity that licensed its trademark for the defective product in question, and this note is concerned primarily with trademark licensor liability for a defective product. *See* Koske v. Townshend Eng'g Co., 551 N.E.2d 437, 443 (Ind. 1990); *see also* Kennedy v. Guess, 765 N.E.2d 213, 220 (Ind. App. 2002).

> that the seller should reasonably foresee as being subject to the harm caused by the defective condition; (2) the seller is engaged in the business of selling the product; and (3) the product is expected to and does reach the user or consumer without substantial alteration in the condition in which the product is sold by the person sought to be held liable under this article.[104]

Furthermore, the Code stipulates that actions for strict liability in tort may be commenced only against a seller who is a "manufacturer" of the product that is allegedly defective.[105]

Defendant Guess argued that it was not a "principal distributor or seller" under the Code, but plaintiffs insisted that a provision in the Code imposed liability on certain parties "as though they were manufacturers."[106] The court refers to this provision as the "domestic distributor" exception.[107] The provision specifically states:

> If a court is unable to hold jurisdiction over a particular manufacturer of a product or part of a product alleged to be defective, then that manufacturer's principal distributor or seller over whom a court may hold jurisdiction shall be considered, for the purposes of this chapter, the manufacturer of the product.[108]

The court determined that the Code would impose liability upon Guess if plaintiffs could successfully prove the existence of two conditions.[109] First, it must be determined that the court is incapable of exercising jurisdiction over the actual manufacturer, Interasia Bag.[110] Secondly, the plaintiffs must be capable of showing that Guess was Interasia Bag's principal distributor or seller.[111]

In considering the first condition, Guess argued that the court's inability to exercise jurisdiction over Interasia Bag was a product of a "less than diligent" effort by the plaintiffs to serve the foreign corporation because they did not investigate the possibility that Interasia Bag had relocated since the manufacture of the umbrellas.[112] However, the court refused to recognize that the mere possibility of another address for service was enough to rebut the inference that service on Interasia Bag was unobtainable.[113] Because Guess was the movant on the summary judgment motion, it needed additional evidence to substantiate its claim that there was a second address that was a

104. IND. CODE § 34-20-2-1 (1999); *Kennedy*, 806 N.E.2d at 780.
105. *Kennedy*, 806 N.E.2d at 780.
106. IND. CODE § 34-20-2-4 (1999); *Kennedy*, 806 N.E.2d at 780-81.
107. *Kennedy*, 806 N.E.2d at 781.
108. IND. CODE § 34-20-2-4 (1999); *Kennedy*, 806 N.E.2d at 781.
109. *Kennedy*, 806 N.E.2d at 781.
110. *Id*.
111. *Id*.
112. *Id*.
113. *Id*. at 782.

"viable means to serve process" on Interasia Bag.[114] Therefore, the court concluded that summary judgment for Guess on this point was improper.[115]

In considering the second condition, the court had to determine if Guess could be considered a "principal distributor or seller" under the Code.[116] The Code defines a "seller" as "a person engaged in the business of selling or leasing a product for resale, use or consumption" but neglects to define "principal" or "distributor."[117] The court determined the legislative intent of the Code was to "provide a remedy for Indiana consumers who are injured by defective products manufactured by an overseas entity over which Indiana courts have no jurisdiction."[118] Nevertheless, the court noted that this objective did not require the imposition of liability upon on all distributors.[119]

The court held that no genuine issue of material fact existed as to whether Guess was a principal distributor, because it never ordered or received any of the umbrellas.[120] Additionally, Guess never possessed any of the umbrellas nor participated in their manufacture, supply, distribution, assembly, design or sales.[121] Guess was involved with the defective product only to the extent that it licensed its trademark to Callanen for placement on certain products, thus, summary judgment on this issue in favor of defendant Guess was proper, but summary judgment for distributor Callanen was not proper.[122]

C. *The Court Determines that a Genuine Issue of Material Fact Exists as to Whether Guess Is Liable in Negligence for the Defective Product Bearing Its Trademark, but Summary Judgment for Callanen was Appropriate on this Issue*

The court used § 400 Restatement (Second) Torts to analyze defendant's alleged breach of duty in plaintiffs' negligence claim against Guess.[123] Similar

114. *Id*.

115. *Kennedy*, 806 N.E.2d. at 781.

116. *Id*. at 782.

117. *Id*. (citing IND. CODE §34-6-2-136). The court cited BLACK'S LAW DICTIONARY as a reference in determining the meaning of "principal" and "distributor." *Kennedy*, 806 N.E.2d at 782. Black's defines "principal" as "chief; leading; most important or considerable; primary; original." BLACK'S LAW DICTIONARY 1210 (7th ed. 1999). It defines "distributor" as "any individual, partnership, corporation, association, or other legal relationship which stands between the manufacturer and the retail seller in purchases, consignments, or contracts for sale of consumer goods; a wholesaler." BLACK'S LAW DICTIONARY 475-76 (6th ed. 1990).

118. *Kennedy*, 806 N.E.2d at 782.

119. *Id*.

120. *Id*. at 783.

121. *Id*.

