University of Dayton Law Review

Volume 5 | Number 2 Article 8

1980

Products Liability: Imposing Strict Products Liability on the Trademark Licensor

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NOTE

PRODUCTS LIABILITY: IMPOSING STRICT PRODUCTS LIABILITY ON THE TRADEMARK LICENSOR—*Connelly v. Uniroyal, Inc., 75 Ill. 2d 393, 389 N.E.2d 155 (1979).*

INTRODUCTION

The recent case of *Connelly v. Uniroyal, Inc.*[1] presents an interesting combination of two separate areas of the law: trademark[2] and strict products liability.[3] These two areas, while differing in the scope of protection offered, have evolved from one basic policy, that is, a deep concern for the welfare of the purchasing public. The former protects the consumer economically by theoretically assuring that the purchaser will, in fact, be buying what he intends to buy.[4] The latter protects the consumer by holding a manufacturer strictly liable for injuries caused by its defective product.[5] Both are based on warranty

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1. 75 Ill. 2d 393, 389 N.E.2d 155 (1979).

2. For a general overview of trademark law see S. OPPENHEIM & G. WESTON, UNFAIR TRADE PRACTICES AND CONSUMER PROTECTION, 31-216 (3d ed. 1974); J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETION (1973); Rogers, *The Lanham Act and the Social Function of Trade-Marks, 14 LAW AND CONTEMP. PROB. 173 (1949); Schecter, The Rational Basis of Trademark Protection,* 40 HARV. L. REV. 813 (1927).

3. For a general discussion of strict products liability law *see* R. HURSH & R. BAILEY, AMERICAN LAW OF PRODUCTS LIABILITY (2d ed. 1974); Traynor, *The Ways and Meanings of Defective Products and Strict Liability,* 32 TENN. L. REV. 363 (1965); Prosser, *The Assault Upon the Citadel,* 69 YALE L. J. 1099 (1960); Gilliam, *Products Liability in a Nutshell,* 37 ORE. L. REV. 119 (1958).

4. *See* Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 412 (1916); Manhattan Medicine Co. v. Wood, 108 U.S. 218, 223 (1883); Mariniello v. Shell Oil Co., 511 F. 2d 853, 858 (3d Cir. 1975).

5. *See* Suvada v. White Motor Co., 32 Ill. 2d 612, 210 N.E.2d 182 (1965); Temple v. Wear United, Inc., 50 Ohio St. 2d 317, 364 N.E. 2d 267 (1977).

Many jurisdictions have adopted RESTATEMENT (SECOND) OF TORTS § 402 A (1965), which provides:

> (1) One who sells any product in a defective condition unreasonably dangerous to the user or consumer or to his property is subject to liability for physical harm thereby caused to the ultimate user or consumer, or to his property, if
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> (a) the seller is engaged in the business of selling such a product, and
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> (b) it is expected to and does reach the user or consumer without substantial change in the condition in which it is sold.
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> (2) The rule stated in Subsection (1) applies although
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> (a) the seller has exercised all possible care in the preparation and sale of his product, and
>
> (b) the user or consumer has not bought the product from or entered into

theory,[6] and each is supported by the rationale that enforcement of the law will encourage the manufacture of better products.[7]

There are, however, some differences. Strict products liability accomplishes its objectives directly, by allowing the injured consumer to bring suit against the manufacturer[8] and others[9] in the distributive chain. Trademark law has developed a more circuitous route to achieve its purposes. Protection is not given directly to the consumer but to the trademark owner who, in order to prevent public deception, can bring an infringement action against those who copy or imitate his mark.[10] Thus the mark owner becomes the "vicarious avenger"[11] of the public's injury.[12] At least in theory, the consumer should be able to continue to rely on the trademark as a symbol of the quality he has come to expect from products bearing the mark[13] because of the mark owner's self-interest in protecting the goodwill that he has established in his business via the mark.

Originally, protection of the trademark owner was the "means" used to accomplish the "end," that is, protection of the consumer.

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any contractual relation with the seller.

A complete, continually updated list of jurisdictions adopting strict products liability, either by legislative enactment or judicial decree can be found in HURSH & BAILEY, *supra* note 3, at § 4.41.

6. *See* Traynor, *supra* note 3, at 363-66; Schechter, *supra* note 2, at 822-23.

7. *See* Standard Brands, Inc. v. Smidler, 151 F.2d 34, 41 (2d Cir. 1945) (Frank, J., concurring); Vandermark v. Ford Motor Co., 61 Cal. 2d 256, 262, 391 P.2d 168, 171, 37 Cal. Rptr. 896, 899 (1964).

8. *See, e.g.,* Greenman v. Yuba Power Products, 59 Cal. 2d 57, 377 P.2d 897, 27 Cal. Rptr. 697 (1963); Daryl v. Ford Motor Co., 440 S.W. 2d 630 (Tex. 1969).

9. Strict products liability has been held to extend to a wholesaler in Cooley v. Quick Supply Co., 221 N.W.2d 763 (Iowa 1974); a retailer in Suvada v. White Motor Co., 32 Ill. 2d 612, 210 N.E.2d 182 (1965); a lessor in McClaflin v. Bayshore Equip. Rental Co., 274 Cal. App. 2d 446, 79 Cal. Rptr. 337 (1969); a contractor in State Stove Mfg. Co. v. Hodges, 189 So.2d 113 (Miss. 1966); a component parts manufacturer in Burbage v. Boiler Eng'r & Supply Co., 433 Pa. 319, 249 A.2d 563 (1969); and to an assembler in Putnam v. Erie City Mfg. Co., 338 F.2d 911 (5th Cir. 1964).

