The Apparent Manufacturer Doctrine, Trademark Licensors and the Third Restatement of Torts

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ARTICLE

THE APPARENT MANUFACTURER
DOCTRINE, TRADEMARK Licensors
AND THE THIRD RESTATEMENT OF
TORTS

David J. Franklyn†

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I. INTRODUCTION

In the past fifty years, trademark licensing has emerged as a preferred method of producing and marketing goods in the United States and abroad. One recent study reports that over fifty billion dollars worth of licensed goods were sold in the United States in one year alone. Another study identifies over 1,500 different types of licensed products that are sold through trademark licensing arrangements annually. Numerous businesses use licensing arrangements to produce and sell a diverse array of consumer and industrial goods. Ralph Lauren’s trademarks appear on clothing, furniture and home accessories, most of which are manufactured by independent trademark licensees. Similarly, Serta, Simmons and Sealy produce most of their mattresses through trademark licensees. Coca-Cola licenses its marks not only

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1 I define trademark licensing as any contractual arrangement wherein the owner of a trade name or trademark licenses its name or mark to another entity, usually, but not necessarily, for a fee. Under the agreement, the licensee then has a contractual right to produce and sell goods bearing the licensor’s mark. Throughout this Article, I refer to trademark licensing simply as “licensing.” Unless a different type of licensing is indicated, the reader should assume that I am referring to trademark licensing.


to bottling companies, but also to clothing manufacturers who, in turn, make Coke pants, Coke beach towels, Coke T-shirts and Coke baseball caps. Michael Jordan licenses his marks for use on Air Jordan Nike gym shoes and men's cologne. These are only some of the businesses in which licensing plays a prominent role.

Despite this marked increase in licensing activity, courts have not developed a coherent theory, or even a clear set of rules, to determine whether trademark licensors should be held vicariously liable for defective products that are produced by their licensees. This Article explores a particular strand of the problem. Specifically, this Article examines whether a trademark licensor should be held liable for its licensees' products when the licensor, by placing its name or mark on a product, induces consumers to purchase the product in the belief that the licensor made the product or otherwise vouched for its safety.

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7 See Mike Wise, Michael Jordan's Next Challenge, N.Y. TIMES, Sept. 9, 1997, at B7 (discussing Jordan's trademark licensing contracts with Nike).

8 In a separate article, I propose a comprehensive analytical framework for assessing whether a manufacturer's liability should be imputed to a trademark licensor under any circumstances. See David J. Franklyn, Toward A Coherent Theory of Strict Tort Liability for Trademark Licensees, 72 S. CAL. L. REV. 1 (1998). That article argues that licensors should be afforded an initial presumption of non-liability, and that this initial presumption should be rebuttable by proof that the licensor engaged in conduct that satisfies one of five proposed "piercing" tests. Specifically, I argue that the presumption of licensor non-liability should be disregarded if a plaintiff proves that a particular licensor: (1) was the "functional equivalent" of a manufacturer of the defective goods (i.e., the licensor established design or manufacturing specifications, safety standards, or product warnings or otherwise controlled its licensee such that the respective entities were "alter egos" of each other); (2) controlled the particular activity (such as product design) that gave rise to the product defect at issue in the case; (3) knew—or reasonably should have known—that the licensee was not adequately insured against reasonably foreseeable product liability risks; (4) induced consumers to believe that the licensor manufactured (or vouched for the safety of) the licensed goods, and that plaintiff, in fact, purchased the goods in reliance on such a belief; or (5) contracted with a foreign licensee-manufacturer who is not subject to the personal jurisdiction of the state where the defective goods were sold. See id. at 7-8. The present Article extends and continues the analysis of the fourth test.

9 To date, courts have not developed a comprehensive theory to identify the instances in which consumer perceptions alone provide a sufficient ground for imposing vicarious liability on a trademark licensor. This Article does not attempt to develop such a comprehensive theory. Rather, my inquiry here is confined to the apparent manufacturer doctrine, and to a consideration of whether that doctrine might serve as an effective vehicle for holding trademark licensors legally responsible for defective products that bear their marks or names. There may be cases in which a licensor would not be liable under the apparent manufacturer doctrine and yet still be subject to liability under some other theory—including, for example, the apparent agency doctrine, which similarly relies on consumer perceptions as a basis for liability. See, e.g.,
To the extent that courts have addressed this question at all, they have focused primarily on the "apparent manufacturer" doctrine. That doctrine, as set forth in section 400 of the Restatement (Second) of Torts, holds that an entity that "puts out" a product as its own will be held liable as an apparent manufacturer of the product. The effect of the doctrine is to substitute the apparent manufacturer for the actual manufacturer and to subject the apparent manufacturer to the same liability as would apply to the actual manufacturer. A number of courts have applied the apparent manufacturer doctrine to trademark licensors.

Notwithstanding this body of law, the Restatement (Third) of Torts: Products Liability section 14 holds that the apparent manufacturer doctrine does not apply to trademark licensors under these circumstances. The new Restatement's position apparently is based on a number of cases in which courts have refused to extend the apparent manufacturer doctrine to trademark licensors. These cases hold that the doctrine does not apply to licensors because (1) the doctrine originated as a means of imputing a manufacturer's liability to house-branding retail sellers before the advent of section 402A of the Restatement (Second) of Torts; and (2) trademark licensors are not "sellers." On this view, section 400 of the Restatement (Second) of Torts was designed, and is specifically worded, to impose liability only on retail "sellers" who, by placing their house labels on goods, hold themselves out as manufacturers of those goods. Because

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pirical and Policy Analysis of 'Common Knowledge' About Franchising, 20 Hofstra L. Rev. 609, 645 (1992) (discussing the common knowledge doctrine, which states that "it is 'common knowledge' that independent outlets often display signs indicating that they sell certain, well-known, trademarked goods; the customers thus cannot reasonably rely upon these signs as 'manifestations' of agency, permitting them to obtain relief against the trademark licensor . . . for the acts of an apparent agent, the licensee"); A comprehensive analysis of such theories is beyond the scope of the present Article.

10 See RESTATEMENT (SECOND) OF TORTS § 400 (1965). The apparent manufacturer essentially "steps into the shoes" of the actual manufacturer and defends the product—or the manufacturer's conduct—in the same way the actual manufacturer would if it were a defendant in the suit (which it may well be). Thus, if the actual manufacturer would be subject to strict liability, the apparent manufacturer will be subject to strict liability as well. Similarly, if the actual manufacturer would be subject to a negligence standard, the apparent manufacturer is required to defend the actual manufacturer's conduct under that standard.

11 For a more thorough discussion of cases applying the apparent manufacturer doctrine to trademark licensors, see infra Part III.

12 See RESTATEMENT (THIRD) OF TORTS: PRODUCTS LIABILITY § 14 cmt. d (1998) (stating that the apparent manufacturer doctrine "does not, by its terms, apply to the owner of a trademark who licenses a manufacturer to place the licensor's trademark . . . on the manufacturer's product and distribute it as though manufactured by the licensor"); see also Kenneth B. Germain, Tort Liability of Trademark Licensors in an Era of "Accountability": A Tale of Three Cases, 69 Trademark Rep. 128, 136 (1979) (suggesting that the apparent manufacturer doctrine applies only to house-branding sellers, and not to trademark licensors); infra Part III.

13 See infra Part III.

14 If the doctrine is confined in this manner, it has little utility, given that all sellers are subject to strict liability under section 402A. The doctrine may have some utility in states that do
trademark licensors do not "sell" the goods on which their marks appear, they fall outside the ambit of the doctrine.

It is doubtful whether this view accurately restates existing law, given the substantial number of courts that have applied the apparent manufacturer doctrine to non-selling, non-distributing trademark licensors. More fundamentally, the new Restatement's position is questionable as a matter of social and economic policy.

In this Article, I argue that trademark licensors should be subjected to liability under the apparent manufacturer doctrine in two situations: (1) when a licensor induces consumers to believe the licensor manufactured the product, or (2) when a licensor induces consumers to believe that the licensor controlled the standards or specifications for manufacturing the product. Under either prong of the proposed test, a plaintiff would be required to show that a reasonable consumer of the licensed product would have relied on the trademark in the requisite manner. Once the plaintiff makes this showing, courts would then presume that the actual consumer of the product at issue in fact so relied. However, trademark licensors would be permitted to rebut this presumption, and defeat liability, by showing that the actual consumer did not, in fact, so rely. Finally, under the approach proposed here, a trademark licensor would be absolved of liability by showing that the actual manufacturer was jurisdictionally available and able to satisfy a likely judgment against it.

not extend strict liability to retail sellers and in states that place substantial limitations on the application of strict liability to non-manufacturers.

Indeed, it would be more accurate to say that there is a split of authority as to whether the apparent manufacturer doctrine applies to non-selling trademark licensors, and that the new Restatement has chosen to follow a particular line of cases. See infra Part IV.

The test proposed here is consistent with the control-based tests I advance in my earlier article on licensor liability. There, I argue that a trademark licensor should be held vicariously liable for defective products produced by its licensees if the licensor is the functional equivalent of a manufacturer. See Franklyn, supra note 8, at 49. That article argues that the primary test for determining whether a licensor is the functional equivalent of a manufacturer should be whether the licensor provided specifications and standards for manufacturing the defective goods. The consumer reliance test proposed in the present Article is symmetrical with the control-based test advanced in the earlier article; under the test proposed here, a trademark licensor would be subject to imputed liability based on the appearance of its control over its licensees if, and only if, the licensor would be subject to such liability if it in fact had exercised such control over its licensees. In short, if a trademark licensor who actually functions as a manufacturer is vicariously liable for its licensees' goods, then liability should similarly attach to any licensor who appears to function as a manufacturer of those goods.

Given the fact that modern trademark licensing is allowed only if the licensor "controls the quality" of the licensed goods, it could be argued that all trademarks implicitly represent that the trademark owner is the "functional equivalent" of a manufacturer and therefore liable under the proposed test. However, as I show infra, it is highly doubtful that the quality control requirement requires licensors to provide standards and specifications for manufacturing a product or otherwise to assure product safety. See infra Part II(D). Moreover, consumers clearly do not assume that licensors fulfill such a role in all licensing situations. See id.
The proposed approach validates society's interest in holding licensors accountable for implicitly vouching for the safety of their licensees' goods. It protects consumers who detrimentally rely on trademarks as substitutes for investigation into the safety and quality of goods. It preserves a causal connection between the licensor's holding itself out as the manufacturer and the plaintiff's injuries by requiring proof of actual and justifiable reliance. And it minimizes unnecessary litigation and insurance costs (while still ensuring an adequate source of compensation) by immunizing licensors who demonstrate that the actual manufacturer is solvent and subject to personal jurisdiction in states where the product was sold.

The remainder of this Article is divided into three parts. Part II provides an overview of the basic functions of trademarks and of the historical development of trademark licensing. Part III summarizes the history of the apparent manufacturer doctrine and its application to trademark licensors in the case law to date. Part IV provides a critical assessment of the apparent manufacturer doctrine as it has been construed by the Restatement (Third) of Torts and argues that the doctrine should apply to trademark licensors under the test proposed above.

II. TRADEMARKS

This section first defines basic terms used in trademark licensing and discusses the essential functions of trademarks. It then provides an overview of the historical development of trademark licensing.

A. Basic Definitions

The term "trademark" generally refers to "any word, name, symbol, or device, or any combination thereof used by a person 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." By contrast, the term "trade name" is a name that identifies a business or an enterprise. A trade name can also be a trademark, and courts often use these terms interchangeably.

Trademark ownership rights are acquired when a person combines origination of a mark with its actual use in trade. This understand-
ing of ownership led some courts at one time to hold that a trademark owner could not license his mark until he had used it himself.\textsuperscript{21} This is no longer the prevailing view.\textsuperscript{22} Today, trademark owners are allowed to license marks that were not previously used. As with other forms of property, a significant facet of trademark ownership rights is the ability to exclude others from using the same or confusingly similar marks. A corollary of the right to exclude is the right to permit others to use the mark.

B. Trademark Functions

It is generally recognized that trademarks may function as: (1) indicators of the physical source of goods, (2) indicators of the secondary source of goods, (3) indicators that particular goods come from a common source of quality control standards, or (4) advertising tools that influence consumers to purchase goods based on past positive experiences with similarly marked goods.\textsuperscript{23} These trademark functions are discussed below.

1. Primary Source Indicators

Historically, trademarks were viewed as representing only the "physical source" or "origin" of the products upon which the trademark was placed.\textsuperscript{24} Thus, a trademark such as "Amour Meats" was viewed as signifying that the Amour Meat Company manufactured the product. Under this view, trademark licensing was considered improper because it "misled" consumers as to the physical source of the product.\textsuperscript{25} Consumers were likely to believe the product came from a source that was associated with the trademark, not from the anonymous manufacturer/licensee.

By contrast, under the modern view, trademarks still may identify a "source," but that source can be "anonymous." Thus, under this

\textsuperscript{21} See id. § 16:1.
\textsuperscript{22} See id. ("[U]nder the new procedure inaugurated on November 16, 1989, a firm can get an early priority date by filing an intent to use application in the U.S. Patent and Trademark Office . . . . This procedure enables a company to ‘reserve a mark’ before actually using it in trade.").
\textsuperscript{23} See id. § 3:4.
\textsuperscript{24} See Note, Quality Control and the Antitrust Laws in Trademark Licensing, 72 YALE L.J. 1171, 1174 (1963) ("Originally, trademarks were thought to represent to the consumer the source or origin of the producer or service to which they were affixed, i.e. the place and person from which or whom the goods or services emanated.") (footnotes omitted).
\textsuperscript{25} The seminal case articulating the "physical source" theory of trademarks and holding that trademark licensing was illegal is McMahan Pharmacal Co. v. Denver Chemical Manufacturing Co., 113 F. 468 (8th Cir. 1901). There, the court held that a trademark could not be licensed unless the trademark owner transferred its entire business to the licensee. See id. at 474-75. McMahan is no longer an accurate statement of the law.
view, consumers may not know who manufactures "Banlon" fabrics; they only expect that whatever they buy bearing the "Banlon" label comes from a single source and is of consistent quality. This view of trademarks is reflected in the 1984 amendments to the Lanham Act, which state that a mark will "indicate the source of the goods, even if that source is unknown." The new view of trademarks—as indicators of a single, albeit anonymous, source and of a consistent quality of products—laid the theoretical foundation for modern trademark licensing.

2. Secondary Source Indicators

Trademarks may also "serve to identify and distinguish a 'secondary source' in the sense of indicating sponsorship or authorization by a recognized entity." Indeed, secondary source identification may be the primary function of trademarks when two different marks appear on the same product, as is often the case in promotional licensing. For example, the name or logo of a sports team on clothing may indicate that the team authorizes, endorses and licenses the sale of such apparel by the manufacturer. Similarly, the word "McDonald's" appearing on T-shirts or other clothing may indicate to consumers that McDonald's Corporation authorizes, endorses and licenses the sale of such clothing by the manufacturer. In like manner, the name "Michael Jordan" or phrase "I love Mike" on shoes manufactured by Nike, Inc. may indicate that Michael Jordan authorizes and endorses the sale of those particular shoes.

In each of these examples, a trademark functions to indicate a secondary source that sponsors and endorses a product manufactured by another entity. However, trademarks may also serve to induce consumers erroneously to conclude that the trademark owner manufactured the goods on which the trademark appears. This is especially likely to occur in situations where the name of the actual manufacturer does not appear on the goods, and the trademark owner's name or mark is the sole identifier on the goods. In these circumstances, it could be said that the trademark erroneously suggests that the trademark owner is the primary (producing) source, whereas, in reality, it is only the secondary source.