122. *Id*.

123. *Kennedy*, 806 N.E.2d at 783 (noting that in order to prevail in a negligence action, the plaintiff must verify the existence of three conditions: (1) duty, (2) breach, and (3) injury resulting

to the prior discussion by the court in *Brandimarti*, the *Kennedy* court, relying on this section of the Restatement, acknowledged that, "[o]ne who puts out as his own product a chattel manufactured by another is subject to the same liability as though he were its manufacturer; this concept is commonly referred to as the 'apparent manufacturer' doctrine."[124] The court recognized that when a seller places its name on a particular product, the public makes the assumption that the seller manufactured that product.[125] Because the buyers generally do not have an opportunity to discover the identity of the actual manufacturer, the seller may assume responsibility for defective manufacture.[126]

In analyzing the liability of Guess as an "apparent manufacturer," the court acknowledged those jurisdictions recognizing that the "apparent manufacturer" doctrine may hold trademark licensors liable "without any additional involvement in the stream of commerce."[127] Notwithstanding these decisions, the *Kennedy* court followed the majority of jurisdictions and decided that a trademark licensor should be held liable only if it was involved in putting the product into the stream of commerce in a manner that warranted the imposition of liability.[128]

The court discussed factors to consider when determining whether a trademark licensor is sufficiently involved to be deemed an "apparent manufacturer," including: "a licensor's right of control over the product design, the fees received for the use of the trademark, the prominence of the trademark, supply of components, participation in advertisement, and the degree of economic benefit to be gained from the licensing agreement."[129] In evaluating the aforementioned factors, the court concluded that a genuine issue of material fact existed as to whether Guess could be held liable under the "apparent manufacturer" doctrine.[130] The court concluded that granting summary judgment for Guess on this issue was improper and the task of assigning comparative fault should be a function of the jury.[131]

The court reasoned that, because the Lanham Trademark Act imposes a duty upon a trademark licensor to discourage deceptive uses of its mark, a licensor is apt to assume a role in the development of products bearing its

from that breach. The *Kennedy* court focused solely on the issue of duty in its analysis); *see also* RESTATEMENT (SECOND) OF TORTS § 400 (1965).

124. *Kennedy*, 806 N.E.2d at 784 (quoting RESTATEMENT (SECOND) OF TORTS § 400 (1965)).
125. *Id.*
126. *Id*.
127. *Id*. at 785.
128. *Id*. at 786.
129. *Id*. at 785.
130. *Kennedy*, 806 N.E.2d at 786-87.
131. *Id.*

trademark to avoid losing the right of ownership of it.[132] The court suggested that a products liability system that imposes liability equivalent to that of the manufacturer whenever it is supervised by the licensor, "encourages the licensor to play as minor a role as possible in overseeing the design and manufacturing of products bearing its mark."[133] The *Kennedy* court concluded that it is best to hold trademark licensors liable relative to their role in the development of the product including design, marketing, manufacture, and distribution.[134]

Furthermore, the court asserted that the consumers, as a consequence of modern commerce, should understand that products bearing a trademark of one company may, in fact, be manufactured by another company.[135] Thus, the *Kennedy* court did not agree that licensor supervision should automatically trigger licensor liability identical to that of the manufacturer.[136] Instead, the *Kennedy* court suggested that the court should look at the actual role that the licensors assume for the product development and accordingly apportion the corresponding liability.[137]

IV. AUTHOR'S ANALYSIS OF *KENNEDY V. GUESS*

A. Indiana Common Law Negligence Provides a Remedy for Consumers, But Its Liability Scheme Is Perplexing

The Indiana Products Liability Code does not reach trademark licensors under the domestic distributor exception, but this does not necessarily leave consumers without a remedy. Common law negligence claims can be applied to trademark licensors as "apparent manufacturers." The *Kennedy* court noted that some jurisdictions impose liability on trademark licensors even when they are not additionally involved in the stream of commerce as in the case of *Connelly v. Uniroyal Inc*.[138] However, the *Kennedy* court noted, in the majority of cases, the trademark licensors are held liable in negligence (under the Second Restatement of Torts §400) only when the trademark licensor has had a significant role in the chain of distribution such as in *Burkert v. Petrol Plus of Naugatuck, Inc*.[139]

Additionally, the *Kennedy* court acknowledged that, because the Lanham Trademark Act imposes a duty upon trademark licensors, they are inclined to

132. *Id*.; *see also* 15 U.S.C. §§1052, 1064, 1115, 1127 (1976).
133. *Kennedy*, 806 N.E.2d at 786.
134. *Id*.
135. *Id*.
136. *Id*.
137. *Id*.
138. *Id*. at 785 (citing Connelly v. Uniroyal, Inc., 389 N.E.2d 155, 163 (Ill. 1979)).
139. *Kennedy*, 806 N.E.2d at 785 (citing Burkert v. Petrol Plus of Naugatuk, Inc., 579 A.2d 26, 33-34 (Conn. 1990)).