10. *See, e.g.,* Manhattan Medicine Co. v. Wood, 108 U.S. 218, 222-23 (1882); Colligan v. Activities Club, 442 F. 2d 686 (2d Cir.), *cert. denied,* 404 U.S. 1004 (1971).

11. Ames Publishing Co. v. Walker-Davis Publications Inc., 372 F. Supp. 1, 14 (E.D. Pa. 1974).

12. From a practical standpoint, the trademark owner has a greater stake in an infringement suit, justifying his role as guardian of consumer interests, because of lost sales and his potential loss of goodwill and reputation. A deceived customer may suffer such inconsequential monetary loss as to preclude him from taking his claim to court, or even from writing a letter of complaint.

13. This is the "guarantee" theory of trademarks. *See* Menendez v. Faber, Coe & Gregg, Inc., 345 F. Supp. 527, 556 (S.D.N.Y. 1972), *modified sub nom.* Menendez v. Saks & Co., 485 F.2d 1355 (2d Cir. 1973), *cert. denied,* 425 U.S. 991 (1976). *See generally* Goldstein, *Products Liability and the Trademark Owner: When a Trademark is a Warranty,* 67 TRADEMARK REP. 587 (1977); Hanak, *The Quality Assurance Function of Trademarks,* 43 FORDHAM L. REV. 363 (1974).

This protection was facilitated by judicial recognition of a "property" interest in the trademark.[14] Gradually the mark owner was accorded more extensive protection of his judicially created property interest in the trademark until protection of the property interest became an "end" in itself. Unfortunately, this was often at the expense of the consumer whose needs had originally prompted the creation of the mark owner's interest in the trademark.[15] Consequently, the owner of a registered trademark is extensively protected legislatively and judicially while consumers are left to rely on the trademark owner to look out for their interests.[16] There has been virtually no judicial notice of this plight of consumers in their relationship with the trademark owner.

In *Connelly v. Uniroyal, Inc.*,[17] the Supreme Court of Illinois was presented with an opportunity to reevaluate the trademark owner's relationship with and responsibility to the consumer, and to impose strict products liability on a trademark owner.

FACTS AND HOLDING

In November of 1970, the plaintiff, John Connelly, was injured in an automobile accident on a Colorado highway. He filed suit against several defendants, alleging that the accident, and therefore his injuries, resulted from a defective tire on his 1969 Opel.[18] The tire had been manufactured by Englebert Belgique S.A. but bore the name "Uniroyal."[19] Englebert sold the tire to General Motors, who subsequently installed it on the Opel in Belgium and shipped the car to the United States for sale.[20]

14. There has been some controversy as to whether there legitimately exists a "property" interest in a trademark and, therefore, whether the judiciary only took notice of that interest or instead actually created it. *See, e.g.*, Cohen, *Transcendental Nonsense and the Functional Approach*, 35 COLUM. L. REV. 809, 814-17 (1935). This author suggests the legalistic reasoning is circular: a trademark is "property" because it has value and is therefore legally protectable, but it only has this value because it is legally protected.

15. For a general discussion of the law's benign neglect of the consumer see Standard Brands, Inc. v. Smidler, 151 F.2d 34, 40-42 (2d Cir. 1945) (Frank, J., concurring).

16. *See, e.g.*, Colligan v. Activities Club, 442 F.2d 686 (2d Cir.), *cert. denied*, 404 U.S. 1004 (1971).

17. Connelly v. Uniroyal, Inc., 75 Ill. 2d 393, 389 N.E.2d 155 (1979).

18. *Id.*

19. While the tire bore the legend "made in Belgium," there was no indication on the tire that Englebert, not Uniroyal, had actually manufactured it. Connelly v. Uniroyal, Inc., 55 Ill. App. 3d 530, 538, 370 N.E.2d 1189, 1195 (1977).

20. The car had been purchased by Connelly's father in September of 1969. *Id.* At one time this fact alone would have precluded him from maintaining a suit against even the manufacturer, Englebert, because of the previous requirement that there be privity of contract between the parties. *See, e.g.*, Wesley v. Serberling Rubber Co., 90

Connelly brought this action against Englebert, the manufacturer of the tire, and its parent company, Uniroyal, Inc., which had permitted its trademark to appear on the tire.[21] Uniroyal filed a motion for summary judgment contending that it could not be held liable to Connelly because it had not designed, manufactured, or sold the tire in question and was not, therefore, in the chain of distribution.[22] Uniroyal's motion was denied by the circuit court but was reversed on appeal.[23] The Supreme Court of Illinois reversed the court of appeals' decision and remanded the case to the circuit court for trial on the merits. The Supreme Court ruled that it was not an essential prerequisite to a finding of liability for Uniroyal to have been a link in the chain of distribution, and instead emphasized Uniroyal's profit-seeking motive and role in the entire marketing enterprise.[24] The court

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F. Supp. 709 (W.D. Mo. 1950); Murphy v. Plymouth Motor Corp., 3 Wash. 2d 180, 100 P.2d (1940). *See generally* Prosser, *The Assault Upon the Citadel*, 69 YALE L.J. 1099 (1960).