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26 Lanham Act § 45, 15 U.S.C. § 1127 (1994). While trademark registration at both the state and federal levels is common, it is neither required, nor a prerequisite to establishing ownership of a mark. However, because federal registration offers the registrant a variety of benefits, most trademark licensors register under the federal scheme, as set forth in the Lanham Act. The Lanham Act governs the use of federally registered trademarks.

27 MCCARTHY, supra note 19, § 3:4.
3. Quality Indicators

Under the modern version of the source theory, trademarks indicate that goods bearing the same mark are of the same general quality. This has been termed the “quality” or “guarantee” function of trademarks. This view holds that trademarks can indicate to consumers that goods bearing that mark come from a single source, but it is a single source of consistent quality control as opposed to a single source of manufacture. Under this theory, the chief 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.” Under this theory, trademarks do not necessarily signify that a product is of a high quality. Rather, the quality assurance theory simply holds that a mark indicates that “the quality level, whatever it is, will remain consistent and predictable among all goods or services supplied under the mark.” Thus, a trademark is not a guarantee or warranty of quality in the traditional, legal sense. The quality assurance function of trademarks is reflected in the Lanham Act, which holds that the dual nature of trademarks is to indicate either source or quality or both, depending on the manner of use.

4. The Advertising Function of Trademarks

Trademarks may also serve an advertising function. Indeed, a trademark is “but a species of advertising, its purpose being to fix the

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28 See Julius R. Lunsford, Jr., Trademarks: Prestige, Practice and Protection, 4 GA. L. REV. 322, 324 (1970) (stating that trademarks “serve as a guarantee of the consistency of nature, quality and characteristics of the goods. This is known as the guarantee function”); see also James K. Eckmann, Note, Antitrust Problems in Trademark Franchising, 17 STAN. L. REV. 926, 926 (1965) (“Under the ‘guaranty’ theory the function of the trademark is to assure the consumer of a consistent level of product quality . . . ”).

29 See In re Abcor Dev. Corp., 588 F.2d 811, 814 n.5 (C.C.P.A. 1978) (stating that a “mark primarily functions to indicate a single quality control source of the goods or services involved . . . ”).


31 See Kevin Parks, “Naked” Is Not a Four-Letter Word: Debunking the Myth of the “Quality Control Requirement” in Trademark Licensing, 82 TRADEMARK REP. 531, 539 (1992) (arguing that a trademark is not a “warranty” of quality in the legal sense). But see Margaret Frenkel Goldstein, Products Liability and the Trademark Owner: When a Trademark Is a Warranty, 67 TRADEMARK REP. 587 (1977) (arguing that a trademark should be treated as a legal warranty of product quality in certain circumstances).

32 See McCarthy, supra note 19, § 3:10 (“Passage of the Lanham Act in 1946 firmly established the quality function of trademarks as the rule of law. The dual nature of trademarks is to indicate source or quality, or both, depending upon the manner of use . . . ”).
identity of the article and the name of the producer in the minds of people who see the advertisement... 

Thus, "[i]f the trademark owner succeeds in creating a favorable image of its trademark in the marketplace, the mark becomes a significant factor in stimulating sales." This is true whether the trademark is used on goods made by the trademark owner or its licensee. In either case, the trademark symbolizes something the purchaser desires, and for this reason it stimulates sales.

The advertising function of trademarks is essential to the economics of all trademark-licensing arrangements. A licensee pays to use the mark of another because the mark will help sell the goods. The licensor is willing to allow another to use its mark because it believes that in so doing it will profit. While the advertising function of trademarks underlies all licensing arrangements, trademarks may serve only an advertising function in the promotional licensing context. In promotional licensing, the consumer is more interested in identification with the trademark owner than in the quality of the goods bearing the trademark. Thus, for example, when a consumer purchases a baseball cap with the emblem of the Chicago Cubs on it, he does so because he wishes to identify with the Cubs, not because he believes that the Cubs manufactured the cap or even that it was necessarily made pursuant to standards dictated by the Cubs. In this situation, the trademark stimulates sales because the consumer identifies with the aura, mystique or image the mark conveys, not because the mark indicates the source, origin or quality of the goods.

C. Trademark Licensing

At early common law, trademark owners generally were not permitted to license their marks to others because trademarks were viewed solely as indicators of the physical source of goods. Licensing was considered illegal because consumers would be "misled" as to the physical source of goods if another entity's trademark appeared on goods that were manufactured by unidentified licensees.

Beginning in the 1930s, there developed a judicially-led trend to permit trademark licensing so long as the trademark owner exercised

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34 Northern Warren Corp. v. Universal Cosmetic Co., 18 F.2d 774, 774 (7th Cir. 1927).
36 See, e.g., MCCARTHY, supra note 19, § 3:8.
37 See id. § 18:39 (stating the view that since trademarks refer to the physical origin of a product, trademark licensing is impossible).
control over the quality of the trademarked goods that were produced by its licensees. However, "not until the passage of the Lanham Trademark Act in 1946 did that trend become the rule." To understand how this change in the law came about, it is necessary to consider both commercial and intellectual trends in the early twentieth century.

With rapid changes in the way goods were manufactured and distributed in the early 1900s, and the corresponding explosion of American industry, pressure began to mount for a new theory of trademarks that would take a more flexible approach to trademark licensing. In a period of mass production and fragmentation of labor, it became clear that a system that allowed for trademark licensing held many advantages. For example, if licensing were allowed, a business with an established trademark could invent and design a product and then "outsource" the actual manufacture of the product to another company, provided that the manufacturer affixed the inventor's name or mark to the goods. The licensing arrangement could thus permit an entity to develop a wider array of other products, while simultaneously providing additional work for independent manufacturers. In this period of industrial expansion, it became clear that trademark licensing could lead to greater diversification of goods and profit maximization.

Against this backdrop of changing commercial realities, an important series of developments occurred in the world of ideas. In 1927, Frank I. Schechter, a New York attorney, published a law review article entitled The Rational Basis of Trademark Protection, in which he argued that trademarks serve dual functions. He stated that in addition to serving as indicators of source, trademarks could also serve a "persuasive" function. Schechter recognized that:

[T]he trademark is not merely the symbol of good will but often the most effective agent for the creation of good will, imprinting upon the public mind an anonymous and impersonal guaranty of satisfaction, creating a desire for further satisfactions. The mark actually sells the goods. And, self-

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38 See id. §§ 3:9, 3:10, 18:42; see also Parks, supra note 32, at 533 ("By 1927, courts were searching for a vehicle through which trademark licensing could be justified and legitimized ... ").
40 See Parks, supra note 32, at 533.
evidently, the more distinctive the mark, the more effective is its selling power.\footnote{Id. at 819.}

Also, Schechter urged the adoption of a more expansive theory of trademark protection that took into account "the fact that the creation and retention of custom, rather than the designation of source, is the primary purpose of the trademark today."\footnote{Id. at 822.} Courts and commentators quickly followed Schechter in espousing the notion that trademarks do not necessarily function as indicators of source, but also function as "guarantees of satisfaction."\footnote{See Parks, supra note 32, at 532-34.} Thus, the new theory of trademarks was soon referred to as the "guarantee theory."\footnote{Id. at 532.} However, this label was probably misleading—or at least a misnomer—since Schechter never asserted that a trademark was equivalent to a legal guarantee of quality. Nevertheless, the "guarantee theory" was widely accepted and was soon refined into the "quality assurance theory,"\footnote{See id. at 532-33} which by the 1930s, was widely embraced by the courts.\footnote{See MCCARTHY, supra note 19, §3:10.} The new theory held that trademarks do not necessarily always indicate physical source, but do always indicate that similarly marked goods are of a consistent level of quality.\footnote{Id. §18:40.} Under this theory, consumers "assume that products sold under the same trademark will be of equal quality regardless of the actual physical source or producer of the goods."\footnote{Id. §18:42; see also Parks, supra note 32, at 533-35.}

This new approach to trademarks paved the way for judicial acceptance of trademark licensing. So long as the trademark licensor monitored the quality of the trademarked goods to ensure that they were of a "consistent quality," trademark licensing was deemed proper because it did not "mislead" the public.\footnote{Id. §18:44; see also Parks, supra note 32, at 533-35.} However, if the licensor failed to exercise appropriate quality control, the trademarked goods might fail to conform to the consumer's expectations and thus frustrate the public's reliance on the mark as a symbol of a consistent level of quality. Hence, under the emerging "quality theory," uncontrolled licensing—sometimes referred to as "naked" licensing—was considered illegal.\footnote{See MCCARTHY, supra note 19, §18:42; Parks supra note 32, at 534.} The penalty for engaging in naked licensing was that the licensor was deemed to have "abandoned" his mark—i.e., the
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trademark owner lost its right to exclude others from using the trademark.52

The judicially-created trend to allow controlled licensing was codified in the Lanham Act in 1946.53 While the Lanham Act does not specifically provide for trademark licensing, it permits use of a trademark by a “related company.”54 A “related company” is defined as “any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used.”55 It is now firmly established that the test of a “related company” is the same as that used at common law to determine whether adequate quality control is exercised over a trademark licensee.56 And it is equally clear that under the Lanham Act’s definition of “abandonment,” trademark licensing in the absence of “quality control” results in relinquishment of the trademark owner’s right to exclude others from using the mark.57 For the last fifty years, the quality assurance theory of trademarks—and the corollary rule requiring trademark licensors to control the quality of the goods or services produced by their licensees—has dominated trademark licensing in the United States.58

During this same time period, trademark licensing exploded in volume and, in some respects, evolved beyond the model which gave rise to the “controlled licensing” concept. Historically, “classical licensing” arrangements began with licensors who had previously manufactured a particular product or group of products.59 The licensor then essentially outsourced the manufacturing of those goods to quasi-independent licensees who, in turn, manufactured goods bearing the licensor’s mark.60 Ordinarily, the licensor provided its licensees with detailed standards and specifications for making the licensed goods.61 In this way, the licensor ensured the integrity of its mark in the public marketplace.

52 See id.
53 See id.
55 See.
56 See, e.g., National Trailways Bus Sys. v. Trailway Van Lines, Inc., 269 F. Supp. 352, 356-57 & n.7 (E.D.N.Y. 1965) (holding that “related company” did not exist in the absence of control over user’s nature and quality of services); see also McCarthy, supra note 19, § 18:42 (“The ‘Lanham Act[’s related company requirement] clearly carries forward the view of these latter cases that controlled licensing does not work on abandonment of the licensor’s registration, while a system of naked licensing does.”) (quoting Dawn Donut Co. v. Hart’s Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959)).
57 See McCarthy, supra note 19, § 18:42.
58 See Parks, supra note 32, at 532-33.
59 See Marks, supra note 6, at 646.
60 See id.
61 See id.
Classical licensing was soon eclipsed by franchise licensing, "a system based on non-exclusive, multiple trademark licenses." In the typical franchise relationship, a licensee is authorized to produce a product in accordance with a licensor's standards and specifications and the licensor is expected to monitor the licensee to ensure that those standards were followed. Generally, the licensor and the licensee are equally knowledgeable about the product or industry involved. Indeed, in many cases, the licensee, as the party that invented or conceived of the product, has more familiarity with its design and specifications than does the licensor. Many trademark licensing arrangements, especially those that occur in the franchising context, continue to follow this traditional model.

In more recent years, however, different forms of licensing arrangements have emerged which, collectively, have been referred to as "collateral product licensing." Collateral licensing has been defined as "the use of a mark on goods (or services) which are different, or which are used in media different, from those in connection with which the public recognition and demand were first created." For example, if Microsoft, which is known primarily for its computers, decided to license its trademark to a refrigerator manufacturer, this would be an example of "collateral product licensing." Collateral licensing has grown rapidly in the last twenty years and accounts for a substantial portion of total retail dollars earned through licensing.

A form of collateral product licensing is "promotional licensing," which is the use of a mark in circumstances where its primary function is to engender "consumer identification" with the mark as opposed to consumer reliance on the mark as an assurance of "consistent

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62 W.J. Keating, Promotional Trademark Licensing: A Concept Whose Time Has Come, 89 DICK. L. REV. 363, 364 (1985). This method of merchandising goods or services became prevalent after World War II and in 1982 accounted for $339 billion or 31 percent of merchandising in the United States." Id. (citation omitted). Thus, "[i]n 1982, franchising claimed one third of every retail sales dollar in the United States." Id. at 364 n.11.
63 See id.
64 See Marks, supra note 6, at 646.
65 For an excellent discussion of the significance of the quality control requirement in the context of promotional trademark licensing see id. at 648-49 (discussing the difficulties that licensors face setting licensing standards licensees' products in an unfamiliar industry).
66 Classical licensing is not limited to franchise relationships. Established corporations commonly outsource the manufacture of their goods to trademark licensees to save costs. In 1980, for example, Questor Corporation "produced nearly all of its Spalding products itself, and lost $12.6 million on sales of $273 million." Id. at 647. To remedy the situation, Questor decided to outsource its manufacturing operations to trademark licensees, and, three years later, "earned $12 million on $250 million of sales." Id.
67 Id. at 646.
68 Id. (observing that, in 1986, brand name licensing sales accounted for 28% of the total licensed product market).
69 See id.
Both Alfred Marks and W.J. Keating have discussed the differences between classical and promotional licensing. Marks points out that promotional trademark licensing emerged in the 1970s, led by a number of famous merchandising forerunners, such as Mickey Mouse, Star Wars and Snoopy. Colleges and universities, the NFL and the Olympic Committee followed suit, licensing the use of their names and emblems to various manufacturers. "In 1985," for example, "the Coca Cola Company authorized Murjani International Ltd. to design and manufacture a line of Coca-Cola apparel which was estimated to gross $100 million in wholesale sales during 1986." Thus, today, we can buy Coke pants, as well as IBM beach towels and Michael Jordan gym shoes. All of these are examples of promotional trademark licensing.

As Keating explains, in more classical forms of trademark licensing, the consumer (at least theoretically) is “motivated to purchase a product bearing a trademark because of the consumer’s expectation that the product will meet the quality standards that the trademark owner achieves.” Conversely, in promotional trademark licensing, the consumer “is not motivated by the quality level of the product, but rather wishes to identify with the trademark owner.” In promotional licensing, “[t]he trademark proclaims the exhibitor’s loyalty, admiration or sympathy with the organization represented by the trademark . . . .” In the promotional licensing context, available empirical data suggests that consumers do not believe that the licensor made or established quality standards for a particular product, but rather that the licensor authorized the use of its name or mark in connection with the product and will financially benefit from the sale of the product in some way. In promotional licensing, a trademark’s primary function is to help sell the goods. The trademark does not indicate physi-

70 See id.
71 See Keating, supra note 62, at 365-69 (discussing the advent of promotional trademark licensing and its impact on trademark law); Marks, supra note 6, at 641 (discussing the need for a new standard of policing quality control in trademark licensing due to changes in the licensing market place).
72 See Marks, supra note 6, at 646.
73 See id.
74 Id. at 647.
75 Id. at 647.
76 Keating, supra note 62, at 372.
77 Id. (citing University of Pittsburgh v. Champion Products Inc., 686 F.2d 1040, 1047 (3d Cir. 1982) (“The entire impetus for the sale is the consumer’s desire to identify with Pitt or, perhaps more realistically, with Pitt’s successful athletic programs.”)).
78 See id. (citing University of Pittsburgh, 686 F.2d at 1047 (“No one would seriously assert that a significant segment of the public believes that Pitt actually manufactured the goods involved.”)).
cal source or a "consistent level of quality," or even that the trade-
mark owner is a source of quality control standards for the goods. 79

D. The "Quality Control" Requirement

Given the ambiguities in the quality assurance theory, courts and
commentators have had considerable difficulty defining the contours
of the quality control requirement. As one commentator has ob-
served, "[n]either 'quality' nor 'control' is defined in the Lanham
Act; they are common law creatures whose evolution is incomplete
and inconsistent." 80 It may be helpful to examine each of these terms
separately.