take an interested role in the development of the products bearing their mark based upon the risk of losing their right of ownership in the mark.[140] Furthermore, the court concluded that, "[a] common law product liability system that, when it encounters muscular supervision by a licensor, imposes liability identical to that of the manufacturer, however, pushes the trademark holder in the opposite direction."[141] As a result, the licensor would accordingly try to limit its involvement in overseeing the design and manufacture of products bearing its trademark.[142] The court stated that such an outcome would be adverse to consumers' interests.[143]

The court observed that such conceptualizations create a "regime in which liability is binary (either the same as the manufacturer or altogether non-existent) based on commercial activity that is anything but."[144] The *Kennedy* court's discomfort with "binary liability" is somewhat difficult to understand. This type of liability is commonly used in tort law, especially under the doctrine of joint and several liability.[145]

The *Kennedy* court determined that it would send the issue of comparative fault to the jury so that it may apportion the liability.[146] Depending on how the apportionment scheme is implemented, the plaintiff might lose part or all of his or her damages if the majority or the entire fault is attributed to a bankrupt entity or an entity beyond the presiding court's jurisdiction. Other apportionment schemes actually protect the plaintiff from such losses and may be little more than a way of accommodating contribution among those defendants found liable. It is unclear whether the *Kennedy* court, in determining that the comparative fault should be determined by the jury, was attempting to apply Indiana law on apportionment of fault or the traditional doctrine of joint and several liability.

The *Kennedy* court suggested that the Indiana common law should impose liability upon trademark licensors for defective products bearing their trademarks based upon the licensors' "relative role in the larger scheme of design, advertising, manufacturing, and distribution."[147] The *Kennedy* court remarked that mere "advertising" of the licensed product was sufficient enough to constitute "involvement" with the product which was arguably an

140. *Id.* at 786.

141. *Id*.

142. *Id*.

143. *Id*.

144. *Id*.

145. The Third Restatement of Torts notes that, "[i]f the independent tortious conduct of two or more persons is a legal cause of an indivisible injury, the law of the applicable jurisdiction determines whether those persons are jointly and severally liable, severally liable, or liable under some hybrid of joint and several liability." RESTATEMENT (THIRD) OF TORTS § 17 (2000).

146. *Kennedy*, 806 N.E.2d at 786.

147. *Id*.

unavoidable consequence of trademark licensing. The *Kennedy* court's apportionment scheme may be somewhat unworkable, but the argument can be made that a requirement of jury apportionment prevents the licensor from obtaining summary judgment. Such a situation would be beneficial for an injured consumer because the corporate defendant will likely appreciate the merits of a settlement.

Thus, the argument can be made that, in this perspective, the Indiana Supreme Court is effectively protecting the consumer by creating potential liability for licensors and devising incentives for companies to reach a settlement. In a sense, however, the consumer has already lost by the time he or she reaches the point of determining liability because he or she would have had a lesser chance of being involved in a lawsuit if the licensor would have exercised a proper level of control over the manufacture of the product in the first place.

In addition, the *Kennedy* court failed to recognize that basing trademark licensor liability upon the licensor's involvement in the scheme of designing, manufacturing, and distributing the product will likely have the same effect as imposing liability equally upon a manufacturer and a licensor that are heavily involved in the development of a product. In both instances, the licensor will be discouraged from participating in any kind of product development from the initial design to the actual distribution. Thus, the system of trademark licensor liability should avoid imposing liability based solely upon the licensor's involvement with the product during its development while meeting the policy objectives of standardized quality resulting from licensor control.

Such policy objectives behind holding trademark licensors liable will likely fail under the current Indiana law. The law as it stands seems to encourage the application of two discordant theories. In one instance, the Lanham Trademark Act, the national voice regarding trademark licensing, encourages control by the licensor by threatening loss of ownership in the mark.[148] On the other hand, Indiana's Products Liability Code warns that too much control by the licensor warrants the imposition of liability. It is apparent that the Lanham Trademark Act is more concerned with control as it concerns intellectual property rights in the mark versus the trademark licensor's liability in negligence as an "apparent manufacturer." It is also true that supervising a trademark for Lanham Trademark Act purposes might not be enough to consider the licensor to be an apparent manufacturer. Additionally, a situation may arise where a licensor's activities qualify it as an apparent manufacturer for tort liability purposes but may be insufficient to satisfy the Lanham Trademark Act requirements. Such an instance will likely occur where tort liability is premised on consumer expectations arising from the mere presence

148. 15 U.S.C. §§ 1051-1127 (2000).

of the mark on the product and not on any actual supervisory activity by the licensor.