This bar to suit was gradually eroded by the courts, first by allowing recovery against food processors to anyone injured by their products. *See, e.g.*, Parks v. Yost Pie Co., 93 Kan. 344, 144 P. 202 (1914); Mazetti v. Armour & Co., 75 Wash. 2d 622, 135 P. 633 (1913). Several jurisdictions followed by expanding the definition of "buyer" to include the purchaser's family and household. *See, e.g.*, Baker v. Sears Roebuck & Co., 16 F. Supp. 925 (S.D. Cal. 1936); White Sewing Mach. Co. v. Feisel, 28 Ohio App. 152, 162 N.E. 633 (1927). Courts now routinely allow recovery from a manufacturer for anyone injured by the manufacturer's defective product. *See, e.g.*, Delaney v. Towmotor Corp., 339 F.2d 4 (2d Cir. 1964); Elmore v. American Motors Corp., 70 Cal. 2d 578, 451 P.2d 84, 75 Cal. Rptr. 652 (1969); Piercefield v. Remington Arms Co., 375 Mich. 85, 133 N.W.2d 129 (1965). *But see* Winnett v. Winnett, 57 Ill. 2d 7, 310 N.E.2d 1 (1974) (denying recovery to a four year old child injured by a piece of farm machinery on the basis that she was not a foreseeable plaintiff).

21. 75 Ill. 2d 393, 389 N.E.2d 155 (1979). Englebert and Uniroyal first entered into a contract in 1962 that permitted Englebert to obtain detailed information as to Uniroyal's methods, processes and formulas used in the manufacture of tires and tubes. *Id.* at 408, 389 N.E.2d at 161. In 1964, Englebert was granted the nonexclusive right to use the registered trademark "Uniroyal" on it products. This agreement provided for quarterly payments to be made to Uniroyal and included a stipulation "that the license of the trademark would terminate at such time as Uniroyal should cease to have the power to exercise management control over that aspect of Englebert's business which made use of the trademark and logo." 55 Ill. App. 3d 530, 539, 370 N.E.2d 1189, 1196 (1977). In 1966, Englebert Societe Anonyme became known as Uniroyal Englebert Belgique, S.A. At the time of the manufacture of the tire, a wholly owned subsidiary of Uniroyal owned approximately 95% of Englebert's outstanding stock. *Id.*

22. 75 Ill. 2d at 408, 389 N.E.2d at 161.

23. 55 Ill. App. 3d 530, 370 N.E.2d 1189.

Englebert had filed a motion to quash service of process based on lack of jurisdiction over the foreign corporation. That motion was denied by the circuit court, a decision upheld by both the Appellate and Supreme Court of Illinois. 75 Ill. 2d 393, 394, 389 N.E.2d 155, 163.

24. 75 Ill. 2d 393, 394, 389 N.E.2d 155, 163. The court did, however, agree with the appellate court that nothing appeared in the pleadings to impose vicarious liability on Uniroyal, despite its virtual ownership of Englebert. *Id.* at 393, 389 N.E.2d at 162.

further reasoned that the same public policy considerations that mandated imposition of strict liability on wholesalers and retailers were also applicable to Uniroyal who was, therefore, a proper defendant.[25]

ANALYSIS

Illinois was not the first jurisdiction to address the issue of a trademark owner's strict liability for a defective product not manufactured by the mark owner. The Supreme Court of California imposed liability on a trademark licensor in *Kasel v. Remington Arms Co.*[26] That court, acknowledging that it was the first court to impose liability "upstream" from the manufacturer, based its holding on the "defendant's participatory connection, for his personal profit or other benefit, . . . that created consumer demand for and reliance upon the product . . . ."[27]

The next opportunity for a court to impose liability on a trademark licensor did not occur until six years later in *City of Hartford v. Associated Construction Co.*[28] This case is not precisely on point with *Connelly,* however, because in *City of Hartford* the trademark licensor, who was subjected to liability by the court, had also supplied its licensee with one of the essential ingredients of the defective product.[29] This fact alone sufficiently justified imposition of liability on the licensor, although the court based its decision on the licensing relationship.

The paucity of cases in the area of mark licensor liability can par-

25. *Id.* at 394, 389 N.E.2d at 163.

26. 24 Cal. App. 3d 711, 101 Cal. Rptr. 314 (1972). Kasel presented a strict liability claim for injuries received from an exploding shotgun cartridge. The cartridge was manufactured by CDM, a completely owned Mexican subsidiary of Remington, and bore Remington's registered trademark. Despite a substantially similar fact situation, the appellate court in *Connelly* was able to distinguish *Kasel* for several reasons. Remingtion, the court maintained had caused CDM to come into existence, while Englebert had been an established company for many years before its purchase by Uniroyal. 55 Ill. App.3d 530, 541, 370 N.E.2d 1189, 1197. The equipment used in manufacturing the shell was procured, installed, delivered and designed by Remington. Furthermore, CDM was managed by a Remington employee. 24 Cal. App. 3d 711, 101 Cal. Rptr. 314. The court found these facts sufficient to distinguish the two cases, and pointed out that "Uniroyal had neither involved itself in its subsidiary's corporate life nor participated in the manufacture of its subsidiary's product." 55 Ill. App. 3d at 541, 370 N.E.2d at 1197.

The court, however, quickly glossed over its most legitimate reason for distinguishing *Kasel:* Remington had actually manufactured the portion of the cartridge in which the gunpowder was contained, although CDM had manufactured the final product. 24 Cal. App. 3d 711, 101 Cal. Rptr. 314. This fact would place Remington in the position of a component parts manufacturer or supplier, and would have sufficed for the imposition of strict liability. *See* note 9 *supra.*

27. 24 Cal. App.3d 711, 725, 101 Cal. Rptr. 314, 323.

28. 34 Conn. Supp. 204, 384 A.2d 390 (1978).

29. *Id.* at ____, 384 A.2d at 392.

tially be explained by the fact that, in most instances, the owner of the mark that appears on the defective product is also the manufacturer, supplier, or seller of the product.[30] In these instances, courts do not have to consider the liability of one who only licenses the use of his trademark; courts can impose liability by utilizing a conventional chain of distribution theory.