1. "Quality"

No one has ever suggested that "quality" necessarily means "high
quality" for purposes of defining a licensor's duties under the Lanham
Act. Rather, it is generally agreed that quality in this context means
"even quality" or a "consistent level of quality." 81 The underlying
notion seems to be that consumers come to associate trademarks with
a certain level of quality and that they will be misled if items bearing
that trademark no longer meet the same standard of quality.

Thus, if consumers normally associate the K-Mart trademark with
a relatively low level of quality, they will expect that same low level
of quality whenever they buy goods bearing the K-Mart symbol. If
the K-Mart merchandise is better than they expected, they will have
been deceived—pleasantly deceived, but deceived nonetheless. If,
however, consumers normally associate the K-Mart trademark with a
high level of quality, and the K-Mart merchandise they purchase is
worse than expected, they will be similarly deceived, this time un-
pleasantly.

To the extent courts have discussed this issue, they have held that
"quality" means "consistent quality" in this context. 82 Justice Stewart
expressed the concept succinctly by stating that, "[a]n important ingre-
dient of the premium brand inheres in the consumer's belief,

79 Public perception is not the only area in which classical and promotional trademark li-
censing differ. They also differ with respect to the licensor's practical ability to establish qual-
ity standards for the trademarked goods. A growing number of courts have, in fact, "recog-
nize[d] the right of the institution owning the trademark to control and license it without requir-
ing the quality assurance function" to be fulfilled. Keating, supra note 62, at 363-64 (citations
omitted). This approach has not taken hold as a general rule; rather, most courts have continued
to hold that promotional licensors, like other licensors, are required to satisfy the Lanham Act's
quality control requirement. See generally McCARTHY, supra note 19, § 18:42 (noting the gen-
eral rule that uncontrolled licensing works an abandonment of the mark).

80 Parks, supra note 32, at 538.

81 McCARTHY, supra note 19, § 3:10.

82 Id.
measured by past satisfaction and the market reputation established by [respondent] for its products, that tomorrow's [product] will contain the same premium as that purchased today.\(^3\)

To protect consumer expectations, courts have held that trademark owners have a duty to police their licensees to ensure a consistent level of quality.\(^4\) But courts have had difficulty defining precisely what the term "consistent level of quality" means. One pair of commentators has suggested that:

the standard of quality which the licensee must meet is that of the licensor's own goods, whether high, low or mediocre. If the licensor does not manufacture the [licensed] goods, the standard may be similar products of the licensor or other licensees, or similar articles produced by designated competitors.\(^5\)

This standard has several flaws. First, there is the "diverse quality" problem. That is, goods produced under an established mark may have been of an "uneven" or inconsistent quality even when the trademark owner manufactured them. Manufacturers may sell a "bad batch" of goods because some product defects are difficult to spot. Furthermore, the quality of any given line of goods may vary over time, depending on the vigilance with which a manufacturer monitors quality. Thus, it may be illogical to require a licensee to produce goods that are of the "same quality" as those that are manufactured by the licensor, since the licensor's own goods may not reflect a consistent level of quality.

Second, such a requirement would be especially problematic in the collateral and promotional licensing contexts. As we have seen,
trademark owners often wish to exploit their marks in new product lines. This is not a rare or unique occurrence; indeed, collateral market licensing may be more common today than traditional licensing. However, in collateral licensing, there are no other goods by which to set the relevant quality benchmark. In these circumstances, it is not reasonable to say that the quality level must be the same as other products produced by the licensor, because the licensor will not have produced similar products. For example, when Coca-Cola licenses its trademark to a teddy bear manufacturing company, Coke can not possibly determine whether Coke teddy bears are as good as its soft drinks. Nor can Coke teddy bears be compared with similar products produced by other manufacturers. Which other manufacturers are we to consider? All kinds of teddy bears exist—good ones, bad ones and mediocre ones. Must Coke teddy bears be as good as the best teddy bears that are marketed by other manufacturers?

This difficulty has left collateral licensors in a bind. Because they have never manufactured the product they now wish to produce through a licensee, they are not ordinarily in a position to point to a relevant and controlling quality standard for the new product line. Nor are they in a position to supply their licensees with specifications or designs for the new product. Indeed, the licensor probably has approached the licensee precisely because it is experienced in the relevant industry and is in a superior position to establish appropriate specifications and quality standards for the product.

2. "Control"

Matters are made worse by the fact that courts have not been able to articulate a consistent test for determining the degree or type of control that licensors must exercise to satisfy the Lanham Act. The relevant section of the Lanham Act states that a trademark is subject to cancellation "on the ground that the registrant (A) does not control, or is not able legitimately to exercise control over, the use of such mark." Theoretically, control may include (1) the provision of detailed specifications and standards for goods to be produced; (2) the submission of plans, drawings, preliminary models and actual samples; (3) unannounced spot inspections of the licensor's plant and facilities; (4) detailed rules about the placement size, proportions and

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86 As Parks points out, this practice may be mushrooming in recent years but it is not new. See Parks, supra note 32, at 539 (citing Finchley, Inc. v. George Hess Co., 24 F. Supp. 94 (E.D.N.Y. 1938), as an example of an "old" case involving collateral market licensing).

use of the trademark to be affixed; and (5) remedies for failure to meet such standards.\(^8\)

Unfortunately, it is impossible to discern from the cases a single test for determining which type of control or how much control must be contractually retained or actually exercised. A number of commentators have observed that the relevant cases are all over the map.\(^8\) At one end of the spectrum are cases holding that the licensor must exercise extensive control over the licensee, including the provision of initial specifications, and then police the licensee to ensure those specifications are followed.\(^9\) Indeed, a few cases have held that the lack of adequate control will invalidate trademark rights.\(^9\) At the other end of the spectrum are cases holding that the mere contractual right to exercise quality control is sufficient.\(^9\) Between these extremes are cases upholding varying degrees of control, including cases finding no abandonment despite the licensor's "reasonable reliance" on its licensees to establish specifications, set quality standards and otherwise monitor quality.\(^9\)

Thus, it seems that, despite the articulated rule that the failure to exercise quality control results in abandonment, courts have been reluctant to enforce this requirement.\(^9\) This appears to be because the issue typically arises in the context of a licensor's suit against an infringer, and in such circumstances, courts are reluctant to reward a party with such "unclean hands."\(^9\) Accordingly, as against a clear infringer, courts typically stretch to find some way to uphold the licensor's ownership rights in the mark.\(^9\) As a result of these decisions, courts have diluted the quality control requirement to the point where its meaning is no longer clear, if it even has any meaning at all.\(^9\)

\(^8\) See Marks, supra note 6, at 644.
\(^9\) See id. at 644-45 (stating that courts vary widely on requirement of control); see also Parks, supra note 32, at 539-40 (same).
\(^9\) See, e.g., First Interstate Bancorp v. Stenquist, 16 U.S.P.Q.2d 1704, 1706 (N.D. Cal. 1990) (holding that facts must demonstrate that licensor had actual control).
\(^9\) See, e.g., Midwest Fur Producers Ass'n v. Mutation Mink Breeders Ass'n, 127 F. Supp. 217, 228-29 (W.D. Wis. 1954) (holding that there was no adequate control over commonly used words); Heaton Enters. of Nevada Inc. v. Lang, 7 U.S.P.Q.2d 1842, 1847 (Trademark Tr. & App. Bd. 1988) (finding abandonment of mark and invalidity of license agreements because of non-exercise of quality control).
\(^9\) See Parks, supra note 32, at 540 (citations omitted).
\(^9\) See Parks, supra note 32, at 541-44 (documenting courts' failure to find abandonment). But see cases cited supra note 91 for instances in which abandonment was found.
\(^9\) Parks, supra note 32, at 547.
\(^9\) See id.
\(^9\) See id. at 544.
3. Minimalist Quality Control Programs

For some trademark licensors, an extensive quality control program is appealing for business reasons. For example, when Coca-Cola licenses independent bottlers to make, bottle and distribute Coca-Cola products, it is probably both possible and desirable for Coca-Cola to strictly control the entire manufacturing process. Indeed, Coca-Cola would not be able to maintain the reputation of its products if its licensees did not use the same ingredients and formula. Not surprisingly, then, Coca-Cola has an army of inspectors to ensure compliance with its extensive quality control program. In this type of "classical" licensing situation, the economic incentives and means exist to provide for extensive licensor quality control.

Despite the apparent attraction of such programs in classical licensing situations, there is evidence that even here many licensors do not have quality control programs. As Kevin Parks has observed, "[a]s long as thirty years ago Senate hearings revealed widespread evasion of the control requirement, even in traditional licensing contexts." Moreover, the problem became only worse with the rise of collateral licensing. As Parks concludes:

Such evasion necessarily increased as "traditional" gave way to "collateral" licensing—where the licensor had less knowledge of the character of licensed products and therefore less ability to control quality in a meaningful way—and then crossed over into "merchandise" or "promotional" licensing where there is no primary, underlying product against which to compare the quality of licensed goods, and consumers are motivated not by perceived quality, but by the desire to express Loyalty, Admiration or Sympathy (LAS) toward an organization or merchandising concept.

In these situations in particular, "[t]o require the owner of the trademark to inaugurate an imaginary quality-control program to satisfy legal requirements, constructed by courts in dissimilar situations, is to elevate form over substance. The trademark owner is subject to unnecessary expense without any real benefit to consumers." Recognition of these realities

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98 See Marks, supra note 6, at 648 ("A company such as the Coca-Cola company has codified licensing and franchising specifications for its independent bottlers, and staffs of inspectors make certain that the licensing requirements are followed.").

99 Parks, supra note 32 at 544 (citing Trademark Licensing: The Problem of Adequate Control, 59 TRADEMARK REP. 820 (1969)).
makes modern courts even less likely to strictly interpret and enforce the quality control requirement.\textsuperscript{100}

As Parks and other commentators have recognized, many collateral licensors have instituted "illusory" quality control programs in response to the uncertain quality control standards set by courts and their own practical inability to establish or monitor quality standards on the licensed goods.\textsuperscript{101} The typical "illusory" program might consist of a licensing agreement reciting the "magic" language—e.g., giving the licensor the legal right to provide product specifications, to set quality standards and to inspect the goods.\textsuperscript{102} In the meantime, none of this quality control occurs.

The fact that quality control is frequently illusory has important implications for the primary issues addressed in this Article. Specifically, the illusory nature of quality control programs, coupled with the inherent ambiguity of the quality control requirement, may mean that courts cannot assume that trademarks always signify that the products on which they appear are of a consistent level of quality or that they emanate from a single source of quality control standards. Indeed, it is clear that licensors, licensees and consumers do not make such assumptions.\textsuperscript{103} To the contrary, practical realities often make it undesirable or inefficient for the licensor to exercise quality control. And consumers frequently do not assume a particular trademark signifies that the trademark owner made the product or that it is the source of quality control standards. This is especially likely to be true in the collateral and promotional licensing contexts.

\textsuperscript{100}Id. at 544-45 (quoting Keating, supra note 62, at 378).

\textsuperscript{101}See Parks, supra note 32, at 545; see also Keating, supra note 62, at 378 (arguing that "[t]o require the owner of the trademark to inaugurate an imaginary quality-control program to satisfy legal requirements, constructed by courts in dissimilar situations, is to elevate form over substance"). As Marks observes, in the increasingly prevalent collateral licensing situation, specifications cannot be supplied to the licensee because no one on the licensor's staff knows what standards to specify when licensing in an unfamiliar industry. At best, the agreement will call for merchandise based on some objective standard . . . . After the agreement is executed, samples will be furnished by the licensee, advertising and labeling will be prepared and approved. Proper trademark notices will be specified and utilized on the samples. Thereafter, active control over the licensee will be likely to cease. The business people will be concerned with their next business deal and will not be likely to continue reviewing the licensee's activities, so long as the royalty checks continue to arrive on time.

Marks, supra note 6, at 648-49.

\textsuperscript{102}Indeed, in such situations, the licensor is caught in a "catch 22." If the licensor admits that its quality control program is illusory—i.e., that it exists only on paper—it risks a finding of abandonment in a subsequent proceeding. On the other hand, if the licensor does not make such an admission, it risks a finding that it is vicariously liable for the torts of its licensee on the ground that it has exercised control over the quality of the goods.

\textsuperscript{103}See Keating, supra note 62, at 372 (noting that consumers do not always assume quality control by licensor); Marks, supra note 6, at 649 (observing that licensors and licensees do not always assure quality control).
III. The Apparent Manufacturer Doctrine

As we have seen, trademarks may function to identify the manufacturing source, or the source of standards and specifications for the production of trademarked goods. For this reason, consumers frequently conclude that trademark owners either manufactured the goods or dictated the standards for manufacturing their licensees' goods. Nevertheless, there is a split of authority in the reported cases as to whether the apparent manufacturer doctrine applies to trademark licensors. Some courts, adopting an expansive approach, have held that the doctrine applies to licensors whenever a licensor's name or mark appears on a product. Other courts, reflecting a more restrained approach, have held the doctrine applicable in only limited circumstances. Still other courts have held that the doctrine does not apply to licensors under any circumstances. The Third Restatement of Torts follows the latter approach.

This section first describes the basic contours and underlying rationales of the apparent manufacturer doctrine as it has been applied to trademark licensors in the case law. It then discusses numerous judicially created limitations that have diminished the utility of the doctrine in the trademark-licensing context.

A. The Apparent Manufacturer Doctrine and Trademark Licensors

In its broadest formulation, the apparent manufacturer doctrine holds that an entity that implicitly represents to the public that it is the manufacturer of a product will be treated as though it was the actual manufacturer of the product and will be held liable accordingly. The doctrine is stated succinctly in section 400 of the Restatement (Second) of Torts: "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." Courts and commentators have articulated two distinct rationales for the apparent manufacturer doctrine. First, several courts have noted that the doctrine is a species of estoppel, i.e.:

the vendor who, through its labeling or advertising of a product, caused the public to believe that it was the manufacturer and to buy the product in reliance on the vendor's reputation and care in making it, was held to have assumed

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104 See infra note 135 and accompanying text.
105 See infra Part III(B).
106 See infra note 140 and accompanying text.
107 RESTATEMENT (SECOND) OF TORTS § 400 (1965).
the obligations of a manufacturer and to be estopped to deny its identity as the manufacturer.\textsuperscript{108}

According to this rationale, the doctrine focuses on what the trademark owner did to induce consumers to believe that the trademark owner actually manufactured the goods in question and purchase those goods in reliance on this specific belief. If this is the controlling rationale, it should not matter if a particular consumer learns the identity of the true manufacturer after purchasing the product, because she will have already purchased the product in reliance on the reputation of the trademark owner.

