

# COMMERCIAL LANDLORDS BEWARE! YOU MAY BE RESPONSIBLE FOR YOUR TENANTS' INTELLECTUAL PROPERTY INFRINGEMENTS



**SAMUEL D. HODGE, JR.** is a Legal Studies professor at Temple University, where he teaches law, anatomy, and forensics courses. He is a member of the Dispute Resolution Institute, where he serves as a mediator and neutral arbitrator. He has authored more than 185 articles and has written 10 books. He also enjoys an AV preeminent rating and has been named a top lawyer in Pennsylvania on multiple occasions. Portions of this article have been previously published in the article, *Lessors of Commercial Property May Face Liability for the Sale of Counterfeit Goods by their Tenants*, *University of Pennsylvania Journal of Business Law*, Vol. 23.2, at 1-26, Spring 2021. Those portions are reprinted with permission.

There are a number of risks associated with being a commercial landlord, such as the time commitment needed for maintenance<sup>1</sup> and claims arising out of injuries on the property, car damage in the parking lot, dangerous structural conditions, and environmental hazards.<sup>2</sup> One of the more remarkable occurrences is the growing tendency by the courts to find commercial landowners and lessors responsible for trademark infringements by their lessees.<sup>3</sup> This article will discuss this development and will highlight some of the more important decisions on the topic.

## THE PROBLEM WITH COUNTERFEIT GOODS

Counterfeiting is one of the biggest underground businesses in the world and it continues to expand.<sup>4</sup> It is also becoming more arduous to detect a bogus item because of 3D printing and other new technologies.<sup>5</sup> The problem is almost impossible to eradicate because of cheap overhead, high profits, and a "cloak-and-dagger" business style.<sup>6</sup> It once seemed that the sale of counterfeit goods was restricted to dubious individuals prowling the streets, but these counterfeit products are now regularly discovered at flea markets, on the internet, outside arenas at sporting events and concerts, and even in brick-and-mortar stores.

Many Americans seem unaware of the deleterious repercussions of counterfeiting. There seems to be

a prevailing attitude that knockoffs are restricted to fake handbags, sunglasses, and watches, as well as a failure to appreciate the effects that counterfeit goods have on American enterprises.<sup>7</sup> Consumers who consciously purchase counterfeit items are unlikely to procure genuine equivalents and often make these acquisitions because the copy is much cheaper. This allows the counterfeiters to appropriate an owner's intellectual property (IP) without paying taxes or following the rules and quality standards mandated for the real item.<sup>8</sup>

## HOLDING LANDOWNERS AND LESSORS RESPONSIBLE FOR COUNTERFEIT GOODS

A consensus has developed, as the result of court decisions, that the owner or lessor of a flea market, super-max center, shopping complex, or commercial establishment may be responsible for a trademark infringement committed on its property, and that willful unawareness of those illegal pursuits may establish constructive knowledge of the selling of counterfeit items.<sup>9</sup>

### Theories of liability

Two major theories of liability against landlords have arisen over counterfeit goods: contributory liability and vicarious liability.<sup>10</sup>

Contributory liability is a cause of action based upon the common law of torts.<sup>11</sup> The concept has its basis in the Lanham Act, or Trademark Act of 1946,<sup>12</sup> which applies to trademarks, service marks, and unfair competition.<sup>13</sup> An infringement of a registered mark includes the use of “any reproduction, counterfeit, copy, or colorable imitation” to sell goods that “is likely to cause confusion, or to cause mistake, or to deceive.”<sup>14</sup> To succeed on such a cause of action, the owner of the trademark must establish that: (i) the party has an enforceable and legally protected mark; (ii) the person owns the mark; and (iii) the offender’s use of the mark to identify goods or services causes a likelihood of confusion.<sup>15</sup> Victorious claimants have the option of either receiving treble damages or minimum statutory damages, which can range from \$1,000 up to \$2 million per counterfeit sale plus counsel fees.<sup>16</sup>

*Inwood Labs., Inc. v. Ives Labs., Inc.* is the seminal case to utilize secondary liability for a trademark violation.<sup>17</sup> The litigation concerned the manufacturing of a generic pharmaceutical intended to duplicate the appearance of a comparable drug made by a competitor under a registered trademark that was being dispensed by pharmacies.<sup>18</sup> The action was filed under the Lanham Act and the court opined that liability for trademark infringement can extend past those who mislabel products with the mark of another.<sup>19</sup> Even if a manufacturer does not directly control others in the circulation of the item, it can be responsible for the infringing behavior under certain conditions.<sup>20</sup> Therefore, if the maker or distributor intentionally causes another to infringe upon a trademark, or if it continues to provide its product to someone “whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.”<sup>21</sup>

Since this landmark decision, courts have extended the ruling to include infringements that are neither intentional nor point to a specific item, but where the defendant has added in some fashion to the trademark transgression.<sup>22</sup> Courts generally will look at four elements in determining a claim against a lessor, including whether:

1. The lessor or owner has control over the instrumentality employed to infringe;
2. The defendant had the needed knowledge of the trademark infringement conduct;
3. The lessor continued to provide its services notwithstanding that knowledge; and
4. The landlord employed adequate remedial actions to stop the infringing activity.<sup>23</sup>

The first and third elements are effortlessly satisfied because the lessor supplies the rental space, gas and electric, parking, and other amenities to its tenants. The second condition is more problematic to show because the landlord’s mere negligence in knowing about the ongoing trademark infringement is not enough. A landlord has no affirmative obligation to take precautions against the sale of infringing products without actual or constructive knowledge of the illegal activities. Nevertheless, the courts will not allow a lessor to be willfully blind to a trademark infringement.<sup>24</sup> That is much different from simply being negligent and can constitute a form of constructive knowledge of the unlawful conduct.<sup>25</sup> Willful blindness can be demonstrated if the lessor had reason to think that counterfeit products were being offered at its property and purposely failed to look into the situation.<sup>26</sup> This is a two-pronged test: the lessor must subjectively believe that there is a meaningful chance that a fact exists and then takes measured steps to sidestep learning of that detail.<sup>27</sup>

The second cause of action is labeled vicarious liability and it is not as openly defined as contributory infringement. Instead, it has progressed through federal court rulings.<sup>28</sup> Vicarious liability is a form of secondary liability for direct infringement that is grounded upon the common law principle of respondeat superior. In this regard, the defendant does not have to have directly participated in the infringing activity.<sup>29</sup> Liability will occur if the lessor has the authority and power to stop or limit the infringing conduct and obtains a direct financial advantage from such activities.<sup>30</sup> Demonstrating a direct financial benefit requires an actual sharing of profit between the infringing party and lessor. For a trademark infringement, however, it is not

enough to merely show that the lessee paid a fee to the landlord for use of the space. The evidence must reveal a profit-sharing arrangement.<sup>31</sup> The rules are more lenient in a copyright matter where there is no requirement of a direct financial arrangement. Rather, the connection can be established by demonstrating that the landlord charged an admission or parking fee.<sup>32</sup>

The key ruling on vicarious liability for the sale of counterfeit recordings is *Shapiro, Bernstein & Co. v. H.L. Green Co.*<sup>33</sup> This case concerned copyright infringement litigation against the operator of a number of retail establishments where a vendor was selling bootleg records. While the law on respondeat superior usually imposes liability on a principal for copyright infringements by an employee, the court created a remedy for enforcing copyrights against a defendant whose financial interests were commingled with those of the infringer.<sup>34</sup> Over the years, the theory has been extended to cover landlords who supply the venue, such as flea markets and similar locations.<sup>35</sup>

In 1992, the Seventh Circuit Court of Appeal expanded the *Inwood* holding of secondary liability to a landlord for a trademark infringement in *Hard Rock Licensing Corp. v. Concession Services, Inc.*<sup>36</sup> Suit was instituted under the Lanham Act for trademark violations. The court found that the defendant was guilty of “willful blindness that counterfeit goods were being sold on their premises.”<sup>37</sup> The court determined that it was irrelevant that the defendant was not an active participant in the sale of the illegal merchandise since it was more than a landlord—it also advertised and promoted the activities on its property and supervised the premises.<sup>38</sup>

*Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, decided two years later, involved a suit against retailers and their landlords for a claimed trademark infringement.<sup>39</sup> The complaint alleged that the lessor was contributorily liable under the Lanham Act. The defendant countered that the plaintiffs failed to state a claim because the Lanham Act was not applicable to landlords.<sup>40</sup> The court disagreed and noted

that while there is no explicit language in the Act, there is sufficient judicial precedent that interprets the statute as providing for an action based upon contributory infringement of trademarks.<sup>41</sup>

*Fonovisa, Inc. v. Cherry Auction, Inc.* arose in 1996 and was decided by the Ninth Circuit Court of Appeals.<sup>42</sup> The suit was asserted both contributory and vicarious liability claims. The court opined that because the defendant promoted and organized the flea market and exercised a level of control over the infringer, the claim against them was valid.<sup>43</sup> The court noted that the defendant received substantial financial benefits from admission fees, concession stand sales, and parking fees, all of which were directly related to the customers who visited the flea market where the counterfeit records were sold.<sup>44</sup>

*Louis Vuitton Malletier v. The Flea Market, Inc.* involved a contributory trademark infringement claim against one of the largest open-air flea markets in the country.<sup>45</sup> A number of tenants and vendors sold fake Louis Vuitton merchandise. The defendant filed a motion to dismiss the complaint on the basis that sufficient facts were not alleged to hold them liable for a contributory trademark violation.<sup>46</sup> In explaining the law, the court noted that the cause of action occurs when the defendant either intentionally causes another to infringe the plaintiff’s mark or provides a good to a third party with actual or constructive knowledge that the item is being used to infringe the service mark.<sup>47</sup> In this regard, the plaintiff has the burden to demonstrate that the defendant supplied a product to a third party with knowledge that it infringed the mark and the court will consider the extent of control used by the defendant over a vendor’s means of infringement.<sup>48</sup>