The *Connelly* court had within its reach an even more compelling reason, apart from the stated public policy rationale, to impose strict products liability on Uniroyal.[31] The long history of trademarks, the recent innovation of trademark licensing,[32] and the legal restrictions on those who choose to license their marks should combine to place direct responsibility on the licensor for any product on which his mark appears. In other words, the legal restrictions on the licensor and the responsibility owed to the public should put the licensor in a position similar to that of the manufacturer at the pinnacle of the conventional chain of distribution.

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30. 55 IOWA L. REV. 693 (1970).

31. A related issue is indemnification. Indemnification is a means for shifting the loss (compensatory damages) to the individual who was initially at fault and responsible for that loss. W. KIMBLE & R. LESHER, PRODUCTS LIABILITY § 275 (West 1979). Because a strict liability action is not based upon a traditional "fault" concept, it would appear that indemnification principles would be inapplicable to strict products liability. The "fault," if any, that is involved results only from the sale of a defective product. Thus, it can be persuasively argued that retailers, wholesalers and manufacturers are equally at "fault" for any defective product they have sold, and should, therefore, share the loss.

Nonetheless, the general rule is that indemnification from the manufacturer is proper in these cases. *Id.* It is permitted because of a policy of placing final responsibility for the defective product on the party initially responsible. *Id.*

For cases following the general rule permitting indemnification see McCrory Corp. v. Girard Rubber Corp., 225 Pa. Super. 45, 307 A.2d 435 (1973), *aff'd*, 459 Pa. 57, 327 A.2d 8 (1974); Texaco Inc. v. McGrew Lumber Co., 117 Ill. App. 2d 351, 254 N.E.2d 584 (1970).

Decisions that have not permitted indemnification of the retailer by the manufacturer are usually based upon the negligence of the retailer. *E.g.*, Wilson v. E-Z Flo Chemical Co., 281 N.C. 506, 189 S.E.2d 221 (1972) (seller not entitled to indemnification because manufacturer's manual warned against product use in cold weather, but seller had failed to warn buyer); Ford Motor Co. v. Russell & Smith Ford Co., 474 S.W.2d 549 (Tex. Civ. App. 1971) (dealer entitled to contribution but not indemnification for his aggravation of a defective design in installing an air-conditioning system).

A party is not entitled to indemnification where the indemnitee is also responsible, either because of active negligence or on a basis of strict liability in the same category as the indemnitor. They are, however, joint tortfeasors and may be allowed contribution from each other where state law otherwise permits contribution among joint tortfeasors. Price v. Shell Oil Co., 2 Cal. 3d 256-57, 466 P.2d 722, 729, 85 Cal. Rptr. 178, 185 (1970).

32. Until recently trademarks were thought to be only a symbol of the goodwill associated with a business, and could only be transferred appurtenant to the sale of an entire business. *See* Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 413-14 (1916).

A. History of Trademarks

Although trademark law in the United States is only about 140 years old,[33] the practice of marking goods dates back thousands of years.[34] In ancient civilizations and during medieval times, marks performed three designation functions: possession, contends, and source.[35] It was the third function, designation of source, that provided information to consumers as to the origin and maker of the goods. This practice evolved to substantially benefit the buyer in three ways. First, he could purchase an item, based on its reputation or his previous experience with it, confident that it would conform to an expected standard of quality. Second, if the goods did not measure up to his expectations, the mark enabled him to trace the goods to its maker to voice his complaint and for redress of his injury. Finally, the marking of goods encouraged the production of high quality goods, an obvious consumer benefit.[36]

In addition to these consumer benefits, trademarks also rewarded the conscientious producer of goods by providing a means of receiving credit for a quality product and, thereby, reaping the benefits of increased sales. This, in turn, stimulated competition among manufacturers to produce a better product than their counterparts.[37]

Trademarks justifiably played an important role in the *laissez faire* theory of economics that developed during the nineteenth century.[38] The main premise behind the theory was that the general economic welfare of the population and of the country would invariably be promoted by the development of a highly competitive marketing system.[39] A corollary of that premise was that vigorous, beneficial competition

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33. Rogers, *The Lanham Act and the Social Function of Trade-Marks*, 14 LAW & CONTEMP. PROB. 173 (1949).

34. *See generally* Burrell, *Two Hundred Years of English Trade-mark Law, in* TWO HUNDRED YEARS OF ENGLISH & AMERICAN PATENT, TRADEMARK & COPYRIGHT LAW, 35, 35-36 (Bicentennial Symposium ABA Section of Patent, Trademark and Copyright Law (1976)).

35. F. SCHECTER, THE HISTORICAL FOUNDATION OF THE LAW RELATING TO TRADEMARKS (1925).

36. *Id.*

37. *See generally* Eastern Wine Corp. v. Winslow-Warren Ltd., Inc., 137 F.2d 955, 958 (2d Cir. 1943); Standard Brands, Inc. v. Smidler, 151 F.2d 34, 40-42 (2d Cir. 1945) (Frank, J., concurring).

One of the functions of trademarks is to point out the product's origin to the consumer, so as to secure to the individual who places a superior product in the marketplace the fruits of his industry. *See* Sweetarts v. Sunline Inc., 299 F. Supp. 572 (E.D. Mo. 1969), *modified,* 436 F.2d 705 (1971).

38. *See* Standard Brands, Inc., v. Smidler, 151 F.2d 34, 38-39 & nn. 2-8 (2d Cir. 1945).