A second justification sometimes given for the apparent manufacturer doctrine is that "where a defendant puts out a product as its own, the purchaser has no means of ascertaining the identity of the true manufacturer, and it is thus fair to impose liability on the party whose actions effectively conceal the true manufacturer's identity."\textsuperscript{109} This rationale focuses on whether a consumer, due to the actions of the trademark owner, is unable to identify (and sue) the true manufacturer of the product. The trademark licensor is therefore held liable only if the true manufacturer is unidentifiable. Courts citing this rationale have held apparent manufacturers immune from liability if before—or immediately after—suit was filed the apparent manufacturer informed the plaintiffs of the identity of the product's true manufacturers.\textsuperscript{110}

The official comments to section 400 do not explicitly discuss whether the apparent manufacturer doctrine applies to trademark licensors. Rather, they refer to trademark owners generally and indicate that the apparent manufacturer doctrine applies to those trademark owners in two types of cases: (1) where the trademark owner appears to be the actual manufacturer of the product, and (2) where the product appears to have been made for the trademark owner and its reputation serves as an assurance to the user of the quality of the product's quality.\textsuperscript{111}

Citing these comments, a number of courts have applied the doctrine to trademark licensors. In \textit{Brandimarti v. Caterpillar Tractor Co.},\textsuperscript{112} for example, the Plaintiff sued for personal injuries he incurred while driving a forklift bearing the "Caterpillar" tradename. The forklift was manufactured by "Towmotor," Caterpillar's wholly

\textsuperscript{108} Hebel v. Sherman Equip., 442 N.E.2d 199, 201 (Ill. 1982).
\textsuperscript{109} \textit{Id.} at 201-02.
\textsuperscript{111} See \textit{RESTATEMENT (SECOND) OF TORTS} § 400 cmt. d (1965).
\textsuperscript{113} See \textit{id.} at 138-39.
owned subsidiary, and Caterpillar was not involved in the design, manufacture, or marketing of the forklift. Nevertheless, the court held that Caterpillar could be held strictly liable for the defective forklift because "Caterpillar could expect others to purchase the product in reliance on the skill and reputation associated with the Caterpillar name."  

*Brandimarti* represents a broad interpretation of the apparent manufacturer doctrine. The court did not require the injured Plaintiff to prove that he actually relied on the Caterpillar trademark before riding the forklift, or that the forklift owner so relied in making his purchase decision. Nor did the court require the Plaintiff to prove that Caterpillar exercised quality control over Towmotor or otherwise participated in the manufacture, design or sale of the defective forklift. Rather, the court held Caterpillar vicariously liable for its licensee's defective forklift solely because Caterpillar could expect consumers to rely on the Caterpillar name when making their purchase decisions. The court concluded that Caterpillar could have such an expectation despite the fact that the "Towmotor" trademark also appeared on the defective forklift.

The apparent manufacturer doctrine was also applied to a trademark licensor in *Connelly v. Uniroyal, Inc.* There, a motorist brought a products liability suit against a Belgian tire manufacturer (the trademark licensee) and the manufacturer's American parent company (the trademark licensor). Plaintiff alleged that he suffered serious personal injuries when the allegedly defective tire failed during operation of his car. The court refused to hold the parent company liable under corporate veil-piercing principles, but nevertheless found that the relationship between the two companies, coupled with the manufacturer's use of the parent company's trademark on the defective tire, provided ample justification for imposing strict liability on the licensor under section 400.

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114 See id. at 139.
115 See id.
116 Id. at 139-40; see also *Forry v. Gulf Oil Corp.*, 237 A.2d 593 (Pa. 1968) (holding distributor strictly liable where it had its own trademark embossed on the casing of tires manufactured by another).
117 See *Brandimarti*, 527 A.2d at 139-40.
118 See id. at 139.
119 See id. at 139-40.
120 See id. at 139.
121 389 N.E.2d 155 (Ill. 1979).
122 See id. at 157.
123 See id.
124 See id. at 162-63.
In so holding, the Illinois Supreme Court took an expansive view of the apparent manufacturer doctrine, stating that:

[a] licensor is an integral part of the marketing enterprise, and its participation in the profits reaped by placing a 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. The societal purposes underlying [strict liability] mandate that the doctrine be applicable to one who, for a consideration, authorizes the use of his trademark, particularly when, as here, the product bears no indication that it was manufactured by any other entity.125

A similar result was reached in Carter v. Joseph Bancroft & Sons Co.126 There, the Plaintiff was badly injured when her dress caught fire at a dinner party.127 Printed on the label of the dress were these words:

BAN-LON Fashion
This BAN-LON fashion is beautifully different, outstandingly easy-care. . . .
BAN-LON is a trademark identifying garment, fabrics, and articles made according to specification and quality standards prescribed and controlled by Joseph Bancroft & Sons Co. . . .
Unauthorized use of this tag is prohibited.128

And on the reverse side: “A Beautiful Ban-Lon Fashion Anika New York.”129

Plaintiff argued that Bancroft, the trademark licensor, was strictly liable under section 400 as the apparent manufacturer of the garment. Bancroft argued that Plaintiff could not contend that it was the apparent manufacturer of the dress because the label also contained the name of the actual manufacturer—“Anika.”130 In so arguing, Bancroft relied on the language of comment (d) to section 400, which provides that:

125 Id. at 163 (citation omitted). The Connelly court specifically rejected Uniroyal’s argument that section 400 did not apply to it because the doctrine only applies to licensors who are also a link in the chain of distribution or otherwise substantially involved in the manufacture, design or sale of the product, and Uniroyal contended that it did not fit into this category. See id.
127 Id. at 1105.
128 Id. at 1105-06.
129 Id. at 1106.
130 See id. at 1107.
where the real manufacturer is clearly and accurately identified on the label or other markings on the goods, and it is also clearly stated that another who is also named has nothing to do with the goods except to distribute or sell them, the latter does not put out such goods as his own.\textsuperscript{131}

The court held that comment (d) did not relieve Bancroft of liability under section 400, because even if Anika was the actual manufacturer (which was not established at trial), the label did not "clearly state that [Bancroft] had nothing to do with the goods except to distribute or sell them."\textsuperscript{132} The court thus took a broad view of the scope of the apparent manufacturer doctrine and a narrow view of the exception contained in comment (d).

There is little discussion in the reported cases as to whether an injured consumer must prove that she purchased the defective goods in reliance on the reputation associated with the trademark or whether the court may presume such reliance if a "holding out" has otherwise been shown. While some courts have clearly required proof of individual reliance,\textsuperscript{133} a number of courts have allowed recovery if plaintiff showed that a reasonable consumer would have believed that the licensor manufactured the goods in question.\textsuperscript{134}

### B. Limitations on the Doctrine in the Licensing Context

Despite the seemingly broad sweep of the apparent manufacturer doctrine, only a few courts have imposed liability on a trademark licensor solely because its trademark or tradename appeared on a defective product.\textsuperscript{135} Moreover, the doctrine has been judicially limited

\textsuperscript{131} Id. at 1107 (quoting RESTATEMENT (SECOND) OF TORTS § 400 cmt. d (1965)).

\textsuperscript{132} Id.

\textsuperscript{133} See, e.g., Nelson v. International Paint Co., 734 F.2d 1084 (5th Cir. 1984) (dismissing Plaintiff's section 400 claim because there was no proof that the Plaintiff had relied on Defendant licensor's trademark in purchasing product); In re TMJ Implants Products Liability Litigation, 880 F. Supp. 1311, 1321 (D. Minn. 1995) ("[P]laintiffs do not even contend that they believed that those defendants [the trademark licensors] were in fact the manufacturers."); aff'd, 113 F.3d 1484 (8th Cir. 1997); Brandimarti v. Caterpillar Tractor Co., 527 A.2d 134, 139-40 (Pa. Super. Ct. 1987) ("Caterpillar could expect others to purchase the product on reliance on the skill and reputation associated with the Caterpillar name."). For a critical analysis of the reliance issue in the trademark-licensing context, see infra Part IV.

\textsuperscript{134} See, e.g., Carter v. Joseph Bancroft & Sons Co., 360 F. Supp. 1103, 1107 (E.D. Pa. 1973) ("[Defendants-licensors] clearly state on their label that the article was made according to specifications and quality standards prescribed and controlled by defendants. Thus, under Section 400 . . . the jury could have found defendants to be liable as a manufacturer . . . ."); Connelly v. Unisroyal, Inc., 389 N.E.2d 155 (Ill. 1979) (holding that public policy mandates that a licensor who allows use of its trademark, particularly when the product otherwise bears no indication it was manufactured by another entity, should be held liable as a manufacturer).

\textsuperscript{135} See, e.g., Carter, 360 F. Supp. at 1107 (holding that because the Defendant's name was clearly stated on a defective product, the Defendant could be held liable as manufacturer); Connelly, 389 N.E.2d at 163 (holding that "the [apparent manufacturer] doctrine [is] applicable to
in the trademark licensing context in at least five important respects: (1) the doctrine has not been recognized in every jurisdiction; (2) several courts have limited the doctrine to "sellers," and trademark licensors technically do not "sell" the licensed goods; (3) some courts have defined the reliance element in a manner that rendered the doctrine inapplicable to the cases at bar; (4) licensors may be immune from liability if the name or mark of the actual manufacturer is clearly displayed on the defective product; and (5) some courts have required plaintiffs to demonstrate not only that the licensor appeared to be the manufacturer of the licensed product, but also that it was actually involved in manufacturing or designing the product. These limitations are discussed in turn below.

1. The Apparent Manufacturer Doctrine Has Not Been Adopted in Every State

First, as a threshold matter, the apparent manufacturer doctrine has not been adopted in every state, and thus can not necessarily be used as a basis of trademark licensor liability in such states.\(^{136}\) Indeed, in several jurisdictions, courts or legislators have expressly declined to adopt the doctrine.\(^{137}\) As discussed more fully below, the doctrine originated in the house-branding context and served as a means to impose a manufacturer's liability on a retail seller, who, by placing its name or mark on a product manufactured by another entity, held itself out as the actual manufacturer of the product.\(^{138}\) The doctrine was then extended by some courts to include trademark licensors.\(^{139}\) If a particular state has not adopted the doctrine in the house-branding context or has expressly rejected the doctrine in that context, however, an injured consumer may have difficulty relying on the doctrine as a ground for licensor liability in that state.

2. The Doctrine May Not Apply to Non-Selling Licensors

Second, and perhaps most significantly, a number of courts have held that the doctrine is limited to commercial sellers or distributors.

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\(^{136}\) See, e.g., Torres v. Goodyear Tire & Rubber Co., 867 F.2d 1234, 1236 (9th Cir. 1989) (refusing to apply apparent manufacturer doctrine to Goodyear because "Arizona has not adopted the apparent manufacturer doctrine"); Affiliated FM Ins. Co. v. Trane Co., 831 F.2d 153, 155 (7th Cir. 1987) (finding parent corporation not liable for defective heaters manufactured by its subsidiary because "Wisconsin has not adopted the 'apparent manufacturer' doctrine").


\(^{138}\) See infra notes 143-50 and accompanying text.

\(^{139}\) See supra Part III(A).
who hold themselves out as manufacturers, and thus the doctrine does not apply to trademark licensors since the latter technically do not sell or distribute the goods on which their marks appear. Following this line of cases, the recently released Third Restatement of Torts states that the apparent manufacturer doctrine does not apply to trademark licensors under any circumstances. To fully understand why the new Restatement takes this position, it is necessary to review the historical origins of the doctrine and the way in which it was originally codified in section 400 of the Restatement (Second) of Torts.

As a historical matter, the apparent manufacturer doctrine developed before trademark licensing was pervasive in the United States and before the doctrine of strict liability was applied to sellers generally. Courts first applied the apparent manufacturer doctrine in the early twentieth century to wholesale and retail sellers who placed their own house labels on goods that had been manufactured by others. Such sellers have been variously referred to as "house-branders" or "house-labelers"; I shall use both terms throughout the remainder of this Article.

Sometimes the house-brander affixed its own label to goods that were made especially for the house-brander. Other times house-branders bought a common batch of goods that were not manufactured especially for the house-brander but nevertheless labeled the goods with the house-brander's own logos or trademarks. Some

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1See, e.g., Torres, 867 F.2d at 1236 ("The cases which apply the apparent manufacturer doctrine demonstrate that section 400 applies only where a retailer or distributor has held itself out to the public as the manufacturer of a product."); Affiliated FM Ins. Co., 831 F.2d at 155 (finding section 400 inapplicable to parent corporation licensor because defective product was "put out" by parent's subsidiary, not by parent); Nelson v. International Paint Co., 734 F.2d 1084, 1088 (5th Cir. 1984) (holding that under Texas law, section 400 does not apply to a trademark licensor who does not manufacture or market the defective product); Harmon v. National Automotive Parts Ass'n, 720 F. Supp. 79, 81 (N.D. Miss. 1989) (applying Mississippi law to hold that "comments to Section 400 . . . suggest that [it] does not apply to one who is not a seller or distributor of a product"); Burkert v. Petrol Plus of Naugatuck, 579 A.2d 26, 33 (Conn. 1990) (holding that apparent manufacturer doctrine does not apply where trademark licensor was not involved in the "sale, lease, gift or loan" of the defective product).


142For an excellent summary of the history of the apparent manufacturer doctrine, see Hebel v. Sherman Equipment, 442 N.E.2d 199, 201 (Ill. 1982).

143The apparent manufacturer doctrine was first included in the Restatement in 1934. See RESTATEMENT (FIRST) OF TORTS § 400 (1934) ("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."). Section 402A, which extended strict liability to retail sellers, was included in the Second Restatement in 1965. See RESTATEMENT (SECOND) OF TORTS § 402A cmt. a (1965).

144See, e.g., Degouvia v. H.D. Lee Mercantile Co., 100 S.W.2d 356, 358 Mo. App. 1936 (salmon packed especially for wholesaler).

145See, e.g., Swift & Co. v. Hawkins, 164 So. 231, 232 (Miss. 1935) (holding seller of cheese bearing seller’s label, but manufactured by some third person, liable for gastric disturbance sustained as a result of cheese); see also Slavin v. Francis H. Leggett & Co., 121 A.120
At the time, non-manufacturing sellers were not generally subject to liability for the defective products they sold unless they altered the goods post-manufacture, breached an express or implied warranty, or otherwise caused the plaintiff's injury. Against this backdrop, the apparent manufacturer doctrine emerged as a means to impute a manufacturer's liability to a certain subset of retail sellers. Employing common law estoppel principles, courts increasingly held that house branders should be estopped from denying that they manufactured the goods in question under certain conditions. Specifically, the doctrine was to be applied where the presence of the house-branders' trademarks or logos on goods was likely to lead reasonable consumers to believe that the house-branders had either manufactured the goods or specifically commissioned another entity to manufacturer such goods.

The rationale for the rule was two-fold. First, it was meant to protect consumer expectations that a product made by a particular seller was, in fact, of a quality that the consumer had come to associate with that seller. Second, it was meant to provide injured consumers with a remedy against someone if the identity of the actual manufacturer of a defective product was not disclosed on that product or was otherwise undiscoverable by the injured party.

Depending on which of these two rationales was seen as dominant, courts were willing to entertain certain exceptions to the rule. In some cases, courts exempted house-branders from liability if the name of the actual manufacturer appeared on the defective product,

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(N.J. 1935) (holding that corporation that sold can of peas under its own tradename liable as apparent manufacturer).