B. *Comparing the Appellate Court and Supreme Court Decisions: Kennedy Fits More Appropriately into the Respective Court's Analysis in Dudley Sports than in Petrol Plus*

The Court of Appeals' opinion in *Kennedy* appears to extend *Dudley Sports*[149] in such a way to make Guess potentially liable on the negligence claim as an "apparent manufacturer."[150] The Indiana Supreme Court also cited the *Dudley Sports* decision, but distinguished it by saying that *Burkert v. Petrol Plus of Naugatuck, Inc.* was actually more similar to *Kennedy*.[151] Both the Court of Appeals and the Supreme Court in *Kennedy* cited *Petrol Plus* with approval and presented a list of factors that may constitute involvement in placing the product in the stream of commerce. Both courts noted that in jurisdictions where "additional involvement" is necessary, certain factors can help determine whether the licensor is sufficiently involved in the stream of commerce to be deemed an "apparent manufacturer."[152]

The factors that courts may examine to make such determinations are the "licensor's right of control over the product design; the fees received for the use of the trademark, the prominence of the trademark; supply of components; participation in advertisement; and the degree of economic benefit to be gained from the licensing agreement."[153] Thus, a jury could conclude in any given case that the mere fact of licensing a trademark was a sufficient contribution to placing the product in the stream of commerce to qualify the licensor as an "apparent manufacturer." This type of conclusion seems especially likely in the case of a "designer product," where the customer cares more about the name on the product than the product itself, as in the case of the Guess umbrella.

In reviewing the passages from the *Petrol Plus* opinion, it is difficult to see how *Petrol Plus* offers more support for the Indiana Supreme Court's apportionment scheme than *Dudley Sports*. It appears that the only real difference is that the *Petrol* court found that the licensor's involvement in the case was factually insufficient to make it liable. The Indiana Supreme Court explained that, like the licensor in *Petrol Plus*, Guess exercised some control over the product, but did not actually "play any role as the seller, manufacturer or distributor." The court in *Petrol Plus*; however, held that it could be enough

149. Dudley Sports Co. v. Schmidt, 279 N.E.2d 266 (Ind. Ct. App. 1972).

150. Kennedy v. Guess, 765 N.E.2d 213, 222 (Ind. App. 2002).

151. *Id*.

152. *Kennedy*, 806 N.E.2d at 785 (citing Burkert v. Petro Plus of Naugatuck, Inc., 579 A.2d 26, 33-35 (Conn. 1990)); *Kennedy*, 765 N.E.2d at 222 (citing *Burkert*, 579 A.2d at 33-35).

153. *Kennedy*, 806 N.E.2d at 785 (citing *Burkert*, 579 A.2d at 33-35).

to merely license the mark, receive fees from the use of the mark, and gain economic benefit from the licensing agreement. Thus, according to the rule of *Petrol Plus*, the fact that the licensor did not play a significant role as a seller, manufacturer, or distributor could not by itself have justified the court's ruling in favor of the trademark licensor. Moreover, the Supreme Court in *Kennedy*, unlike the court in *Petrol Plus*, did not rule in favor of the trademark licensor, but instead reversed the trial court's grant of summary judgment to the licensor on the apparent manufacturer doctrine. Therefore, the Supreme Court's decision in *Kennedy* seems to more closely resemble *Dudley Sports* than *Petrol Plus*.[154]

With regard to liability, the Court of Appeals avoids complications by applying a simple test. According to the Court of Appeals, when the vendor places its name on a product and, thus, conceals the true manufacturer of the product, the vendor "vouches for" the item and thus assumes the manufacturer's responsibility.[155] In summary, if a licensor participates in placing the product in the stream of commerce, the Court of Appeals regards the licensor as an "apparent manufacturer" and causes them to assume all the liability of the absent manufacturer.[156] On the other hand, the Indiana Supreme Court finds it necessary to apportion liability between the licensor and the absent manufacturer.[157] It appears that the Supreme Court in *Kennedy* drew a somewhat unsubstantiated distinction between a trademark licensor and a vendor, holding that the trademark licensor is liable only for its proportionate contribution. The Supreme Court in *Kennedy* appears to reject the *Dudley Sports* court's assumptions about the influence of product identification on the consumer. That court noted that a modern consumer might think that a trademark identifies the product manufacturer, but that the consumer "can well imagine that in modern commerce the products they buy may have actually been manufactured by someone else."[158]

C. Why State Courts Should Re-examine the Concept of "Quality Assurance"

The quality assurance function of a trademark promotes it as an indication to consumers that the goods bearing the trademark come from a single source

154. Note that in *Dudley Sports*, Dudley was a vendor and not an actual trademark licensor who labeled the manufacturer's product as its own. Dudley Sports Co. v. Schmitt, 279 N.E.2d 266, 271 (Ind. Ct. App. 1972).

155. *Kennedy*, 806 N.E.2d at 784 (citing *Dudley Sports Co.*, 279 N.E.2d at 273). Arguably, *Dudley Sports* supports that idea that the consumer's expectations as influenced by the trademark should be a basis for liability, quite apart from actual involvement by the licensor in the design or manufacture of the product.

156. *Kennedy*, 765 N.E.2d at 222.

157. *Kennedy*, 806 N.E.2d at 786.