39. *Id.* at 39.

was best fostered by governmental noninterference.[40] It soon became apparent that total noninterference was impossible—too many unscrupulous merchants and manufacturers did not operate on the plane of honesty and fair dealing that was necessary for successful implementation of the theory. There developed a general public policy of discouraging unfair trade practices that became the basis for the judicially created protection of trademarks.[41] While jurists justified the creation of a trademark "property right" in terms of consumer protection,[42] legislatures answered with laws giving practically unqualified protection to the owner of the trademark.[43] These laws, aided by judicial interpretation, eventually made the trademark owner's interest paramount, sacrificing along the way the rationale that had originally created the "property right."[44]

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40. *Id.*

41. *Id.* at 40.

42. *Id.*

43. *See, e.g.*, Lanham Trade Mark Act, 15 U.S.C. §§ 1051-1127 (1976) (eliminated the effect of Erie R.R. v. Tompkins, 304 U.S. 64 (1938) on state trademark registration statutes); Diggins, *Federal and State Regulation of Trade-Marks*, 14 LAW & CONTEMP. PROB. 200, 213 (1949).

44. Jurists have examined trademarks, which are in actuality no more than just words—albeit words with commercial connotations—and have found somewhere in them "property rights." *See* note 14 *supra*.

Justice Frankfurter, on the rationale of protecting the trademark owner's "property right," stated:

> Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress.

Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 205 (1942).

The parameters of property interests in marks were set forth by Justice Brandeis, dissenting in International News Service v. Associated Press, 248 U.S. 215 (1918):

> An essential element of individual property is the legal right to exclude others from enjoying it. If the property is private, the right of exclusion may be absolute; if the property is affected with a public interest, the right of exclusion is qualified. But the fact that a product of the mind has cost its producer money and labor and has value for which others are willing to pay, is not sufficient to insure to it this legal attribute of property. The general rule of law is, that the noblest of human productions - knowledge, truths ascertained, conceptions and ideas - become after voluntary communication to others, free as the air to common use. Upon these incorporeal productions, the attribute of property is continued after communication only in certain cases where public policy has seemed to demand it.

Id. at 250.

The primary problem in identifying property rights in a mark was stated by Justice Learned Hand in S.C. Johnson & Son v. Johnson, 116 F.2d 427 (2d Cir. 1940):

> There is always the danger that we may be merely granting a monopoly, based upon the notion that by advertising one can obtain some "property" in a name. We are nearly sure to go astray in any phase of the whole subject, as soon as we

Trademark licensing was a classic example of the courts' gradual erosion of consumer protection. At one time, mark licensing was entirely prohibited because of the "source" theory of trademarks.[45] This theory was used by courts to prevent potential consumer deception by requiring that the product be manufactured by the owner of the trademark that appeared on that product.[46] This approach was typified by the statement that "[a] trademark cannot be assigned, or its use licensed, except as incidental to a transfer of the business or property in connection with which it has been used."[47]

The "source" theory was criticized, first by commentators and then by the courts, on the grounds that consumers do not care who actually produces the goods as long as they continue to receive a consistent level of quality from those goods.[48] This approach became known as the "guarantee" theory of trademarks.[49]

One of the first decisions to take judicial notice of the "guarantee" theory was *Lea v. New Home Sewing Machine Co.*[50] In an infringement case, the court held that the real issue involved was not "source" or "origin" but whether licensor control over the production of sewing machines had been exercised to an extent that would protect consumer expectations.[51] Consequently, licensing of trademarks was given

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> lose sight of the underlying principal that the wrong involved is diverting trade from the first user by misleading customers who mean to deal with him.

Id. at 429.

For cases that place the trademark owner's rights above that of the consumers, see Colligan v. Activities Club, 442 F.2d 686 (2d Cir. 1971), *cert. denied,* 404 U.S. 1004 (1971) (denying consumers standing under § 43(a) of the Lanham Act despite language therein that the purpose of the Act is to prevent consumer deception and that suit may be maintained "by any person who believes that he is or is likely to be damaged by the use of any such false description or representation." 15 U.S.C. § 1125(a) (1976)); Drexel Enterprises, Inc. v. Hermitage Cabinet Shop, Inc., 266 F. Supp. 532 (N.D. Ga. 1967) (holding that the superiority of the infringer's product does not constitute a defense in a trademark infringement suit); Continental Motors Corp. v. Continental Aviation Corp., 375 F.2d 857, 860 n.8 (5th Cir. 1967) (noting that there was no longer a requirement of "deception" as to origin of the product under the Lanham Act); Boston Professional Hockey Assn., Inc. v. Dallas Cap & Emblem Mfg., Inc., 510 F.2d 1004 (5th Cir. 1975) (admitting that the decision may shift the emphasis in trademark law from the protection of the public to the protection of the mark owner's business interest).

45. *See, e.g.,* Kidd v. Johnson, 100 U.S. 617 (1879).

46. Bulte v. Ingleheart Brothers, 137 F. 492, 498-99 (7th Cir. 1905).

47. Macmahan Pharmacal Co. v. Denver Chemical Mfg. Co., 113 F. 468, 474-75 (8th Cir. 1901).

48. Goldstein, *Products Liability and the Trademark Owner: When a Trademark is a Warranty,* 67 TRADEMARK REP. 587 (1977).

49. *See* Pecheur Lozenge Co., Inc. v. National Candy Co., 122 F.2d 318, 319 (3d Cir. 1941), *vacated,* 315 U.S. 666 (1942).

50. 139 F. 732 (E.D.N.Y. 1905).

51. *Id.*

judicial approval but only if sufficient control was exercised by the licensor over the licensee in order to maintain the trademark's "guarantee" function.[52]

This movement toward strengthening trademark protection culminated in 1946 when Congress enacted the Lanham Trade-Mark Act.[53] In addition to introducing many new concepts[54] in trademark law, the Act also included several provisions that were intended to protect the public from deceptive,[55] unfair,[56] or monopolistic[57] uses of trademarks.