146 See Degouvia, 100 S.W.2d at 337.

147 See Slavin, 177 A. at 121 (finding distributor of canned peas liable where product bore only its name and failed to state that it was not the canner of the peas); see also Burkhardt v. Armour & Co., 161 A. 385 (Conn. 1932) (noting that canned meat bearing Defendant's trademark did not indicate the identity of real packer) Lill v. Murphy Door Bed Co., 8 N.E.2d 714 (Ill. App. 1937) (observing that Defendant affixed its own label to bed made by Simmons Company); Davidson v. Montgomery Ward & Co., 171 Ill.App. 355 (1912) (noting that saw frame manufactured by another entity bore Defendant's initials and gave no indication that it had been made by another).

148 See generally Carney v. Sears, Roebuck & Co., 309 F.2d 300 (4th Cir. 1962) (holding house-labeler Sears liable as apparent manufacturer when its "Craftsman" trademark was sole mark on product and there was no indication of actual manufacture); Burkhardt v. Armour & Co., 161 A. 385 (Conn. 1932), overruled in part by Popora v. City of New Haven, 167 A. 668 (Conn. 1936).
on the theory that the plaintiff could sue the actual manufacturer.\textsuperscript{149}
In such circumstances, courts apparently reasoned that the injured consumer either (1) had a remedy already, (2) had no need to sue the house-brand, or (3) in any event, could not reasonably claim that the house-brand was the apparent manufacturer.\textsuperscript{150}

Other courts applied the same leniency toward house-branders, but only if in addition to disclosing the name of the actual manufacturer, the product also stated that the seller had nothing to do with the goods other than labeling and selling them.\textsuperscript{151} These courts apparently reasoned that the doctrine served a greater purpose than merely protecting consumers from unidentified manufacturers. In the view of these courts, the doctrine was also designed to protect consumers' expectations that house-branded goods were likely to be somewhat better than other goods, particularly if the consumer associated the seller's logo with a high standard of quality.\textsuperscript{152} To protect these expectations, courts held that a house-brander would not be immune from liability unless the labeled goods clearly stated that the seller had nothing to do with the goods except to label or sell them.\textsuperscript{153} Other courts refused to enforce such disclaimers and held house-branders liable even if the identity of the actual manufacturer was disclosed and the seller disclaimed involvement with the goods.\textsuperscript{154}

All of these strands of the doctrine converged when it was codified in section 400 of the Second Restatement of Torts. That the doctrine had developed in the house-branding context is evident even in the title of section 400—"Selling as Own Product Chattel Made by Another." Moreover, the text of section 400 states that it applies to "[o]ne who puts out his own product a chattel manufactured by another."\textsuperscript{155} The official comments further provide that "[t]he words 'one who puts out a chattel' includes 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."\textsuperscript{156} A plausible argument can therefore be made that section 400 is intended to apply only to entities that are engaged in the actual physical transfer of goods. Trademark licensors, of course, ordinarily do not fall into that category.

\textsuperscript{149} See, e.g., Hebel v. Sherman Equipment, 442 N.E. 2d 199, 201-03 (Ill. 1982) (discussing historical evolution of the "holding out" doctrine and citing cases); see also 2 HURSH & BAILEY, AMERICAN LAW OF PRODUCTS LIABILITY § 7:2 (2d ed. 1974) (citing cases).
\textsuperscript{150} See Hebel, 442 N.E.2d 199.
\textsuperscript{151} See id.
\textsuperscript{152} See id.
\textsuperscript{153} See id.
\textsuperscript{154} See id.
\textsuperscript{155} Restatement (Second) of Torts § 400 (1965) (emphasis added).
\textsuperscript{156} Id. cmt. a (emphasis added).
Another layer of confusion is added by comment (d) to section 400, however, which seems to suggest that the doctrine applies to trademark licensors. Comment (d) states that a trademark owner puts out a product as its own in two types of cases: (1) where the trademark owner appears to be the actual manufacturer of the product, and (2) where the product appears to have been made for the trademark owner and its reputation is an assurance to the user of the quality of the product. The two identified categories would seem to apply equally to house-branders and to trademark licensors. On the other hand, any inference that the doctrine is intended to apply to trademark licensors seems to be negated by the language of comment a, which mentions only the “sale ... lease ... gift or loan” transactions.

The inherent ambiguity of section 400 led courts to take divergent views as to whether the doctrine could apply to trademark licensors. As we have seen, some courts held the doctrine inapplicable to trademark licensors on the grounds that section 400 applies only to entities who (unlike trademark licensors) “sell, lease, give or loan” products. Other courts essentially ignored the comments to section 400, or have at least found them inconclusive and non-controlling in the trademark-licensing context, and applied the doctrine to trademark licensors who held themselves out as apparent manufacturers of defective goods. Courts adopting this view took the position that, given the underlying rationale of the doctrine as it had evolved in the house-branding context, it should apply with equal force in the trademark-licensing context.

For example, in Brandimarti, discussed above, the court premised Caterpillar's liability on the sole fact that "Caterpillar could expect others to purchase the product in reliance on the skill and reputation associated with the Caterpillar name." Similarly, in Connelly, also discussed above, the Illinois Supreme Court expressly rejected Uniroyal's argument that section 400 only applies to entities that also sell or distribute the goods in question. Finding that there was no reason why the doctrine should not apply in the licensing context, the
court held that the doctrine applies to all trademark licensors, regardless of whether they also sell or distribute the goods in question.\footnote{See Connelly v. Uniroyal Inc., 389 N.E.2d 155, 163 (Ill. 1979). The court in Connelly applied a hybrid analysis combining both section 400 and section 402A of the Restatement (Second) of Torts. It held that trademark licensors are \textit{per se} integral links in the manufacturing process and thus should be held strictly liable. The court asserted that the societal purposes underlying imposing strict liability on one who holds himself out as manufacturer under section 400 mandated application of the doctrine to a trademark licensor, particularly where the product in question bears no indication that it was manufactured by any other entity. See \textit{id.} at 163. It added that the fact that licensor was not a link in the chain of distribution was wholly irrelevant. See \textit{id.}}

The new Restatement rejects this line of authority and squarely aligns itself with those cases that have held the doctrine inapplicable to trademark licensors.\footnote{See \textit{id.}} Section 14, which sets forth the new Restatement’s version of the doctrine, rewords section 400 of the Second Restatement to make it clear that the doctrine applies only to product \textit{sellers or distributors} who place their own marks or names on the products they sell.\footnote{Id. (emphasis added).} Specifically, Section 14 states that:

\begin{quote}
\textit{One 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.}\footnote{Id. cmt. d (emphasis added). The comment further asserts that “[t]rademark 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.” \textit{id.} The latter reference apparently refers to the line of cases applying the so-called “enterprise liability” theory to trademark licensors.}
\end{quote}

Comment (d) to Section 14 expressly states that the doctrine does not apply to trademark licensors:

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. \textit{In such a case . . . the licensor does not “sell or distribute as its own a product manufactured by another.”} Thus, the manufacturer may be liable [under the Sections that apply to manufacturer liability], but the licensor, \textit{who does not sell or otherwise distribute products}, is not liable under this Section of this Restatement.\footnote{Id.}
In excluding trademark licensors from the ambit of section 14, the new Restatement appears to give little consideration to whether cases following a contrary approach were rightly decided as a matter of logic and public policy. The Restatement appears to ground this position primarily in the wording of section 400 and in the fact that the doctrine originated in the house-branding context.

3. Failing to Show the Requisite Reliance

While a number of courts have held that the apparent manufacturer doctrine might theoretically apply to a trademark licensor, they have sometimes found the doctrine inapplicable because the plaintiff failed to show the requisite reliance on the licensor’s mark. For example, in *Hebel v. Sherman Equipment*, the Illinois Supreme Court refused to find a trademark licensor liable under section 400 because the presence of its mark on the product at issue would not have lead a reasonable purchaser of the product—as opposed to an casual observer—to believe that the licensor manufactured or vouched for the product.

In *Hebel*, the Plaintiff was injured when his foot was caught in a conveyor belt attached to an automatic car washing system. The system, except for the allegedly defective conveyor, was manufactured by the Sherman Equipment Company ("Sherman"), and bore the "Sherman" tradename. The conveyor was manufactured by another entity and was not labeled with any name or mark. The Illinois appellate court held Sherman strictly liable under the apparent manufacturer doctrine, finding that a "reasonable person in plaintiff's position would view the entire . . . car wash as one 'system' and would infer that Sherman manufactured all of its 'component parts,' including the conveyor." The Illinois Supreme Court disagreed, reasoning as follows:

The primary rationale for imposing liability on the apparent manufacturer of a defective product is that it has induced the purchasing public to believe that it is the actual manufacturer, and to act on this belief—that is, to purchase the product in reliance on the apparent manufacturer's reputation and skill in making it . . . . It is thus apparent that whether a holding out has occurred must be judged from the viewpoint of the purchasing public, and in light of the circumstances as of the

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170 442 N.E.2d 199 (Ill. 1982).
171 See id. at 203.
172 See id. at 200.
173 See id. at 200-01.
174 See id. at 201.
175 Id. at 203.
time of purchase . . . . That a casual observer, viewing the [car-washing] machines after their purchase and installation, might think [that Sherman manufactured the entire assem-
blage] does not mean that the reasonable purchaser of car-
washing equipment, such as Glenbrook, would rely on such an impression.176

Hebel is a significant case because it holds that whether a holding out has occurred must be judged from the viewpoint of the informed pur-
chaser of the product in question, not from the viewpoint of a casual observer.177

Similarly, in In Re TMJ Implants Products Liability Litigation,178 the court refused to hold a trademark licensor liable as an apparent manufacturer because, inter alia, (1) the trademark that appeared on the product was not a registered mark of the licensor, and (2) the Plaintiffs did not even allege that they relied on the reputation of the licensor in making their purchase decisions. The jaw implants at issue in the case were manufactured by Dow Corning, which was fifty percent owned by Dow Chemical and fifty percent owned by Corning, Inc., two separate corporations.179 The implants were sold in boxes bearing Dow Corning’s registered trademarks, “Dow Corning” and “Silastic.” Plaintiffs claimed that Dow Chemical, the stockholder company, should be held vicariously liable for alleged implant defects due to the presence of the “Dow” name as a part of the “Dow Corning” company name.180

The court rejected these arguments finding, inter alia, that “the name ‘Dow Corning’ is a combination of two trade names owned by Dow Chemical and Corning,” and the combined name “Dow Corning” is “a trademark owned by Dow Corning, not by Dow Chemical or Corning.”181 The court further noted that “the plaintiffs do not even contend that they believed that those defendants were in fact the manufacturers” of their jaw implants.182 The court thus found that the apparent manufacturer doctrine simply did not apply because Dow Chemical, the trademark licensor, had not held itself out as a manufacturer of silicone implants, and because the

176 Id.
177 But see E.I. duPont Nemours & Co. v. McCain, 414 F.2d 369, 373 (5th Cir. 1969) (suggesting that it was for the jury to decide whether a “casual” purchaser might be deceived into believing that duPont was the manufacturer of the end product).
178 880 F. Supp. 1311 (D. Minn. 1995), aff’d, 113 F.3d 1484 (8th Cir. 1996).
179 See id. at 1321.
180 See id.
181 Id.
182 Id.
Plaintiffs did not even contend that they (or their plastic surgeons) relied on any such holding out in purchasing the allegedly defective implants.183

4. Requiring Licensor Involvement in the Manufacturing or Design Process

A few courts have refused to extend the apparent manufacturer doctrine to trademark licensors who were not involved in manufacturing or designing their licensees' goods. For example, in *Burkert v. Petrol Plus of Naugatuck, Inc.*,184 the court refused to apply the apparent manufacturer doctrine to a trademark licensor because, *inter alia*, the licensor (1) did not sell or distribute the defective product in question; (2) was not involved at all in the manufacturing or design process; and (3) did not induce consumers to believe it made the product, where the identity of the actual manufacturer also appeared on the goods and the Plaintiffs did not allege that they relied on the reputation of the licensor when making their purchases.185 In *Burkert*, buyers of allegedly defective automatic transmission fluid sued General Motors (GM), the trademark licensor whose registered trademark "Dextron IT" appeared on the fluid containers.186 GM received no financial benefit from the licensing agreement.187 GM issued performance standards, however, which its licensees were required to meet, and had their compliance checked by an independent laboratory.188 Aside from this, GM had no involvement with the allegedly defective product.189

The court recognized that a non-manufacturer could be held liable for a defective product as an apparent manufacturer pursuant to section 400, where the non-manufacturer "put out" a product and sold it as its own.190 However, after reviewing relevant case law, the court held that liability could not be extended to a trademark licensor under section 400 unless the licensor had played a significant role in the

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183 See id. (citing Nelson v. International Paint Co., 734 F.2d 1084, 1088 (5th Cir. 1984) (finding that where product does not bear the defendant's name, section 400 does not apply)).
185 See id. at 33-34.
186 See id. at 28.
187 See id. at 29.
188 See id.
189 See id. at 28.
190 See id. at 33.
production, marketing or chain of distribution of the defective product. Some examples would include receiving royalties, supplying the licensee with critical personnel and equipment, or actively advertising the product.\textsuperscript{191}

\textit{Burkert} is a somewhat unusual case because of the degree to which it blurs the distinction between the apparent manufacturer doctrine and the stream of commerce or enterprise liability theory. The latter theory holds that a trademark licensor may be held vicariously liable for the torts of its licensee if the licensor is a "significant participant" in the overall enterprise that places a defective product into the stream of commerce.\textsuperscript{192} The theory thus focuses almost entirely on the licensor's control over, or involvement in, its licensee's affairs.\textsuperscript{193} Indeed, the \textit{Burkert} court erroneously suggests that "[t]he analysis underlying [the stream of commerce] theory does not differ in any significant way from the apparent manufacturer doctrine."\textsuperscript{194} To the contrary, the apparent manufacturer doctrine as applied by the majority of courts, does not require a showing of licensor control or involvement in its licensees affairs.\textsuperscript{195}

5. \textit{No Liability if Identity of Actual Manufacturer Is Disclosed}

Finally, as discussed earlier,\textsuperscript{196} a number of courts have refused to extend the apparent manufacturer doctrine to trademark owners if their goods clearly identified the identity of the actual manufacturer and clearly stated that the trademark owner had nothing to do with the goods other than to sell and label them.\textsuperscript{197} The logic of this limitation is that when the actual manufacturer's name or mark is clearly displayed on the goods, and the trademark owner disclaims any involvement with the goods other than to sell them, the trademark owner has not implicitly represented, and consumers have not been lead to believe, that the trademark owner manufactured the goods.\textsuperscript{198} The Second Restatement officially endorsed this position in comment (d) to section 400.\textsuperscript{199}

\textsuperscript{191} See id. at 35.
\textsuperscript{192} For a more thorough discussion of enterprise liability theory, see Franklyn, \textit{supra} note 8, at 20.
\textsuperscript{193} See id.
\textsuperscript{194} \textit{Burkert}, 579 A.2d at 33 n.11.
\textsuperscript{195} See supra Part III(A) and (B)(1)-(4).
\textsuperscript{196} See supra note 149 and accompanying text.
\textsuperscript{197} See, e.g., Holman Motor Co. v. Evans, 314 S.E.2d 453 (Ga. Ct. App. 1984) (holding that a trademark licensor is not liable as apparent manufacturer where the identity of actual manufacturer was disclosed).
\textsuperscript{198} See \textit{Restatement (Second) of Torts} § 400 cmt. d (1965).
\textsuperscript{199} See id. (*"Where the real manufacturer or packer is clearly and accurately identified on the label or other markings on the goods, and it is also clearly stated that another who is also
However, because section 400 was designed with house-branders in mind, it does not always translate smoothly into the trademark-licensing context. In *Carter v. Joseph Bancroft & Sons Co.*, see id. for example, the court held the licensor liable as an apparent manufacturer even though the name of the actual manufacturer was displayed on the goods. The court noted that the goods did not contain an explicit disclaimer (as required by section 400) that the licensor had nothing to do with the goods other than to sell or label them. Of course, a licensor ordinarily can not make such a disclaimer because (1) it did not sell or label the licensed goods, and (2) it can not say "it had nothing to do with the goods" given its (albeit amorphous) quality control obligations under the Lanham Act.