158. *Id*.

of consistent quality versus a single source of manufacture.[159] According to this theory, the primary function of a trademark "is a kind of 'warranty' to purchasers that they will receive, when they purchase goods bearing the mark, goods of the same character and source, anonymous as it may be, as other goods previously purchased bearing the mark that have already given the purchaser satisfaction."[160] This quality assurance theory does not suggest that trademarks are indicators of high quality but rather indicators of consistent quality.[161]

The current conceptualization of a trademark as an assurance of quality, however, does not fulfill the objective that its name suggests, namely the assurance of a certain standard of quality. Many trademark licensors choose to license their trademarks to numerous manufacturers. In many instances, although the final manufactured product will likely bear only the licensor's trademark, it is quite possible that the licensor had very little involvement in the product design and development. The current law allows for such circumstances to occur. After all, the Lanham Trademark Act only requires that the trademark licensor exercise an undefined level of control over the quality of the product bearing its mark. The problem lies in the fact that, by not defining the degree of control required, the licensors are given a generous degree of freedom by which they can satisfy the control requirement.

In fact, to minimize liability, an article in the William Mitchell Law Review suggests that licensors can structure the licensing agreement in such a way as to "retain only the absolute minimum control necessary to protect its trademark rights under the Lanham Trademark Act."[162] The article states that such a strategy allows the licensor "to protect its trademark rights without 'substantially participating' in the manufacture or design of the product."[163] This article highlights the fact that such systems of liability are detrimental to the consumer as his or her interests and expectations of quality are severely jeopardized.

For the purposes of quality assurance and the Lanham Trademark Act, "control" should actually mean "control"[164] instead of minimal involvement or quasi-supervision. It is expected that there will always be a variation of what constitutes satisfactory control, but the courts should narrow the acceptable variation and define "control" in a stricter sense. Such a system would require

159. MCCARTHY, *supra* note 13, at § 3:10.

160. *Id*.

161. Franklyn, *supra* note 2, at 679.

162. Melissa E. Buss, *Products Liability and Intellectual Property Licensors*, 27 WM. MITCHELL L. REV. 299, 327 (2000).

163. *Id*.

164. "Control" is used here as in the true meaning of the word. Black's Law Dictionary defines "control" as the following: "1. To exercise power or influence over. 2. To regulate or govern." BLACK'S LAW DICTIONARY (8th ed. 2004).

trademark licensors to be more involved with the manufactured product bearing their trademarks. Consequently, this requirement of heightened supervision would increase the chance that the finished product, manufactured by a third party, would more closely resemble the quality that consumers generally associate with the licensor's respective trademark. Until the law reflects these changes, it will be more acceptable for trademark licensors to limit their involvement in the Lanham Trademark Act's vague and highly accommodating definition of control. As a result, the concept of trademarks as indicators of quality will continue to deteriorate and fail to actually indicate any true measure of product quality.

D. Important Policy Considerations Behind Extending the Apparent Manufacturer Doctrine to Trademark Licensors

The latest version of the Restatement of Torts varies significantly from the apparent manufacturer doctrine as stated in the Restatement (Second) of Torts, which the Court of Appeals used in its analysis in *Kennedy v. Guess, Inc*.[165] The new version of the Restatement indicates that the apparent manufacturer doctrine applies only to entities, such as sellers or distributors that "engage in the physical transfer of goods. . . ."[166] Comment (d) to this section expressly exempts trademark licensors from the rule.[167] It may be argued that the Restatement (Second) is the more appropriate system by which to impose liability upon licensors.[168] An article in the Case Western Reserve Law Review discussed four reasons why the apparent manufacturer doctrine should be extended to trademark licensors under certain conditions.[169]

165. *See Kennedy*, 765 N.E.2d at 222 (rejecting the Restatement Third). *Compare* RESTATEMENT (THIRD) OF TORTS § 14 (2001) *with* RESTATEMENT (SECOND) OF TORTS § 400 (1965).

166. Franklyn, *supra* note 2, at 709. The Third Restatement states that, "[o]ne engaged in the business of selling or otherwise distributing products who sells or distributes as its own a product manufactured by another is subject to the same liability as though the seller or distributor were the product's manufacturer." RESTATEMENT (THIRD) OF TORTS § 14.

167. *Franklyn, supra note 2, at 709*. A comment to the Third Restatement notes that, "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.' Thus, the manufacturer may be liable under §§ 1-4, but the licensor, who does not sell or otherwise distribute products, is not liable under this Section of this Restatement. 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." RESTATEMENT (THIRD) OF TORTS § 14 cmt. (d).

168. Franklyn, *supra* note 2, at 709.

169. *Id*.

The article suggests that the first reason that the apparent manufacturer doctrine should be extended to trademark licensors is because "society has an interest in holding trademark licensors accountable when they profit from the implied representation that they manufactured, or controlled the manufacture, of their licensees' goods."[170] The Indiana Supreme Court's decision in *Kennedy* is in accordance with this perspective, as it specifically mentioned that the receipt of fees in exchange for licensing the mark is a factor to consider in determining if the licensor is sufficiently involved in the stream of commerce.[171] Presently, under the Lanham Trademark Act, licensors can license their trademarks to numerous manufacturers, thus generating a greater amount of profit than if they only manufactured products themselves. Licensors can also formulate their involvement with the product so that they retain rights to the mark but not enough to warrant the imposition of liability. In this situation, the system perpetuates a win-win situation for licensors who profit without potential liability while consumer interests are sacrificed.

