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The Emerging Product Liability Of Trademark Licensors

Law360, New York (September 27, 2012, 1:40 PM ET) -- On Aug. 24, 2012, a Connecticut Superior Court judge upheld a $2.4-million product liability verdict against Tile Council of North America (Tile Council) in Hannibal Saldibar v. A.O. Smith Corp., entering final judgment against Tile Council after denying its post-trial motions. This verdict highlights an emerging issue for companies in the growing, multi-billion dollar trademark licensing industry: whether a trademark licensor may be held liable under strict liability for injuries resulting from a product that it neither manufactured nor sold.

Tile Council is a trade association that developed and patented asbestos-containing formulas for dry set mortar and licensed these formulas to tile manufacturers, allegedly receiving licensing fees as well as royalties for each bag of dry set mortar sold with its "seal of assurance." The plaintiff alleged that her father, who died at the age of 84 from pleural mesothelioma, was exposed to these products while working as a tile setter from 1946 to 1979.

Tile Council argued in its motion for summary judgment and at trial that it did not qualify as a "product manufacturer" or "product seller" that would be subject to liability under the Connecticut Product Liability Act, given that it neither manufactured nor sold asbestos-containing products. In denying Tile Council's motion for summary judgment, the court found that it was sufficiently involved in the distribution, marketing or manufacture of its products "to fall within the ambit of the product liability statute." Saldibar v. A.O. Smith Corp., 53 Conn. L. Rptr. 261 (Conn. Super. Ct. Dec. 30, 2011).

Following a one-week trial, the jury ultimately returned a verdict of $1.5 million in compensatory damages, plus $100,000 in loss of consortium damages. Significantly, the court also awarded $800,000 in punitive damages based on the jury's finding that Tile Council acted with reckless disregard for the safety of product users.

The Saldibar verdict raises liability concerns for trademark licensors that have limited involvement in the manufacture and distribution of allegedly defective products. It is important for trademark licensors to understand these potential liabilities, along with the approaches the courts have adopted in this unsettled area of the law.

Courts have concluded that trademark licensors may be held liable for defective products under the "apparent manufacturer" doctrine, under which "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." Burkert v. Petrol Plus of Naugatuck Inc., 216 Conn. 65, 77-78 (1990) (quoting Restatement (Second) Torts § 400).

In fact, the Massachusetts Appeals Court, addressing an issue of first impression, recently affirmed a $3.35-million judgment, holding a non-seller trademark licensor liable under this doctrine. See Lou v. Otis Elevator Co., 77 Mass. App. Ct. 571, 581, rev. denied, 458 Mass. 1108 (2010).

The courts applying the apparent manufacturer doctrine have limited its scope to circumstances in which the trademark licensor substantially participated in the design, manufacture, marketing or distribution of the product. See id.; Burkert, 216 Conn. at 81 (holding trademark licensor not liable as apparent manufacturer).

Other courts have adopted a similar “enterprise theory” of liability, emphasizing the degree of control and integral involvement the trademark licensor exercised over the design, manufacture and sale of the product. See Hebel v. Sherman Equip., 442 N.E.2d 199, 204 (Ill. 1982); Torres v. Goodyear Tire & Rubber Co. Inc., 901 F.2d 750, 751 (9th Cir. 1990) (applying Arizona law).

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