In fact, while the new Restatement takes an extremely narrow view of the doctrine in the trademark-licensing context, it takes a broad view of the doctrine in the house-branding context. The new Restatement states that the house-brander is not relieved of liability as an apparent manufacturer even when the identity of the true manufacturer is clearly disclosed. The new Restatement reasons that liability should be imposed on the house-labeler because even in these circumstances, consumers purchase the house-branded products relying, in part, on the good reputation of the trademark owner. Thus, the official comments state:

Representing oneself as the manufacturer or one for whom the product has been specially manufactured. When a commercial seller sells a product manufactured by another under its own trademark or logo, the seller is liable as though it was the manufacturer of the product. *This rule applies even if the seller discloses that the product was produced by an identified manufacturer specifically for the seller. In this circumstance, the seller is presumed to cause the product to be used or consumed, in part at least, in reliance on the seller.* The seller's reputation is an implied assurance of the quality of the product, and the seller should be estopped from denying that it stands behind that assurance.

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200 See *id.*
201 See *id.* at 1107.
202 See *supra* Part II(D)(3).
203 See *RESTATEMENT (THIRD) OF TORTS: PRODUCTS LIABILITY § 14 (1998).*
204 See *id.* cmt. c.
205 *Id.* (emphasis added).
The new Restatement's position is perplexing and seems at odds with its position that the doctrine does not apply to trademark licensors. Indeed, if the mere presence of a seller's trademark on a product necessarily is such a strong "implied assurance of the quality of the product" that the trademark owner is estopped from denying that it "stands behind that assurance," it would seem that all trademark owners, including trademark licensors, should be subject to liability under the apparent manufacturer doctrine.

IV. A CRITICAL ASSESSMENT OF THE APPARENT MANUFACTURER DOCTRINE IN THE TRADEMARK-LICENSING CONTEXT AND A PROPOSED APPROACH

This section first identifies the policy reasons for and against applying the apparent manufacturer doctrine to trademark licensors. It then argues that the apparent manufacturer doctrine should apply to trademark licensors in two situations: (1) when the licensor appears to be the manufacturer of the licensed product, and (2) when the licensor appears to have supplied the specifications and standards for making the licensed product. Next, this section discusses the ways in which the proposed test would apply to different types of licensing arrangements. It then argues that in applying the proposed test, courts should use both an objective and a subjective standard to determine proof of reliance, and that licensors should be permitted to negate any inference of manufacturer status through the use of appropriate written disclaimers. Finally, it contends that licensors should be afforded a safe harbor from liability when they demonstrate that the actual manufacturer of the licensed goods is jurisdictionally available and capable of satisfying a likely judgment against it.

A. Justifications for Extending the Apparent Manufacturer Doctrine to Trademark Licensors

In those cases in which courts have applied the apparent manufacturer doctrine to trademark licensors, the licensors were subjected to the same standard of liability—i.e., negligence or strict liability—that would have applied to actual manufacturers under applicable state law. See supra notes 112-30 (citing cases). This seems logical, given the principle articulated in section 400 of the Restatement (Second) of Torts—which provides that one who "puts out a chattel as his own" is liable as if it were the manufacturer of those goods—and the official comments to the Second Restatement, which state that one puts out goods as one's own if one affixes one's own label or trademark to goods. Based

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207 See supra notes 112-30 (citing cases).
208 See RESTATEMENT (SECOND) OF TORTS § 400 cmt. d (1965).
affixes one’s own label or trademark to goods.\textsuperscript{209} Based on the language in these provisions, several courts have applied the doctrine to hold a trademark licensor strictly liable.\textsuperscript{210} However, the Third Restatement takes a contrary view. Indeed, the new Restatement’s section 14 is clear that the doctrine applies only to entities that engage in the physical transfer of goods, i.e., sellers, lessors, etc.\textsuperscript{211} Furthermore, comment d to section 14 expressly states that trademark licensors are exempted from the rule.\textsuperscript{212}

However, when one considers the logical underpinnings of the doctrine, there are compelling reasons for extending it to trademark licensors. Indeed, the apparent manufacturer doctrine should apply to trademark licensors for precisely the same reasons that it was first applied to house-branders. In each situation, the consumer is led to believe (erroneously) that the goods were manufactured by the entity whose trademark appears on the goods. In each situation, the consumer purchases the goods because she has confidence in the brand name. Thus, it would appear that a “holding out” has occurred in each situation in precisely the same way and to the same extent.

There are at least four reasons why the apparent manufacturer doctrine should be applied to trademark licensors in appropriate circumstances. First, 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. Quite apart from whether consumers actually rely on such implied representations it is reasonable to assure that, trademark licensors may attempt to induce and profit from such reliance. Licensors should be held accountable for the “losses” as well as the “profits” that may result from such reliance.

Second, tort law should protect consumers’ reasonable expectations. If a consumer purchases product X because she believes it was made by company X, and because she trusts company X, it would seem unjust to hold that she could not recover from company X if the product is defective and injures her. The case for imposing liability on company X is especially strong where company X has knowingly and intentionally induced the consumer to detrimentally rely on company X’s brand name or trademark. In such circumstances, it seems unfair to preclude a consumer from recovering a judgement from company X.

\textsuperscript{209} See id.
\textsuperscript{210} See supra Part III(A).
\textsuperscript{211} See RESTATEMENT (THIRD) OF TORTS: PRODUCTS LIABILITY § 14 (1998).
\textsuperscript{212} See id. cmt. d ("One 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 products manufacturer.").
Third, if the licensor's mark is the only mark appearing on a product, and if the plaintiff is unable to discover the identity of the true manufacturer (perhaps due to the existence of several different licensees), it seems fair to hold the licensor liable in lieu of the actual manufacturer. As between the plaintiff and the licensor, the latter is in a better position to ensure that the licensed goods are properly labeled, or to identify the responsible licensee. In these circumstances, 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.

Fourth, subjecting licensors to potential liability under the apparent manufacturer doctrine would provide licensors with additional incentives to eliminate the unsafe character of their licensees' goods. If properly circumscribed, the apparent manufacturer doctrine should apply only to trademark licensors who have the requisite knowledge and experience to make a meaningful contribution to their licensees' safety assurance efforts at relatively low cost to the licensors. 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.

Against these reasons, one must weigh the reasons against extending the doctrine to trademark licensors. Four main arguments may be articulated. First, it might be argued that the two situations are materially different because in the house-branding situation the entity that does the "holding out" is a seller, whereas in the licensing situation the entity that does the "holding out" is not a seller. Put another way, house-branders are in a transactional relationship with consumers; licensors are not. It could be argued that the house-branders are held liable not only because it has erroneously induced consumers to believe that it manufactured the goods, but also because it is a seller who has misled consumers in this way.

This argument is unpersuasive. The house-branders status as a seller appears to play little, if any, role in the decision to hold it liable under the apparent manufacturer doctrine. To the contrary, the house-branders are held liable primarily because it induces consumers to believe that it manufactured the goods on which its marks appear, not because it is a seller that has induced such reliance. Accordingly, there is no reason not to apply the doctrine to a trademark licensor

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213 See, e.g., Hebel v. Sherman Equip., 442 N.E.2d 199, 201-03 (Ill. 1982) (citing cases and holding that same rationale for holding house-branders liable as apparent manufacturer doctrine applies to non-selling trademark licensors).
who engages in the same type of implied misrepresentation. The only difference is that the house-branding seller itself makes the implied misrepresentation, whereas the licensor authorizes another entity (the licensee) to make such a misrepresentation. But this difference is not sufficient ground for exempting trademark licensors from the application of the doctrine.

Second, as noted earlier, one of the primary purposes of the apparent manufacturer doctrine was to provide consumers with a remedy where the identity of the true manufacturer was unknown to the plaintiff and presumably known to the house-branding seller. Indeed, some courts have held that the apparent manufacturer doctrine is inapplicable if the identity of the actual manufacturer is known or discoverable. But in the licensing context, consumers frequently attempt to hold licensors liable under the apparent manufacturer doctrine even though the plaintiff knows the identity of the actual manufacturer. It could therefore be argued that the doctrine would not fulfill its essential purpose if it were applied in such cases.

This argument is likewise unpersuasive. Providing injured consumers with a source of compensation was only one of the reasons for subjecting house-branders to liability as apparent manufacturers. The primary reason for the doctrine was to preclude trademark owners from denying manufacturer status when they knowingly profited from implicitly representing themselves as manufacturers. Thus, a strong argument exists that the doctrine ought to apply regardless of whether the actual manufacturer is disclosed or discoverable.

Third, it could be argued that applying the apparent manufacturer doctrine to licensors would greatly (and undesirably) expand the number of persons or entities that are subject to strict liability and, as a result, the number of persons who must insure against product liability risks. Given the escalating costs of strict liability insurance, this is a valid concern. Licensors might be required to purchase additional liability insurance and, in turn, might pass on these increased expenses to their licensees through increased royalty rates. Licensees, for their part, might then pass on their increased costs to consumers through increased prices.

214 See id. at 201-02 (citing cases); see also supra note 109 and accompanying text.
215 See, e.g., Holman Motor Co. v. Evans, 314 S.E.2d 453 (Ga. App. 1984) (finding no liability for apparent manufacturer where identity of actual manufacturer is known or discoverable).
216 See, e.g., Hebel, 442 N.E.2d at 201.
217 In addition, the specter of expanded liability could discourage business entities from engaging in trademark licensing. To the extent that licensing stimulates the economy and leads to a greater diversification of goods, this might be undesirable. Given the fact that other entities in the chain of distribution (i.e., manufacturers, sellers, distributors) already insure against these
However, all product liability laws potentially have the effect of increasing the costs of consumer goods. In addition, as I demonstrate infra, the concern with unnecessarily increasing litigation fees and insurance costs can be addressed by creating a "safe harbor" for licensors who demonstrate that the true manufacturer is jurisdictionally available and solvent.

Fourth, it could be argued that it is preferable to hinge liability on whether a licensor has controlled its licensees' operations, rather than on whether consumers purchased a particular product in reliance on the trademark owner's reputation. Imagining what a reasonable consumer would believe about a particular trademark is a highly speculative undertaking. Furthermore, a consumer's testimony about her reliance on the licensor's mark is likely to be subjective, unverifiable and self-serving. For these reasons, courts may prefer to ground licensor liability on control-based theories, or at least on a theory that considers both control and reliance as important factors.

This too is a valid concern, but it likewise may be addressed without holding that the apparent manufacturer doctrine does not apply to licensors under any circumstances. To the contrary, as I show infra, society's interest in ensuring an efficient tort system can be achieved by carefully circumscribing the circumstances under which licensors are subject to liability under the apparent manufacturer doctrine.

The central contention of this Article is that an optimal balance of these competing concerns can be achieved by subjecting trademark licensors to liability under a carefully circumscribed version of the apparent manufacturer doctrine. Specifically, the apparent manufacturer doctrine should apply to trademark licensors in only two situations: (1) when a licensor induces consumers to believe the licen-

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218 See infra Part IV(E).

219 See Franklyn, supra note 8 at 20-30 (discussing courts' reliance on evidence of licensor's actual control and consumer perceptions of trademark in assessing licensor's potential liability under the stream of commerce theory). Indeed, courts have shown far more willingness to hold trademark licensors liable under the "enterprise" theory of liability than under the apparent manufacture doctrine. See Franklyn, supra note 8 at 20-30 (discussing cases). The enterprise theory is typically based on findings that a licensor controlled its licensee's operations and that the plaintiff relied on the licensor's trademark as an indicia of quality at the time she purchased the product in question. See id. at 21.

220 The test proposed here is consistent with the control-based tests I advanced in my earlier article on licensor liability. There, I argued that a trademark licensor should be held vicariously liable for defective products produced by its licensees if the licensor is the functional equivalent of a manufacturer. See Franklyn, supra note 8, at 49-57. The primary test used there for determining if a licensor is the functional equivalent of a manufacturer is whether the licensor provided specifications and standards for manufacturing the defective goods. See id. at 49-50. Un-
sor manufactured the product, or (2) when a licensor induces consumers to believe that the licensor controlled the standards or specifications for manufacturing the product. Under either prong of the proposed test, however, a plaintiff should be required to show both that she actually relied on one of these implied representations, and that her reliance was reasonable and justified in the circumstances. A plaintiff would be permitted to make this showing by demonstrating that a reasonable consumer of the licensed product would have relied on the trademark in the requisite manner. Once the plaintiff made this showing, courts would then presume that the actual consumer of the product at issue in fact so relied. However, trademark licensors would be permitted to rebut this presumption, and defeat liability, by showing that the actual consumer did not, in fact, so rely. Finally, trademark licensors would be absolved of liability if they could demonstrate that the actual manufacturer is jurisdictionally available and able to satisfy a likely judgment against it.

The proposed approach validates society's interest in holding licensors accountable for implicitly vouching for the safety of their licensees' goods. It protects consumers who detrimentally rely on trademarks as substitutes for in-depth personal investigation into the safety and quality of goods. It preserves a causal connection between the licensor's holding out and the plaintiff's injuries by requiring proof of actual and justifiable reliance. And it minimizes unnecessary litigation and insurance costs (while still ensuring an adequate source of compensation) by immunizing licensors who demonstrate that the actual manufacturer is solvent and subject to personal jurisdiction in states where the product was sold.

B. Applying the Proposed Test to Different Types of Licensors

This Article also considers the ways in which the proposed tests are likely to apply in practice. Whether a particular licensor is likely
der the test proposed here, a trademark licensor would be subject to imputed liability based on the appearance of its control over its licensees if, and only if, the licensor would be subject to such liability if it in fact had exercised such control over its licensees. In short, if a trademark licensor who actually functions as a manufacturer is vicariously liable for its licensees' goods, then liability should similarly attach to any licensor who appears to function as a manufacturer of those goods. The consumer reliance test proposed in the present Article is thus symmetrical with the control-based test advanced in the earlier article.

Given the fact that modern trademark licensing is allowed only if the licensor "controls the quality" of the licensed goods, it could be argued that all trademarks implicitly represent that the trademark owner is the "functional equivalent" of a manufacturer and therefore liable under the proposed test. However, as I demonstrate infra, it is highly doubtful that the quality control requirement requires licensors to provide standards and specifications for manufacturing a product or otherwise to assure product safety. See infra Part IV(B) and (C). Moreover, consumers clearly do not assume that licensors fulfill such a role in all licensing situations. See id.
to be held liable under these tests depends on a number of factors, including: (1) the nature of the licensing arrangement at issue, (2) whether the licensee's own trademark or tradename appeared on the product that gave rise to the plaintiff's injury, (3) whether the licensor was licensing in an industry that consumers normally associated with other goods made by the licensor, and (4) whether the product contained a label expressly stating that the licensor did not make nor dictated the standards or specifications for making the licensed goods.