Secondly, the article noted that the apparent manufacturer doctrine should apply because tort law ought to function to protect consumer's reasonable expectations.[172] Trademark law was initially developed with the intention of protecting against consumer deception resulting from purchasing a product that was not what the consumer intended to purchase.[173] From a consumer perspective, it is entirely foreseeable in the present market that the manufacturer of the product does not always match the label on the product. However, this consideration does not avoid the fact that the consumer still relies on the product label as an indication of the level of quality of that product. It is true that the market is long past the days where a trademark was a "source indicator," but if a trademark is also no longer an indication of quality, then its only purpose seems to be for the trademark licensor to derive profits from licensing its mark. For these reasons, trademark licensors must share the responsibility with third party manufacturers for defective products. Because each trademark carries with it a certain level of quality, the consumer should have every right to seek a remedy from the licensor that induced them to purchase the defective product. Liability based upon consumer inducement rather than licensor control actually holds the licensor responsible for its role. Licensing cannot be abused by using it as a way to escape liability for a consumer's injuries.

170. *Id*.

171. Kennedy v. Guess, Inc. 806 N.E.2d 776, 784 (Ind. 2004).

172. Franklyn, *supra* note 2, at 709.

173. Weil Ceramics and Glass, Inc. v. Dash, 878 F.2d 659, 672 (3rd Cir. 1989); *see* Franklyn, *supra* note 2, at 709 (suggesting that if a consumer purchases a product based on the fact that he or she believes that it is made by company X, and because he or she trusts the quality of Company X, it would be unjust to prevent the consumer from recovering from Company X if the defective product bearing Company X's mark injured him or her).

It is important to note that the Supreme Court's opinion in *Kennedy* confused the whole concept of consumer expectations by first stating that licensors should be responsible for defective products bearing their marks to the extent of their role in the scheme of designing to distributing the product.[174] The court then confused the issue by stating that consumers should expect that products bearing trademarks may be subject to some oversight by those who put their name on the product; furthermore, those consumers should know that, in modern commerce, the products they buy may have actually been manufactured by someone else.[175]

In the third instance, the article proposes that the apparent manufacturer doctrine should apply to trademark licensors when the licensor's trademark is the only mark that appears on a product.[176] In addition, it states that the doctrine should also apply in situations where the injured consumer cannot discover the identity of the actual manufacturer because it is fair to hold the licensor liable when the manufacturer is unavailable as determined in *Kennedy v. Guess, Inc*.[177] Consumers generally buy a product under the assumption that the trademark owner will be liable and do not foresee a limitation of trademark owner liability based upon a complex entity structure that may shield the trademark owner.[178] Moreover, consumers do not have the proper resources to independently research the entity structure behind the product.[179] For instance, most consumers do not have any leverage to force the disclosure of a product's entity structure to properly evaluate the respective responsibility of each party involved.[180] Largely for practical reasons, consumers would not entertain performing such an investigation as it would be a highly inefficient way to make daily purchases. Simply stated, the general consumer does not have the time, desire, or resources to waste on such an inquiry. From a policy standpoint, it seems rather unreasonable to burden consumers with the duty to investigate product quality, while at the same time eliminating pressure on trademark licensors to assume liability for defective products causing injury bearing their mark. Thus, the apparent manufacturer doctrine: "(1) provides incentives for the licensor to insist on adequate manufacturer identification, and (2) ensures that an injured consumer has at least one potential source of compensation when the identity of the actual manufacturer is unknown."[181]

174. *Kennedy*, 806 N.E.2d at 786.

175. *Id*.

176. Franklyn, s*upra* note 2, at 710; s*ee* Dudley Sports Co. v. Schmitt, 279 N.E.2d 266, 273-74 (Ind. Ct. App. 1972).

177. *Franklyn, supra note 2, at 710*.

178. Lynn M. LoPucki, *Toward a Trademark Liability Based System*, 49 UCLA L. REV. 1099, 1111 (2002).

179. *Id*.

180. *Id*. at 1113.

181. Franklyn, *supra* note 2, at 710.

Fourth, the apparent manufacturer doctrine should be extended to trademark licensors because it would give them an incentive to eliminate the "unsafe character of their licensees' goods."[182] For example, if Guess knew that it would be responsible for the defective umbrellas bearing its trademark, it may have had an incentive to exercise greater prudence in exercising control or supervision over the manufacture and testing of the product. Although the level of obligation is unclear, under the current law, trademark licensors have an existing obligation to monitor the licensees and exercise control over the quality of the goods produced bearing their trademarks.[183] Thus, the implementation of a stricter apparent manufacturer doctrine would simply impose liability on licensors for failure to fulfill a duty that already exists.[184]

Good policy reasons support imposing liability upon trademark licensors in this manner. The more involved the licensor is with the product, the more likely the product will meet the licensor's quality standards, and it is in the company's best interest to have only quality products bearing its labels. Licensing of trademarks has proven to be economically efficient, but it does not follow that, as a result, the consumer must then settle for a product of lesser quality. Realistically, efficiency can co-exist with a stricter standard of quality control, and the law of products liability and trademarks should promote such an outcome. "It is desirable to construct tort rules that maximize the production of safe products and that encourage all actors, including licensors, to strive for enhanced product safety."[185] Therefore, trademark licensors should be held liable based on the fact that they induced the consumer to purchase their product and realized a profit from it. The Restatement (Second) of Torts § 400 and *Dudley Sports* provide a remedy to the consumer in these very situations.[186]

E. Solutions to the Current Inconsistent and Inefficient Law of Trademark Licensor Liability for Defective Products: Indiana and Beyond

As indicated from the case law and federal and state statutory provisions mentioned earlier in this casenote, from a national perspective, the law of products liability with regard to trademark licensors significantly varies as consumers move across state lines. This variation is inconsistent with the present manner in which the U.S. population conducts commerce. There is a severe need for uniformity and a guarantee of a responsible party in the law governing products liability and trademark licensing.