The Sixth Circuit Court of Appeals considered a contributory trademark infringement case in 2013, when it decided *Coach, Inc. v. Goodfellow*.<sup>49</sup> Suit was filed under the Lanham Act, asserting that a Memphis flea market operator was liable for the sale of counterfeit goods on its commercial property.<sup>50</sup> Coach was awarded \$5,040,000 in damages plus attorneys’ fees.<sup>51</sup> The defendant appealed, claiming that the Lanham Act did not support a finding

of contributory liability for a trademark infringement by a third party. The court noted that secondary liability was first recognized in *Inwood* and had been applied to flea market operators since that time, subjecting them to trademark infringements by vendors.<sup>52</sup> That liability can extend to a property owner if it knew or had reason to know of the violations by its vendors. This includes willful blindness by the property owner.<sup>53</sup> In this case, *Goodfellow* had actual knowledge of the infringing activities over a long period of time and it failed to take any remedial measures to prevent the violations. Therefore, it was properly held liable for contributory negligence based on its knowledge of and willful blindness toward the ongoing infringing activities.<sup>54</sup>

In 2016, a district court in Georgia considered the issue in *Luxottica Group v. Greenbriar Marketplace, II, LLC*. This suit arose after law enforcement officials raided the Greenbriar Discount Mall and confiscated thousands of counterfeit goods including Ray-Ban sunglasses.<sup>55</sup> The court started its discussion by referencing the Lanham Act and *Inwood* as providing the basis for liability for trademark infringement by someone other than the offending seller. The test for contributory liability for an infringement depends upon whether the “defendant ‘intended to participate’ in the infringement or actually knew about the infringement.”<sup>56</sup> In this regard, if the conduct is serious and widespread, it is more likely than not that the defendant knew or was aware of the counterfeiting and condoned that criminal activity.<sup>57</sup> The court noted that in determining liability for contributory infringement, it will look at the degree of control exercised by the defendant over the vendor’s means of infringement.<sup>58</sup> In a landlord-tenant context, the “operator of a flea market who rents spaces to vendors exercises substantial ... control over potential direct infringers...”<sup>59</sup> In this regard, the defendant ignored the fact that the business of one of the owners ran the flea market, thereby giving rise to a common identity between the landlord and its primary tenant<sup>60</sup> and the owner had direct knowledge of the sale of the counterfeit eyewear. She also had the authority to revoke the leases of the tenants when appropriate.<sup>61</sup> Therefore, the defendant’s motion for summary judgment was denied.<sup>62</sup>

*Luxottica Group* was involved in another dispute over a trademark infringement in 2019, heard by the Eleventh Circuit Court of Appeals. In *Luxottica Group v. Airport Mini Mall, LLC*, the plaintiff sued the owners of a discount mall for the illegal actions of its subtenants who were selling counterfeit eyewear.<sup>63</sup> Suit was filed against the property owners for contributory trademark infringement. The jury found the property owners liable to the tune of \$1.9 million; the defendants appealed, but the award was upheld.<sup>64</sup> In recognizing the theory of contributory liability, the court referenced the Lanham Act and *Inwood*. It then noted that a contributory trademark infringement claim is premised on two elements: (i) an individual or entity must commit a trademark violation under the Lanham Act; and (ii) the defendant intentionally causes the infringer to commit the illegal act, supplies a product to the violator whom it knows is committing an infringement, or supplies a product to the infringer with constructive knowledge that the infringer is violating the law.<sup>65</sup> Constructive knowledge can be shown by willful blindness to the seller’s unlawful conduct.<sup>66</sup>

Since the defendants supplied the services and support for the tenants, the court noted that a landlord may be contributorily liable for its tenant’s direct trademark infringement if the lessor intentionally induces the violation or knows or has reason to know of the infringement while providing a service, such as space, utilities, or maintenance, that facilitates the violation.<sup>67</sup> In this case, three enforcement raids occurred and the violations were so serious and widespread that the defendants had constructive knowledge of the illegal conduct.<sup>68</sup>

## CONCLUSION

Commercial property can be a good investment, but owners and lessors must be aware that they face the risk of being held liable for the actions of their tenants and third parties. One of the more surprising developments has been the increasing trend by the courts to find commercial landowners and lessors liable for trademark infringements committed by their tenants, an expansion of responsibility premised upon the common law.

Two main liability theories have emerged for lawsuits against owners and lessors: contributory liability and vicarious liability. These court-inspired remedies are derived from the common law of torts. While the initial cause of action was based upon the Lanham Act to find liability against manufacturers for trademark infringement, the courts have had little trouble extending the concepts to owners and

lessors of commercial properties in a variety of contexts. This has resulted in the rendering of verdicts in the millions of dollars. These awards have certainly caught the attention of the owners and lessors of properties where the counterfeit items are sold. Owners and lessors have been given a financial reason to properly police their properties and take measures to stop the sale of counterfeit goods. 📌

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## Notes

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