The type of licensing arrangement that exists between a licensor and its licensee is an especially important factor in assessing liability under the proposed test. This is so because the nature of the arrangement will frequently determine the way in which the licensed goods are labelled and thus determine consumer perceptions regarding the trademark and the role of the trademark licensor. It is useful to view licensing arrangements as falling into one of four principal categories: (1) classical licensing, (2) franchising, (3) collateral licensing, and (4) promotional licensing. As a general matter, classical and franchise licensors are more likely than collateral and promotional licensors to be subjected to liability under the proposed test than collateral and promotional licensors. An understanding of the differences between each type of licensing will help explain why this is so.

In classical licensing, a company that previously manufactured a particular product and established consumer identification with its trademarks in association with that product, essentially "outsources" the manufacturing of the product to a trademark licensee. In such situations, the licensor is generally knowledgeable about the manufacturing process and thus provides its licensees with product standards and specifications. An example of classical licensing would be when Serta licenses its trademarks to independent mattress manufacturers. In classical licensing situations, the name of the licensee usually is not displayed on the licensed product. The apparent manufacturer doctrine would seem especially applicable in such circumstances, since consumers are likely to believe that Serta either made, or dictated the standards for making, the mattresses bearing its marks.

In franchise licensing, the licensor licenses its marks to a number of franchisors who then assemble and sell products bearing those goods to the public. Some of the more prominent examples of such

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222 Commentators have identified as many as twelve categories of trademark licensing, but, for the most part, these attempts at categorization have focused on the type of product or industry in which licensing occurs. See, e.g., JACK REVOYR, A PRIMER ON LICENSING 23-37 (2d ed. 1995) (listing twelve types of licensing, including designer brand, character, celebrity, corporate, entertainment, cultural, event, association, "cause," destination, sports and collegiate licensing).
licensing include Kentucky Fried Chicken, McDonald's and Wendy's. Here, trademark licensors are likely to be liable under the proposed test, not because they appear to be the "manufacturers" of a given product, but rather because they appear to be the "functional equivalent" of manufacturers. That is, consumers may reasonably assume that the franchisor controls the standards and specifications for making the franchised goods.223

A third type of licensing is "collateral product licensing." In this type of licensing, a well-known manufacturer in one industry may decide to expand to another industry and to produce goods in the secondary industry through a trademark licensee. An example of collateral licensing would be if General Motors (GM) licensed its marks to "Mats Plus," a floor mat company, for the sole purpose of making floor mats for GM cars. If the trademarks of both companies appeared on the floor mats, it is not clear whether GM would be held liable as an apparent manufacturer. On one hand, because floor mats are closely related to the automobile manufacturing industry in which GM first established consumer identification with its marks, consumers may reasonably conclude that Mats Plus made the floor mats at GM's request and pursuant to GM's specifications. However, the justification for licensor liability decreases proportionally as the degree of collateralness increases. That is, when the industry in which the licensor is licensing is far removed from the industry in which it first established the reputation of its marks, consumers will be hard-pressed to argue that they believed the licensor made or dictated the standards for making the licensed goods.

A fourth type of licensing, which may be categorized as a subset of collateral licensing, is promotional licensing. In this type of licensing, the owner of an established trademark licenses its mark to a manufacturer primarily for the purpose of promoting the product. Examples of promotional licensing include Michael Jordan licensing the Jordan mark to Nike for use on Air Jordan Nike gym shoes, Coca-Cola licensing the Coke mark to a clothing manufacturer for use on Coke pants or to a toy manufacturer for use on Coke teddy bears. Because it ordinarily would not be reasonable for consumers to assume that the trademark licensors in these examples made or dictated the standards for making these products, it is doubtful that the licensors would be liable under the test proposed here.

223 Franchising is not the primary focus of this Article. For a number of reasons, the franchisor's relationship with its franchisees may be more extensive than that of a non-franchising licensor. For a more thorough discussion of franchisor liability, see, for example, John W. Behringer & Monica A. Otte, Liability and the Trademark Licensor: Advice for the Franchisor of Goods and Services, 19 AM. BUS. L.J. 109 (1981).
The main problem in applying the proposed test to concrete cases is in deciding what a trademark’s presence on goods “represents” or “conveys” in that case. Sometimes a trademark will convey the impression that the trademark owner made the goods. Other times the identity of the actual manufacturer will be clearly displayed and the trademark may convey the impression that the trademark owner merely “promotes” or “endorses” the goods. In other situations, it may be unclear what message a trademark conveys.

A series of illustrations might be helpful. Suppose that General Motors was to license its “GM” and “Chevrolet” trademarks to the Kentucky Car Company, which, in turn, manufactured cars bearing only the GM and Chevrolet trademarks. To the vast majority of consumers, GM clearly would appear to be the manufacturer. This is so because American consumers have come to associate GM’s marks with cars manufactured by General Motors. GM’s trademarks appearing as the only marks on cars clearly would function as indicators of the manufacturing source of the cars—albeit as misleading ones in this case. Few would question a judicial finding that GM was an apparent manufacturer in these circumstances.

For a slightly harder case, assume the same facts, except that in addition to GM’s trademarks, the cars bear the trademark “Kentucky Car Company.” The words “Kentucky Car Company” would suggest to reasonable observers that the company had something to do with the cars, but probably would not defeat the impression that GM manufactured them or, at least, that the cars were manufactured according to GM’s specifications and standards. This is so because GM’s marks are so intensely associated in the public mind with cars. The mere presence of an additional name on GM cars is not likely to dispel the perception that the cars were made by, or especially for, GM. Thus, in the hypothetical situation, GM would still be liable as an apparent manufacturer.

Thus far we have considered the application of the apparent manufacturer doctrine primarily in the classical licensing context, and we have found that absent a clear and unequivocal disclaimer, the doctrine probably would apply. Next, the doctrine should be considered in the collateral and promotional licensing contexts. Absent a disclaimer to the contrary in the floor mat hypothetical discussed above, consumers might suppose that the floor mats were made according to GM’s standards or specifications. However, as one moves into more collateral markets, the perception that the licensor manufactured the goods becomes less plausible. This is especially so if the goods also bear the name of a company that is widely associated as the actual manufacturer of the same type of goods. For example, if GM’s marks
appeared on Macintosh Computers, most consumers would assume that Macintosh manufactured the computers because Macintosh makes computers. They may be confused as to why GM’s marks appear on the goods and would probably assume that GM had something to do with the goods and profited from them. However, they are unlikely to assume that GM was the manufacturer or that the goods were necessarily made according to GM’s specifications.

The apparent manufacturer doctrine seems even less appropriate in the promotional licensing context. There, it is usually clear that the trademark serves a purely promotional purpose and does not signify the identity of the manufacturer of the goods or a source of standards or specifications. For example, few people assume that the National Football League (NFL) actually manufactures baseball caps bearing the NFL logo or that those caps are made according to NFL specifications and standards. Similarly, consumers probably do not assume that Coke manufactures Levi’s jeans that bear the Coke logo on their back pockets. In these cases, trademarks plainly do serve a promotional function by stimulating sales. Yet, the trademark owner probably should not be liable as an apparent manufacturer, because consumers have not purchased the goods in reliance on a belief that the promotional licensor made the goods or specified the standards by which they were made.

This view is consistent with comment (d) to section 400 of the Restatement (Second) of Torts, which provides that the apparent manufacturer doctrine applies to trademark owners in two types of cases: (1) where the trademark owner appears to be the actual manufacturer of a product, and (2) where the product appears to have been made especially for the trademark owner and its reputation is an assurance to the user of the quality of the product.224 In the dual-mark situation, the presence of the licensor’s mark alongside the manufacturer/licensee’s independent mark may convey the impression that the product was made especially for the licensor and according to the licensor’s specifications and standards. If so, it seems sensible to hold the licensor vicariously liable as an apparent manufacturer. However, where the presence of the secondary mark does not convey such an impression, it seems unwarranted to impose liability on a trademark licensor.

Since the second prong of comment d represents a significant expansion of the class of licensors to which the apparent manufacturer doctrine applies, it is important to describe its boundaries more precisely. Such precision may be achieved by contrasting the application

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224 See RESTATEMENT (SECOND) OF TORTS § 400 cmt. d (1965) (emphasis added).
of section 400 to house-branders with its application to trademark licensors. In the house-branding situation, section 400 imposes vicarious liability on the house-labeling seller if the presence of the seller's trademark would lead a reasonable consumer to believe the goods in question were made especially for the house-brander.\(^{225}\) This formulation of the rule makes sense in the house-branding situation because house-branders commission independent manufacturers to make products especially for them. For example, a national supermarket might commission a large canning company to can peas for the supermarket. Once the peas are canned, the supermarket may affix to the cans its own house label. In such circumstances, the house brand will likely be the only trademark on the can of peas. Of course, there may be fine print stating that a separate company canned the peas for the supermarket chain. In these circumstances, it may make sense to premise the house-brander's vicarious liability on a finding that a reasonable consumer would assume the peas were made "especially for the house-brander," since such an assumption may induce the consumer to purchase the goods in reliance on the general reputation of the supermarket. The consumer may fairly assume that the supermarket would not commission independent canneries without first insuring that they are of sound reputation, competent and careful.

The situation is somewhat different in the trademark-licensing context. When consumers purchase goods that have been manufactured pursuant to a trademark licensing arrangement, their perceptions of the respective roles of the licensor and licensee are likely to be murky. That is, they are not likely to know whether the licensor had the goods made especially for it or not. In such situations, the second prong of section 400 is not likely to arise unless two different trademarks—signifying two different entities—appear on a single product. That is so because if only one mark appears on licensed goods, consumers probably will assume that the goods were made by the entity they usually associate with that particular mark—unless, of course, they ordinarily associate the licensor with a wholly different line of goods and do not think it plausible that the entity they usually associate with the mark would have manufactured a wholly different type of product.

An example may be helpful. Assume that the Coca-Cola Company licenses the Coke trademark to a teddy bear manufacturer. The manufacturer may, in turn, distribute the goods in one of two ways. First, the teddy bear maker may (with Coca-Cola's permission) sell the teddy bears bearing only the Coke trademarks. Consumers pur-

\(^{225}\) See id.
chasing the bears would likely conclude that the bears were either manufactured directly by Coca-Cola, by someone else directly for Coca-Cola, or certainly with Coca-Cola’s permission. But consumers probably would not automatically assume that the teddy bears were manufactured pursuant to Coca-Cola’s standards or specifications because they do not normally associate Coca-Cola with stuffed animals and do not presume that it has any expertise in manufacturing such goods. Should Coca-Cola be liable as an apparent manufacturer on these facts?

The answer to that question depends in large part on the underlying purpose and logic of the apparent manufacturer doctrine. As we have seen, the doctrine is a form of estoppel. As applied to a trademark licensor, it means that a licensor will be estopped from denying that it has “held itself out” in a particular manner. But not every holding out is actionable under the doctrine. Rather, the licensor should be subject to liability under the doctrine only if it has held itself out in such a manner that it was what it pretended to be, or if it had in fact done what it pretended to do.

I have argued elsewhere that a trademark licensor should be subject to a manufacturer’s liability if it is the “functional equivalent” of a manufacturer. I have suggested that the key element in determining such functional equivalence is whether the licensor dictates the specifications, standards or product warnings for the licensed goods. Thus, it would seem logical to conclude that a trademark licensor should be vicariously liable under the apparent manufacturer doctrine if it holds itself out as the functional equivalent of a manufacturer of a particular product—i.e., as the entity that provided the specifications or standards for manufacturing the product.

Turning back to our Coke teddy bear example, it is not altogether clear whether a reasonable consumer would assume that Coca-Cola either manufactured, or dictated the standards or specifications for manufacturing or designing, the teddy bears found to be defective. The difficulty, of course, is that the teddy bear market is far removed from the normal product in which we are accustomed to seeing Coke trademarks used, and therefore it is difficult to know whether a reasonable consumer is likely to believe that Coke teddy bears are a Coke product or a product made according to Coke specifications. Ultimately, the issue boils down to an empirical question about likely consumer impressions. To the extent consumers think about the matter at all, it seems that they are unlikely to assume that Coca-Cola made, or dictated the standards for making, the teddy bears. Rather,

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226 See supra note 108 and accompanying text.
227 See Franklyn, supra note 8, at 49-51.
they are likely to assume that the bears were made by some other entity that was authorized to affix the Coke trademark solely for promotional purposes.

The situation would probably be much simpler if in addition to the Coke trademark, the trademark of the actual manufacturer also appeared on the teddy bears. For example, if the teddy bears contained a label stating "Manufactured by the Garanimal Toy Company," the reasonable consumer would likely conclude that Garanimal manufactured the teddy bears and that it did so pursuant to its own standards and specifications since it is in the toymaking business. In these circumstances, consumers would be hard-pressed to argue that Coke held itself out as either the manufacturer, or the functional equivalent of a manufacturer, of the licensed goods.

It could be argued that the test proposed in this Article necessarily applies to all licensors who are complying with the federal Lanham Act, because all such licensors implicitly vouch for the quality of the licensed goods. Indeed, at least one commentator has suggested that the Lanham Act requires licensors to control the quality of licensed goods in all instances precisely because a trademark—in and of itself—necessarily (though implicitly) signifies that all products bearing that mark emanate from a single source of product "specifications and standards." Under this view of the quality assurance theory, the consumer, who is unaware of the licensor-licensee relationship, always believes that the "source" of quality control is either the manufacturer or some other entity that is controlling the manufacturer. If a trademark in and of itself necessarily signifies that the trademark owner provided the specifications and standards for the trademarked goods, and if the Lanham Act requires that the trademark owner actually do so, then arguably all trademark licensors should be held vicariously liable for the goods on which their marks appear under the test proposed here.

While this argument is compelling, I do not believe it defeats my larger thesis, because consumers do not necessarily assume that a trademark signifies that products bearing that mark come from the same manufacturing source, or even from the same source of quality control standards. Although it is plausible to think that consumers generally have such an impression in the classical licensing or franchising contexts, it is not plausible to think that consumers generally

228 See Parks, supra note 32, at 554 (citing 2 Stephen P. Ladas, Patents, Trademarks and Related Rights 1128 (1975) (stating that through the “quality assurance theory”—which underlies the Lanham Act’s quality control requirement—“the source theory has been broadened to include not only manufacturing source but also the source of standards and specifications of the goods bearing the mark.”)).
have such an impression in the collateral market or promotional licensing contexts. For this reason, a number of courts have relaxed the quality control requirement in the promotional licensing context.\textsuperscript{229} Moreover, even outside the promotional licensing context, courts have not generally interpreted the control requirement to mean that licensors must provide their licensees with product standards and specifications to avoid a finding of abandonment.\textsuperscript{230} Accordingly, the test advanced here would have to be applied on a case-by-case basis, and would require proof that the licensor "held itself out" as the provider of standards and specifications in a particular case.

### C. Proving Reliance

An issue that may arise in apparent manufacturer cases is whether the plaintiff is required to prove that, at the time she made her purchase, she \textit{actually relied} on the impression that the trademark owner made or vouched for the product. Alternatively, it may be sufficient for her merely to show that the licensor "held itself out" to the public as an entity that manufactured or vouched for the product. Either approach is defensible, depending on one's views regarding the underlying purposes of the apparent manufacturer doctrine.