182. *Id*.
183. 15 U.S.C. §§ 1051-1127 (2000); LoPucki, *supra* note 178, at 1115;
184. LoPucki, *supra* note 178, at 1115.
185. Franklyn, *supra* note 2, at 710.
186. Dudley Sports Co. v. Schmitt, 279 N.E.2d 266, (Ind. Ct. App. 1972); RESTATEMENT (SECOND) OF TORTS § 400 (1965).

As indicated in the Introduction, the nature of commerce in the U.S. is no longer restricted by state lines or even oceans. The U.S. is truly engaged in the global economy as it imports from manufacturers in nations across the globe. Of course, this presents a corresponding problem for U.S. consumers. When a consumer purchases a product, how will he or she know which particular law of products liability will apply? Consumers should not have to research which jurisdiction governs their particular transaction and then what standards that jurisdiction has regarding trademark licensing in order to make their purchase decisions. Additionally, consumers should not have to make purchases with the lingering fear that if the product is defective, they may not be able to bring a successful action against a foreign manufacturer or a trademark licensor that is too far removed from the product to shoulder any of the liability. Thus, the law of products liability should be revised across the nation. The question then arises as to what system should be proposed to solve the current confusion inherent in trademark licensor liability?

The states should adopt a theory of uniform liability based upon the apparent manufacturer doctrine.[187] The degree of licensor involvement in manufacturing or design processes is a vital issue in most of the cases involving trademark licensor liability.[188] As demonstrated in the case of *Burkert v. Petrol Plus of Naugatuck, Inc.*, the court refused to extend liability to the licensor under §400 of the Restatement (Second) of Torts where a licensor may be held liable if it "put out" a product and sold it as his own.[189] The court noted that liability should not be extended in this instance, unless the licensor had played a significant role in the development of the product.

Therefore, the U.S. needs a trademark licensor liability system that will not hinge as intensely upon the element of control similar to the court's decision in *Connelly*.[190] The *Kennedy* court suggested that licensors should be held liable according to their corresponding role with the product,[191] but this type of system will prove to be inefficient and unjust for various reasons. Many of the courts presently focus on the element of control and thus overlook the fact that consumers made their purchase decisions without being privy to the entity structure that produced the product. This situation lends itself to an unfair

187. Since this casenote's proposal of liability focuses on using the element of control as a condition of liability, the apparent manufacturer doctrine is the best theory by which to conceptualize a uniform system of liability.

188. Franklyn, *supra* note 2, at 705.

189. *Id*.; *see* Burkert v. Petrol Plus of Naugatuck, Inc., 579 A.2d 26, 32-35 (Conn. 1990).

190. Connelly v. Uniroyal, Inc., 389 N.E.2d 155, 162-63 (Ill. 1979). For a discussion of the *Connelly* court's conclusion that licensor participation in the distribution of the licensed product is not a necessary element for the application of strict liability, and that it is wholly irrelevant that the defendant may not have participated in the chain of distribution, see *supra* notes 61-66 and accompanying text.

191. Kennedy v. Guess, Inc. 806 N.E.2d 776, 784 (Ind. 2004).

outcome when the manufacturer is unavailable for service and the trademark licensor did not exert enough control to warrant the imposition of liability.

I propose that if a product, bearing the licensor's trademark and manufactured by a third party, is defective and injures the consumer, the consumer should be entitled to a rebuttable presumption that he or she will recover from either the manufacturer, licensor, or both for the injuries suffered. Accordingly, the consumer should be guaranteed that if the manufacturer of the product is unavailable, then he or she will automatically be able to recover from the trademark licensor so that all attempts are made to ensure that the consumer is not left without a remedy. This proposal is not far removed from the current Indiana Code that says in the absence of the ability to hold jurisdiction over the manufacturer, the principal distributor or seller should be held liable as the manufacturer.[192] Thus, including trademark licensors in this classification is a logical expansion of the existing doctrine.