B. *The Licensor's Duty To Control*

Sections 5 and 45 of the Lanham Act gave a legislative stamp of approval to the once-prohibited practice of trademark licensing. Section 5 does not use the term "licensing," but permits use of a registered trademark by a related company.[58] Section 45 of the Act defines "related company" as one that is legitimately controlled by the registrant (owner of the mark) in respect to the nature and quality of the goods.[59] These two sections and subsequent judicial decisions place an affirmative duty on the trademark licensor to exercise control over the nature and quality of the goods on which his mark appears.[60]

52. *See, e.g.*, Coca-Cola Co. v. J.G. Butler & Sons, 229 F. 224 (E.D. Ark. 1916) (licensing approved where licensor set standards for bottling and maintained a supervision and inspection system); B.B. & R. Knight, Inc. v. W.L. Milner & Co., 283 F. 816 (N.D. Ohio 1922) (licensing of trademark "Fruit of the Loom" permitted where owner exhibited the exercise of complete control of and supplied cloth to the manufacturing licensee).

53. 15 U.S.C. §§ 1051-1127 (1976).

54. Among these new concepts were: a limited concurrent registration provision, *id.* at § 1052(d); an "incontestibility" provision, *id.* at § 1065; a "use by related companies" provision, *id.* at § 1055; and a provision for international registry, *id.* at § 1126.

55. ". . . provided such mark is not used in such manner as to deceive the public." *Id.* at § 1055.

56. Section 43(a) of the Lanham Act was indicative of a Congressional intent to fashion a new federal remedy against unfair competition. Norman M. Morris Corp. v. Weinstein, 466 F. 2d 137 (5th Cir. 1972).

57. Under the Lanham Act, it is a defense to an infringement suit that "the mark has been or is being used to violate the antitrust laws of the United States." 15 U.S.C. § 1115(b)(7) (1976).

58. Section 5 provides in addition:

> Where a registered mark or mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or its registration, provided such mark is not used to deceive the public.

15 U.S.C. § 1055 (1976).

59. *Id.* at § 1127.

60. *See, e.g.*, Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959); Alligator Co. v. Robert Bruce, Inc., 176 F. Supp. 377 (E.D. Pa. 1959).

This affirmative duty was expressed as a legal responsibility to the consumer in *Morse-Starrett Products Co. v. Steccone:*[61]

> If the owner of a trademark wants to license the use thereof to another and still retain as his own enjoyment of the rights stemming therefrom, he must do so in such a way that he maintains sufficient control over the nature and quality of the finished product, over the activities of the licensee as will enable the licensor to sustain his original position of guarantor to the public that the goods now bearing the trademark are of the same nature and quality as were the goods bearing the trademark before the licensing, or that the mark now has the same meaning as far as the public is concerned as it did before the licensing.[62]

Unfortunately, the Act offers no guidelines as to what constitutes sufficient control to meet the requirements of the Act.[63] Consequently, it has been left to the courts to supply the boundaries of adequate control on a case-by-case basis.[64] Occasionally over strong dissents, courts have implied sufficient control from licensing agreements, despite little evidence in the record that "actual" control was ever exercised by the licensor.[65]

In *Dawn Donut Co.,*[66] Judge Lumbard had the unlikely distinction of writing the opinion of the court while dissenting from the majority's conclusion on an issue crucial to the disposition of the case. His opinion agreed with the majority on the existence of an affirmative duty to exercise actual control so as to prevent consumer deception and to maintain product quality;[67] his dissent was based on the absence of evidence in this particular case that such actual control was ever exercised.[68] The reluctance on the part of the majority to find inadequate control can be explained by two factors: one, the acknowledged severity

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61. 86 F. Supp. 796 (N.D. Cal. 1949).

62. *Id.* at 805.

63. The only qualification in the statute is that the control must be "legitimate." 15 U.S.C. § 1127 (1976). This would appear to imply, as courts have held, that "actual" control must be exercised. *See* Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959).

64. This is reasonable considering the varying complexities of the manufacturing processes used in different industries.

65. Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959).

66. *Id.* Dawn Donut had filed an infringement action against Hart's for using its federally registered trademark, "Dawn." Hart filed a counterclaim alleging that Dawn had not exercised control over its numerous licensees and had, therefore, abandoned its mark. *Id.* at 360.

67. *Id.* at 366-67.

68. *Id.* at 368. The only evidence in the record of "actual" control were visits by Dawn's salesmen and contractual obligations to use the supplied bakery mixes "as directed." *Id.*

of the penalty for failure to exercise control;[69] and, two, the fact that a suit under the Lanham Act cannot be maintained by the consumers who generally suffer the greatest injury from insufficient quality control.[70]

By allowing the mark to be used on a product in light of the legal responsibility to control the nature and quality of the marked product, the trademark licensor is, in effect, vouching for the product's quality. The licensor is representing to and assuring the consumer that the product will live up to the licensor's reputation about products bearing the mark.

C. *Implied Warranty, Consumer Expectations, and The Guarantee Theory of Trademarks*

The licensor of a trademark, based on his affirmative duty to control the quality of the product, vouches for any product on which his trademark appears, not unlike the implied warranty of merchantability and fitness for proposed use under section 2-314[71] and section 2-315 of the Uniform Commercial Code. Section 2-315 provides:

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69. Under the Lanham Act, failure to exercise control constitutes abandonment of the mark, 15 U.S.C. § 1127 (1976), and will result in cancellation of the mark's registration, *id.* at § 1064(e).

