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Client Alert

Pitfalls of Trademark Licensing

Trademark Practice **August 18, 2004**

A fundamental principle of trademark law requires a trademark owner to control the nature and quality of the goods or services sold under a licensed mark. Failure to do so may result in the loss of rights in the licensed mark. However, recent case law suggests that a trademark owner who becomes too involved in a licensee's operations runs the risk of being held liable for injuries caused by defective products produced by that licensee. Put another way, a company that allows its trademarks to appear on licensed products can be held liable under state trademark common law for injuries caused by those products.

In *Kennedy v. Guess, Inc.*, 806 N.E.2d 776 (Ind. 2004), the Indiana Supreme Court held that a trademark licensor could be liable under a negligence theory in proportion to its role in the design, manufacturing and distribution of a licensee's defective product. In that case, the plaintiff suffered injury when an umbrella, bearing a licensed Guess trademark, broke and hit him in the face. The plaintiff subsequently brought suit against Guess, alleging both strict liability under an Indiana statute and negligence under the Restatement (Second) of Torts § 400 (1965). The plaintiff asserted that Guess owed him a duty as an "apparent manufacturer" of the umbrella under Section 400 of the Restatement, which provides 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." Guess, however, argued that merely licensing the use of its mark, without more, is insufficient to impose liability. The district court granted Guess's motion for summary judgment on both claims, but the appeals court reversed summary judgment on both claims.

After determining that summary judgment on the strict liability claim was proper, the Court concluded that, under Indiana common law, trademark licensors should be responsible for defective products bearing their marks, but only to the extent warranted by their relative roles in the design, advertising, manufacturing and distribution of those products. Though this holding appears to increase the risk that a trademark licensor may be held liable for a licensee's defective products, it is worth noting that many states, including Arizona, California, Connecticut, Kentucky, Ohio and Texas, also impose liability on trademark licensors who play a significant or substantial role in the manufacturing, marketing or distribution of a defective product. In these jurisdictions, a trademark licensor's liability generally depends on a number of factors, including: 1) the licensor's control over the product design; 2) the fees received for use of the mark; 3) the prominence of the mark; 4) the supply of components; 5) the participation in advertisement; and 6) the degree of economic benefit derived from the licensing agreement. *See Burkert v. Petrol Plus of Naugatuck, Inc.*, 579 A.2d 26, 34-35 (Conn. 1990) (summarizing cases dealing with trademark licensor liability in a number of different jurisdictions).

These cases clearly indicate that trademark owners seeking to protect their rights in a mark must resist the temptation to become too intimately involved in a licensee's business operations. With this in mind, trademark owners should try to avoid: 1) taking title to goods produced by a licensee;

2) producing goods to be sold by a licensee; 3) controlling the manufacturing process of goods to be sold by a licensee; 4) supplying a licensee with critical personnel or equipment; 5) installing products sold by a licensee; and 6) serving as a retailer for the licensed goods. *See Burkhardt v. Armour & Co.*, 161 A. 385 (Conn. 1932); *Hartford v. Associated Construction Co.*, 384 A.2d 390 (Conn. 1978); *Taylor v. General Motors, Inc.*, 537 F. Supp. 949, 954 (E.D.K.Y. 1982); *Kasel v. Remington Arms Co.*, 24 Cal. App. 3d 711, 717-719 (Cal. Ct. App. 1972); *Rubbo v. Provision Co.*, 34 N.E.2d 202 (Ohio 1941). On the other hand, they need to control the quality and nature of the goods and now that control can have consequences if at least these precautions are not taken. Though these precautions will not necessarily prevent the imposition of liability in all instances, they should help minimize the risk.

For more information on how to avoid this sort of liability, please contact ***Kevin T. Kramer*** at ***703-905-2119*** or ***kkramer@pillsburywinthrop.com***, or ***Patrick J. Jennings*** at ***703-905-2018*** or ***pjennings@pillsburywinthrop.com***.