If the primary purpose of the doctrine is to hold trademark owners accountable for the impressions they create about the goods on which their marks appear, then a pure estoppel theory might be followed wherein the plaintiff would be allowed to prevail merely by showing that the licensor held itself out as a manufacturer and thus her mental state at the time she made her purchase decision would be legally irrelevant. This approach would permit plaintiffs to act as "private attorneys general," enforcing the general public interest in imposing legal accountability on trademark licensors who profit from the impression that they made or vouch for their licensees' goods. It would also permit persons to recover who did not purchase the licensed product, but who merely used the product or who were incidentally injured when someone else was using the product.

On the other hand, if the primary purpose of the doctrine is to protect consumers who detrimentally rely on trademarks as surrogates for quality and safety, then proof of reliance is essential. Absent proof that a consumer actually relied on the licensor's holding out, there is no causal connection between the licensor's implied representations and the plaintiff's injury. In the typical case, a plaintiff will have no problem proving actual reliance. She will simply submit
an affidavit so stating. However, matters become more complicated when the plaintiff is someone other than the purchaser of the product. If the plaintiff merely used the product or received it by way of gift or loan, she may be hard-pressed to demonstrate that the person who bought the product relied in the requisite manner.2

This difficulty can be resolved by holding that actual reliance will be presumed from the very fact that the licensed product was sold to a consumer. On this view, courts would afford plaintiffs a rebuttable presumption that the consumer of the product actually relied on the trademark at the time she purchased the product. A plaintiff would be required to show only that a reasonable consumer viewing the product at the time of sale would have concluded that the licensor manufactured, or dictated the standards for manufacturing, the product. The court would then instruct the jury to presume that the actual consumer so relied. However, the licensor, in turn, would be entitled to show by way of an affirmative defense that the actual consumer did not, in fact, rely on the trademark in the proscribed manner. The use of such a presumption of actual reliance would thus enable mere users or bystanders to recover under the apparent manufacturer doctrine.

D. Disclaimers

This section considers whether licensors should be permitted to negate any implication that they made or dictated the standards for making, the licensed goods by so stating on product labels. The primary problem with disclaimers is not in deciding whether they are justifiable as a theoretical matter, but rather in deciding whether a particular disclaimer is sufficient to immunize a licensor from liability as an apparent manufacturer.

For example, suppose that General Motors licenses its "GM" mark to the Kentucky Car Company to use on cars the latter company manufactures for GM. Further suppose that in addition to the presence of both companies' trademarks, the car contains a large sticker which reads as follows: "THIS CAR WAS DESIGNED, ENGINEERED AND MANUFACTURED SOLELY BY THE KENTUCKY CAR COMPANY, ACCORDING TO ITS OWN SPECIFICATIONS, GUIDELINES AND STANDARDS." Here, the messages are mixed. On the one hand, the presence of GM trademarks seems to convey the message that GM manufactured the car; on the other hand, the disclaimer specifically says it did not. Most observers

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would wonder why GM’s marks would appear on a car that was neither made by GM, nor made according to its specifications or standards.

Moreover, it is unlikely that GM would enter into such a licensing arrangement, for fear that its licensee would damage the reputation and value of GM’s marks in the very market where these marks are most used—i.e., the automobile market. GM may, however, enter into such a licensing arrangement in a collateral market, such as the automobile accessory market, where GM’s marks may appear beside the marks of the actual manufacturer (say, of floor mats) that contain a similar disclaimer. In either case, consumers may find it difficult to argue that GM was the “apparent manufacturer” of the goods if they bore an explicit disclaimer of the type set forth above.

Indeed, comment (d) to section 400 of the Restatement (Second) of Torts takes the position that the apparent manufacturer doctrine does not apply if the goods clearly indicate the identity of the actual manufacturer and state that the trademark owner had nothing to do with the goods other than to “label” them. To meet the latter test, GM’s hypothetical disclaimer would have to be revised to read as follows: “THIS CAR WAS DESIGNED, ENGINEERED AND MANUFACTURED SOLEY BY THE KENTUCKY CAR COMPANY, ACCORDING TO ITS OWN SPECIFICATIONS, STANDARDS AND GUIDELINES. GM HAD NOTHING TO DO WITH THE GOODS OTHER THAN TO ALLOW THE COMPANY TO USE GM’S TRADEMARKS FOR PROMOTIONAL PURPOSES.”

The problem with this type of disclaimer is that it makes sense in the house-branding context in which the apparent manufacturer doctrine originated, but not in the licensing context. Because house-branding sellers are not trademark “licensors,” they are not governed by the Lanham Act. Accordingly, they can legally disclaim any involvement with the goods other than to distribute or sell them. In contrast, the trademark licensor can not necessarily make such a disclaimer, for two reasons. First, the trademark licensor typically can not say that its only involvement with the goods was distributing or selling them since licensors do not ordinarily distribute or sell the licensed goods—rather, licensees do.

Second, the trademark licensor may not be able to say that it was not involved in any way with the licensed goods. As we have seen, the Lanham Act requires a trademark licensor to “control the quality” of the licensed goods or risk a finding that it has abandoned its

Although courts have not clearly defined the quality control requirement, that requirement must at least mean that the licensor had some form of "involvement" with the licensed goods. If this is true, though, the licensor can not honestly represent what it needs to represent to escape liability under comment (d) to section 400. What this means is that a licensor would never escape liability as an apparent manufacturer through the use of a disclaimer if comment (d) were applied literally in the licensing context.

A possible solution to this problem would be to hold that comment (d) should not be applied literally to licensors, but rather should be modified to reflect a licensor's quality control requirements under the Lanham Act. For example, it would seem appropriate to hold that a sufficient disclaimer in the licensing context need not state that the licensor "had nothing to do with the goods," but rather that the goods were manufactured by another named entity according to its own specifications and standards. There does not appear to be anything in the Lanham Act or in the case law preventing licensors from making such a disclaimer in appropriate circumstances.

The authors of the Third Restatement of Torts take a novel approach to the disclaimer issue. As we have seen, they limit the apparent manufacturer doctrine generally to the house-branding context. However, they contend that the doctrine makes house-branders liable even if a house-branded product clearly discloses that an identified manufacturer produced the product especially for the seller. Contrary to the position taken in the Second Restatement, the Third Restatement does not appear to allow a house brander to escape liability through the use of any type of disclaimer.

In support of its rejection of disclaimers, the new Restatement argues that consumers at least partially rely on the reputation of the trademark owner even where it is clear that another entity manufactured the goods. The Restatement further asserts that this supposed partial reliance is, by itself, grounds for imposing liability on the trademark owner, at least in the house-branding context. Thus, comment (c) to section 14 of the new Restatement states:

See supra notes 53-58 and accompanying text. Notice that the quality control requirement does not apply to house-branders because they do not license the use of their marks to others, but rather use their own marks on goods made by others.

See supra Part II(D).

But see supra note 90 and accompanying text.


See id.

See id.

See id.
Representing oneself as the manufacturer or as one for whom the product has been specially manufactured. When a commercial seller sells a product manufactured by another under its own trademark or logo, the seller is liable as though it was the manufacturer. The rule applies even if the seller discloses that an identified manufacturer produced the product especially for the seller. In this circumstance, the seller is presumed to cause the product to be used or consumed in part, at least, in reliance on the seller. The seller’s reputation is an implied assurance of the quality of the product, and the seller should be estopped from denying that it stands behind that assurance.\textsuperscript{240}

There are two major problems with the Third Restatement’s rejection of disclaimers.\textsuperscript{241} First, it is doubtful that comment (c) is an accurate restatement of existing law, as opposed to what the authors of the new Restatement think the law should be.\textsuperscript{242} Several courts, following the Second Restatement, have taken a contrary position and have exempted trademark owners from liability as apparent manufacturers when the products at issue bore appropriate labeling indicating the identity of the true manufacturer.\textsuperscript{243}

Second, the new Restatement’s position is not consistent with the history or the underlying logic of the apparent manufacturer doctrine. Historically, the apparent manufacturer doctrine was not construed to encompass every house-branding seller. Rather, the doctrine was based on the much narrower premise that liability would attach to the house-brander if consumers were induced to purchase the marked

\textsuperscript{240} Id. (emphasis added).

\textsuperscript{241} The Third Restatement’s approach may reflect the general antipathy toward disclaimers in the products liability context for reasons that are not applicable in the trademark-licensing context. In product liability cases, this antipathy is based on the notion that it is not fair to allow manufacturers to disclaim liability for defects in the products they produce, since consumers have considerably less bargaining power than manufacturers. By contrast, the apparent manufacturer doctrine is premised on the assumption that the mere presence of a trademark implicitly represents that the trademark owner made the goods, or that the goods were made especially for the trademark owner. If the licensor expressly negates this implied representation through a clear and unequivocal disclaimer, the doctrine simply should not apply. An entity can not appear to be a manufacturer—or to have commissioned the manufacture of goods—if such appearances are expressly negated. In the apparent manufacturer doctrine, therefore, bargaining power disparities should be irrelevant.

\textsuperscript{242} It is interesting to note that the authors of the New Restatement appear to be shaping rather than restating law. They categorically states that the apparent manufacturer doctrine does not apply to trademark licensors, and that the doctrine does not apply despite the presence of a disclaimer which identifies the actual manufacturer.

\textsuperscript{243} See, e.g., Holman Motor Co. v. Evans, 314 S.E.2d 453, 454-55 (Ga. Ct. App. 1984) (holding that company was not liable under strict liability because it was not the manufacturer and the owner’s manual clearly identified another company as the manufacturer); see also supra notes 178, 184 (citing cases).
goods in reliance on the impression that the seller either manufactured the goods or had them manufactured especially for itself. The doctrine was not premised on the much broader notion that house-branding sellers necessarily vouch for the quality of the goods or promise to stand behind those goods. Nor was it based on a notion that consumers always purchase the goods in reliance on the reputation of the seller, even when the identity of the actual manufacturer is disclosed.

Indeed, if the doctrine had been construed this broadly, it would have applied to all sellers, even if their brand names or marks did not appear on the goods. Consumers frequently purchase goods from reputable sellers on the assumption that those sellers tend to carry a certain quality of goods. For example, a consumer may buy vacuum cleaners from Sears because one assumes that all the vacuum cleaners Sears sells are of an adequate quality, regardless of whether they bear the “Sears” trademark. But the apparent manufacturer doctrine was never construed to encompass sellers in this situation. Only by broadening the scope of the doctrine beyond its historical origins have the authors of the new Restatement been able to construct a rationale to justify their rejection of disclaimers.

If the apparent manufacturer doctrine is confined to its historical footings, disclaimers should be a means by which trademark owners can escape liability as apparent manufacturers in the trademark-licensing context. Indeed, a strong argument can be made that even in the classical licensing situation, licensors should be permitted to negate the possibility of strict liability by clearly disclosing the identity of the actual manufacturer on the licensed goods and by conspicuously stating that the goods were manufactured according to the standards of the trademark. In such circumstances, consumers could not legitimately claim to have purchased the goods in reliance on the impression that the licensor provided the standards and specifications for making the goods.

Finally, it may be true that consumers purchase goods in reliance on a trademark licensor’s reputation, even where the identity of the actual manufacturer is clearly displayed and the goods indicate that the licensor did not control the standards or specifications for making the goods. Indeed, such consumer reliance probably occurs every time a teenage boy buys Air Jordan Nike gym shoes. In fact, it may be desirable as matter of public policy to hold licensors liable in such circumstances un-
der a broad consumer reliance rationale. Yet, even if it is true that consumers always purchase goods in partial reliance on the reputation of a trademark licensor, that fact alone should not be sufficient to defeat a licensor's ability to negate its liability as an apparent manufacturer through the use of an appropriate disclaimer.

E. A Proposed Safe Harbor

It might be desirable to enact laws stating that a trademark licensor shall not be required to defend against an apparent manufacturer claim if the manufacturer, wholesaler or retailer is subject to service of process and able to satisfy a likely judgment against it. Several states have adopted similar rules for non-manufacturing sellers such as wholesalers and retailers. Generally, these statutes state that non-manufacturing sellers are not subject to strict liability unless the manufacturer of the defective goods is unable to satisfy a likely judgment or is outside the jurisdiction of the court.

There are a number of compelling reasons to enact similar "safe harbor" statutes for licensors. First, in all cases where a manufacturer or other entity in the chain of distribution is solvent and subject to jurisdiction, there is no reason to require yet another entity to incur fees to defend against a product liability claim that is duplicative of claims against these other entities.

Second, such a rule would not interfere with the societal interest in compensating persons who are injured by defective products. This is so because under the proposed rule, licensors would be immune from liability as apparent manufacturers only if other entities were not available to compensate the plaintiffs. Hence, the proposed rule would minimize legal and insurance costs while at the same time ensuring adequate compensation.

Third, if reducing legal fees and insurance costs are sufficiently strong interests to justify such a rule for wholesalers and retailers, then these interests should also support the adoption of a similar rule for trademark licensors.

\[244\] Indeed, a fairly compelling argument can be made that all trademark licensors should be held strictly liable to the same extent as retail sellers generally, since all trademarks stimulate consumer demand and promote the sale of the licensed goods. See Franklyn, supra note 8, at 46-47.

\[245\] For a more complete discussion of this subject, see Franklyn, supra note 8, at 63-65.

\[246\] See, e.g., DEL. CODE ANN. tit. 18, § 7001 (1989); IDAHO CODE § 6-1407 (1990); 735 ILL. COMP. STAT. ANN. 5/2621(a)-(c) (West 1993 & Supp. 1996); KAN. STAT. ANN. § 60-3306 (Supp. 1994).

\[247\] See id.

\[248\] See Franklyn, supra note 8.
V. CONCLUSION

In this Article, I have argued that trademark licensors should be held liable under the apparent manufacturer doctrine when they induce consumers to believe that they manufactured, or dictated the standards and specifications for manufacturing, their licensees' goods. In either situation, the licensor implicitly represents that it stands behind the safety of those goods and should therefore be estopped from denying otherwise. The contrary position taken by the Third Restatement of Torts is not well considered as a matter of logic or public policy and ignores a substantial body of case law that has applied the apparent manufacturer doctrine to trademark licensors.

I have also argued that the apparent manufacturer doctrine should be limited to situations where the plaintiff can prove that, at the time she purchased the product in question, (1) she actually believed that the trademark owner made or dictated standards for making the product, (2) she purchased the product in reliance on this belief, and (3) such reliance was reasonable and justifiable in the circumstances. By requiring proof of actual and justifiable reliance, courts can ensure that there is a causal connection between a licensor's conduct and a plaintiff's injury. However, I have argued that actual reliance should be presumed when the plaintiff shows that a reasonable consumer would have relied in the requisite manner and the defendant fails to show that the actual consumer did not, in fact, so rely.

Although the application of the test proposed here would depend on all the facts and circumstances of a particular case, liability probably would arise more frequently in classical and franchise licensing situations than in the collateral product and promotional licensing contexts. This would be so because in the collateral and promotional licensing context, consumers are considerably less likely to believe that the licensor manufactured the licensed goods.

This Article has also argued that licensors should be permitted to use appropriate product labeling to negate any impression that they manufactured, or dictated the standards or specifications for manufacturing, their licensees' goods. An enforceable disclaimer should be accurate, conspicuous, understandable, and consistent with the licensors' quality control obligations under the Lanham Act. Finally, the article recommended that licensors should be provided with a safe harbor from liability if they can demonstrate that the actual manufacturer of an allegedly defective product is solvent and subject to the jurisdiction of courts in states where the product is sold. A safe harbor of this type would minimize unnecessary litigation and insurance
costs while still providing injured consumers with an adequate source of compensation.