Failure to exerise control is usually brought to the court's attention in two instances. It is used, either by a defendant as an affirmative defense in an infringment suit or by a plaintiff in a monopoly action to show that the trademark is being used as an instrumentality in the violation of the antitrust laws. *See, e.g.,* Switzer Bros., Inc. v. Locklin, 297 F.2d 39 (7th Cir. 1961) (anti-trust); Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959) (infringement); Alligator Co. v. Robert Bruce, Inc., 176 F. Supp. 377 (E.D. Pa. 1959) (infringement); Cott Beverage Corp. v. Canada Dry Ginger Ale, 146 F. Supp. 300 (S.D.N.Y. 1956) (anti-trust).

> Even if it be assumed that punishment so severe as suggested [*i.e.* cancellation of the mark] may be imposed for misuse of a trade-mark, it is certainly to be doubted that any court would ever go so far. . . . Courts whose duty it is to enjoin practices tending to confuse and deceive the buying public, will not consciously assist a seller to palm off his goods as those of another.

146 F. Supp. at 303.

70. *See* Colligan v. Activities Club, 442 F.2d 686 (2d Cir.), *cert. denied*, 404 U.S. 1004 (1971).

71. U.C.C. § 2-314 (1976 version) provides:

> (1) Unless excluded or modified (Section 2-316), a warranty that the goods shall be merchantable is implied in a contract for their sale if the seller is a merchant with respect to goods of that kind. Under this section the serving for value of food and drink to be consumed either on the premises or elsewhere is a sale.
>
> (2) Goods to be merchantable must be at least such as
>
> (a) pass without objection in the trade under the contract description; and
>
> (b) in the case of fungible goods, are of fair average quality within the description; and
>
> (c) are not for the ordinary purposes for which such goods are used; and
>
> (d) run, within the variations permitted by the agreement, of even kind,

> Where the seller at the time of contracting has reason to know any particular purpose for which the goods are required and that the buyer is relying on the seller's skill of judgment to select or furnish suitable goods, there is . . . an implied warranty that the goods shall be fit for such purpose.[72]

An implied warranty of safety is included in an implied warranty of fitness for proposed use and merchantable quality.[73]

Courts have combined sections 2-314 and 2-315 of the U.C.C. with section 402 A of the Restatement of Torts to hold that, in a strict products liability suit, a product is defective when it is "unmerchantable" or "not reasonably fit for the purposes for which it is sold."[74] A comment to section 402 A tacitly approves of the acceptance of this position but adds as a caveat that warranty theory under strict liability contemplates an action in tort and, therefore, should not be bound by the contract rules of warranty relating to reliance, privity, notice, or disclaimers.[75]

The reasonable consumer expectation test in strict liability corresponds to one of the functions of trademarks: assurance to the consumer that he is purchasing that which he intends to purchase—a product that conforms to the certain standards of quality and safety that he

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quality and quantity within each unit and among all units involved; and

(e) are adequately contained, packaged, and labeled as the agreement may require; and

(f) conform to the promises or affirmations of fact made on the container or label if any.

(3) Unless excluded or modified (Section 2-316) other implied warranties may arise from course of dealing or usage of trade.

72. U.C.C. § 2-315 (1976 version).

73. R. HURSH & R. BAILEY, *supra* note 3, § 4.8 at 658.

74. *See, e.g.,* Greeno v. Clark Equipment Co., 237 F. Supp. 427 (N.D. Ind. 1965); Sansing v. Firestone Tire & Rubber Co., 354 So.2d 895 (Fla. Dist. Ct. App.), *cert. denied,* 360 So. 2d 1250 (Fla. 1978); Santor v. A.M. Karaghesian Inc., 44 N.J. 52, 207 A.2d 305 (1965); Herman v. General Irrigation Co., 247 N.W. 2d 472 (N.D. 1976).

75. RESTATEMENT (SECOND) OF TORTS § 402 A, comment m (1965) states:

> A number of courts, seeking a theoretical basis for the liability, have resorted to a "warranty," either running with the goods sold . . . or made directly to the consumer without contract . . . There is nothing in the Section which would prevent any court from treating the rule stated as a matter of "warranty" to the user or consumer. But if this is done, it should be recognized and understood that the "warranty" is a very different kind of warranty from those usually found in the sale of goods, and that it is not subject to the various contract rules which have grown up to surround such sales.

Connelly would have been affected by two of these limitations in a contract action—privity, *see* note 20, *supra* and reliance. Under the U.C.C. and a contract theory, a plaintiff must show reliance on the implied warranty of the manufacturer of the product. In *Connelly,* neither the plaintiff nor his father knew who had manufactured or whose name appeared on the tire. It would have been, therefore, impossible for either of them to have relied on Englebert's or Uniroyal's representation.

has come to expect from products bearing the same mark. Under the consumer expectation test, if a product fails to conform to the reasonable expectations of the consumer at the time of purchase, the product is defective, and the plaintiff in a strict liability lawsuit has proven one of the elements of his case. He still must prove, however, that the defect rendered the product unreasonably dangerous and that the defect caused his injury.[76] By acknowledging the similarity of the "guarantee" function of trademarks to implied warranties and the consumer expectation test for strict products liability, the *Connelly* court would have had a further basis for imposing liability on Uniroyal.

D. *Strict Products Liability and the Ability to Control*

Wholesalers and retailers, when faced with a strict products liability lawsuit, frequently contend as a defense that they were not in a position to control the defect in the product that caused the injury.[77] This defense is usually quickly dismissed by the courts for public policy reasons. For example, in *Dunham v. Vaughn & Bushnell Mfg. Co.,*[78] strict liability was imposed on the wholesaler of a defective hammer that passed through his warehouse in an unopened container. That court reasoned that liability extended to the wholesaler, not because of an ability to control the defect in the product before it reached the eventual consumer, but because of the wholesaler's role in the production and marketing enterprise.[79] While retailers and wholesalers cannot

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76. Mooney v. Fibreboard, 485 F. Supp. 242 (1980).