Additionally, I propose that the presumption of trademark licensor liability for defective products bearing its label could be rebutted in certain situations. For instance, similar to numerous court decisions, the apparent manufacturer doctrine should not extend to trademark licensors in the instance where the actual manufacturer has been unmistakably disclosed to the consumer.[193] Such a defense would coincide with just policy. After all, when the actual manufacturer's name is unambiguously placed upon the product, and the trademark licensor clearly disclaims involvement in the production of the product, except for the sales, the consumer has not been deceived into believing that the licensor was heavily involved in the production of the product.[194]

The imposition of liability upon trademark licensors can also be legitimized by the fact that licensors usually enjoy a profit as a result of licensing their marks. Thus, if a trademark licensor is not held liable for an injury caused by a defective product bearing its mark, the system would allow the licensor to realize profits while attaching all liability to the third-party manufacturer by minimizing its involvement with the product. I propose that the system of liability actually focus on the requirement of control in relation to the profit aspects of trademark licensing. This focus would force trademark licensors to exert control over the manufacturers if they want to realize any profits. The law could require that if the licensors do not assert proper control over the licensee and thus cannot be held liable, then they should not be able to receive any money in exchange for licensing their trademark. Trademark

192. IND. CODE ANN. §34-20-2-4 (1999); *see supra* note 108 and accompanying text.

193. Holman Motor Co. v. Evans, 314 S.E.2d 453 (1984) (holding that a trademark licensor is not liable as apparent manufacturer where the identity of the actual manufacturer was disclosed); Franklyn, *supra* note 2, at 706.

194. Franklyn, *supra* note 2, at 706.

licensors would likely adhere to such a system because they would otherwise suffer financial consequences. Of course, this type of a system would require the declaration of a narrower standard of control than is presently required under the Lanham Act standard. It is important to note that, arguably, such a standard may still be too lenient on trademark licensors.

Finally, I propose that, under this system of liability, trademark licensors and third-party manufacturers would still have the option of achieving their preferences for the apportionment of liability through a contract for indemnification or contribution. Licensors and third party manufacturers could essentially "customize" liability by agreement. Such agreements, however, should be solely between the licensor and the manufacturer because the consumer should be able to rely on the fact that he or she will be able to recover from either one or the other. The customer has no idea what type of deal the licensor and manufacturer have struck when he or she makes a purchase.

V. CONCLUSION

The Indiana Supreme Court's decision in *Kennedy v. Guess, Inc.* appears, at first glance, to only reduce the plaintiff's chances of holding a trademark licensor liable for its involvement in the development of a product and to expose the injured plaintiff to a limited recovery. However, the *Kennedy* court's decision also provides the injured plaintiff with some legitimate advantages. The *Kennedy* court determined that the jury has the responsibility of determining the key issues in these types of cases; consequently, the trademark licensor will seldom obtain summary judgment on either issue. In addition, the jury must determine whether the trademark licensor played a sufficient role in the development of the product to have the status of an "apparent manufacturer." Secondly, the jury has to decide how much of the manufacturer's liability should be assumed by the trademark licensor as an "apparent manufacturer." Because these two decisions involve a multitude of factors, it would be nearly impossible for trademark licensors to reasonably predict their potential liability. As a result, the licensor will have a greater incentive to reach a settlement with the injured consumer. Thus, much of the *Kennedy* court's liability scheme can be considered to be "consumer-friendly."

Notwithstanding these positive aspects for consumers, the Indiana Supreme Court, along with other state courts, cannot allow potential remedies to overshadow the fact that this liability scheme fails to address the purpose of a trademark as a quality indicator. Courts must seek to preserve the purpose of trademarks as they have developed historically in this manner. The law should encourage a system where a trademark actually symbolizes a level of quality on which consumers can base their purchase decisions. Such an outcome necessitates altering the requisite level of licensor control. It is important to note that such a system would not necessarily be incompatible with maintaining licensing freedom that satisfies the needs of the present market.

As mentioned in the Introduction, the 21st century marketplace, as demonstrated in the realm of Internet shopping, demands a quality assurance view of trademark licensing. The law should prevent the use of trademarks to deceive customers. By requiring stricter licensor involvement and control, the licensed product will be more likely to resemble that quality which is associated with the licensor's mark. Moreover, holding licensors jointly and severally liable for products bearing their mark, without any notice of disclaimer by the licensor, will encourage the development of safer products and provide consumers with a remedy when the actual manufacturers are nowhere to be found when a dangerous product defect is discovered.

Until such changes occur, consumers in jurisdictions such as the State of Indiana will at least be able to recover from trademark licensors for injuries caused by defective products under the apparent manufacturer doctrine. However, courts and legislatures should realize how this perspective is only half of the solution. The current Indiana law frustrates the very purpose of regulating trademark licensing. A just system would inform consumers about the quality of the product based upon the mark before they make the purchase and are subsequently injured. Until trademarks are recognized as true quality indicators and identifiable parties assume liability, buyer beware. You may not be getting what you paid for.

JENNIFER RUDIS DESCHAMP[*]

[*] J.D. Candidate, Saint Louis University School of Law, 2006; B.A. Washington University, 2003. I am grateful to Professor Kent T. van den Berg for his patience, insight, and expertise. I appreciate the efforts and dedication of the Public Law Review Board and Staff and particularly, Managing Editor Kate Heideman. Most of all, I would like to thank my husband, Dusty, my parents George and Debbie, my brother Jason, Grandma Laura, Grandpa George, and the Deschamp family. They have always encouraged my legal pursuits by listening and loving me unconditionally which makes me feel so blessed.