77. *See, e.g.,* Kasel v. Remington Arms Co., 24 Cal. App. 3d 711, 101 Cal. Rptr. 314 (1972); Canifax v. Hercules Powder Co., 237 Cal. App. 2d 44, 46 Cal. Rptr. 552 (1965).

In *Canifax,* the defendant, Hercules, was held strictly liable in an action arising from a dynamite explosion, despite the fact that it had only processed an order for dynamite fuses. In imposing strict liability, the court stated: "The fact that it [Hercules] chooses to delegate the manufacture of [the] fuse to another and that it causes the manufacturer to ship the product directly to the consumer cannot be an escape hatch to avoid liability." 237 Cal. App. 2d at 52, 46 Cal. Rptr. at 557.

78. 86 Ill. App. 2d 315, 229 N.E.2d 684 (1967), *aff'd,* 42 Ill. 2d 339, 247 N.E.2d 401 (1969).

79. Other frequently expressed rationales for imposing liability on all members in the conventional distributive chain were set forth in Vandermark v. Ford Motor Co., 61 Cal. 2d 256, 391 P.2d 168, 37 Cal. Rptr. 896 (1964): (1) It places the cost of injuries from defective products on those that reap the profits and are, therefore, best able to bear the costs. *Id.* at 262, 391 P.2d at 171, 37 Cal. Rptr. at 899; (2) Imposition of liability on others in the chain works no injustice on those members because they are in a position to adjust the cost in a continuing business relationship and can look to the manufacturer for indemnity. *Id.* at 263, 391 P.2d at 172, 37 Cal. Rptr. at 900; and (3) In some instances the retailer or wholesaler may be the only member of the chain that is reasonably available to be sued. *Id.* at 262, 391 P.2d at 171, 37 Cal. Rptr. at 899.

Indeed, had Illinois' long-arm statute not extended to foreign manufacturers, the realistically be expected to control a defective product's entry into the marketplace once manufactured, they are in a position to exert pressure on manufacturers to produce safer products in the future. Holding these individuals strictly liable for defective products that pass through their hands encourages them—and not too subtly—to exercise this form of indirect control, even if it is after the fact and an injury has already occurred.

In *Kasel v. Remington Arms, Inc.*,[80] the court dismissed Remington's claim that it lacked an ability to control the product. The court reiterated its position that lack of an ability to control the product had never been considered sufficient by that court to absolve a defendant of liability, but added that an ability to control, if existing, would be a significant factor favoring the imposition of liability.[81]

The *Kasel* court, like *Connelly,* did not take notice of the fact that a trademark licensor not only has an ability to control the product, but also has a statutory duty to exercise that control. This duty to control sufficiently justifies imposing liability on the trademark licensor because he is, in effect, responsible for the manufacture of the defective product.

CONCLUSION

It would be incongruous to hold a defendant, such as a retailer or a distributor, liable for an injury caused by a defective product the quality of which was beyond his ability to control, and to exculpate a trademark licensor who has a legal obligation to directly control the nature and quality of the product during manufacture. In *Connelly,* a duty to control existed that was consistent with and substantially parallel to the objectives of section 402 A of the Restatement of Torts and strict products liability. This duty to control could have been utilized by the court to consider Uniroyal as being in a position similar to that of the manufacturer, Englebert, in a conventional chain of distribution. Together Englebert and Uniroyal combined their efforts to induce consumers to buy their product. Both had a responsibility to exercise control over the manufacture of the tire and both should share equally the responsibility for any injuries caused by their defective product.

Connelly court would not have had jurisdiction to hear a suit against the manufacturer, Englebert. *See* note 23, *supra.* In other instances, a plaintiff may not know who the manufacturer is or the manufacturer may be insolvent.

80. 24 Cal. App. 3d 711, 101 Cal. Rptr. 314 (1972). *See* notes 26 & 27 and accompanying text *supra.*

81. Id. at 725, 101 Cal. Rptr. at 324.

Justice Traynor gave a most persuasive argument for imposition of strict liability on a trademark licensor in 1944:

> As handicrafts have been replaced by mass production with its great markets and transportation facilities, the close relationship between the producer and consumer of a product has been altered. Manufacturing processes, frequently valuable secrets, are ordinarily either inaccessible to or beyond the ken of the general public. The consumer no longer has means or skill enough to investigate for himself the soundness of a product, even when it is not contained in a sealed package, and his erstwhile vigilance has been lulled by the steady efforts of manufacturers to build up confidence by advertising and marketing devices such as trademarks . . . . Consumers no longer approach products warily but accept them on faith, relying on the reputation of the manufacturer or the trademark . . . . The manufacturer's obligation to the consumer must keep pace with the changing relationship between them; it cannot be escaped because the marketing of a product has become so complicated as to require one or more intermediaries.[82]

Thirty-six years later these arguments are even more persuasive. Trademarks have evolved to become an important tool in the commercial marketing of a product. The Lanham Act and the federal courts have firmly entrenched the trademark owner's property interest as superior to that of the public interest. By holding a trademark licensor strictly liable for defective products bearing his mark and within his ability to control, the courts can reaffirm the original commitment of the trademark as an indication of source and guarantee of quality.

Mary Stanley Silverberg

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82. Escola v. Coca-Cola Bottling Co., 24 Cal. 2d 453, 467-68, 150 P.2d 436, 443 (1944) (Traynor, J., concurring).