LESSORS OF COMMERCIAL PROPERTY MAY FACE LIABILITY FOR THE SALE OF COUNTERFEIT GOODS BY THEIR TENANTS

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Property has its duties as well as its rights.
– Thomas Drummond

Commercial real estate is considered a good investment and traditionally enjoys a higher financial yield than its residential counterpart.[1] However, it is not for the faint of heart because there are several risks associated with this ownership.[2] It is well known that the value of a commercial property is more subject to the volatilities of the economy than a residential home and has more rigid zoning restrictions.[3] A less appreciated

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1. Matt Larson, *Pros and Cons of Investing in Commercial Real Estate*, NOLO (last visited Feb. 15, 2021), https://www.nolo.com/legal-encyclopedia/pros-cons-investing-commercial-real-estate.html [https://perma.cc/2SHD-JV8E].

2. Jagg Xaxx, *The Pros' & Con's of Commercial Properties*, Chron, https://smallbusiness.chron.com/pros-cons-commercial-properties-10053.html [https://perma.cc/7PRK-X43R] (last visited Feb. 15, 2021).

3. *Id.*

danger is the growing trend by the courts to impose liability on commercial lessors for the actions of others. This article will explore the recent development of finding lessors of commercial properties responsible for the illegal actions of their tenants in selling counterfeit goods.

I. COMMERCIAL REAL ESTATE

Commercial real estate is land or property projected to generate a profit either from capital gain or rental income.[4] It may embrace retail buildings, office spaces, warehouses, industrial complexes, apartment buildings, and "mixed-use" structures that have a variety of purposes that include residential, commercial, and industrial uses. For instance, a complex may include retail space, offices, and residential apartments.[5]

There are several sound reasons for investing in commercial real estate, especially because of its earning potential. This type of property usually has a yearly rate of return of between 6% and 12% of the purchase price, depending upon the location.[6] Single-family homes, on the other hand, have an annual yield of 1% to 4% under the best of circumstances.[7] Tenants will also pay rent for their space, which can be used to help pay down the property purchase, thus offsetting the cost of the investment.[8] The calculation of the rent can be creative with three major forms. A full service or gross lease establishes a fixed price for the monthly rent, but the lease may contain an escalation clause that allows the landlord to pass on to the tenant certain increases over a base price.[9] A net lease provides for a monthly rental that is usually lower than the gross lease but requires the tenant to pay certain fixed operating expenses, such as insurance, property taxes, and maintenance costs for common areas.[10] The third arrangement is known as the modified

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4. *Benefits of Investing in Commercial Real Estate*, INCO COMMERCIAL, https://incocommercial.com/benefits-investing-commercial-real-estate/ [https://perma.cc/4KRD-NT2K] (last visited Feb. 15, 2021).

5. *Id.*

6. Larson, *supra* note 1.

7. *Id.*

8. Keith Merklin, *The Advantages of Owning Commercial Property*, LIVE OAK BANK, https://www.liveoakbank.com/dental-practice-resources/the-advantages-of-owning-commercial-property/ [https://perma.cc/LW6Z-NKXZ] (last visited Feb. 15, 2021).

9. Jason Aster, *Carefully Constructed Rent Escalation Clauses Help Avoid Landlord-Tenant Disputes*, KBA LEASE SERVICES, https://www.kbalease.com/leasetips-blog/2016/10/2/carefully-constructed-rent-escalation-clauses-help-avoid-landlord-tenant-disputes#:~:text=In%20a%20full%20service%20gross,%E2%80%9Coperating%20expense%20base%E2%80%9D) [https://perma.cc/3DCU-EPJL] (last visited Feb. 21, 2021).

10. *What Is A Net Lease? Defining Real Estate Investment Terms*, FORTIS NET LEASE, https://fortisnetlease.com/what-is-a-net-lease/ [https://perma.cc/A76R-ATZJ] (last visited Feb.

gross lease. This option requires the lessee to pay the base rent and certain operating expenses, such as utilities and interior maintenance.[11]

There are several risks associated with being a commercial landlord, such as the time commitment needed for maintenance and the necessity to invest more money at the time of purchase than would be needed for a residential home.[12] Claims by people falling on the property, car damage in the parking lot, dangerous structural conditions, and environmental hazards are an accepted cost of doing business.[13] However, there have been several unexpected liability developments, such as the landlord being sued for the criminal actions of a third party or tenant[14] upon a shopper, another tenant, or restaurant or hotel guest that results in significant economic, human and brand-related costs.[15]

Most jurisdictions require landlords to provide some degree of protection to their tenants from the criminal acts of thirds parties and other lessees.[16] Landlords may even have a duty to protect members of the adjoining community from criminal acts of the tenants. For instance, some states have regulations and statutes that impose liability on lessors for renting property to drug dealers.[17] A landlord may be violating the rules if they fail to evict an offending tenant that is engaged in criminal activity.[18] Lawsuits against lessors by those who have been injured by criminals have become commonplace, and the resolution of these claims often results in the awarding of millions of dollars.[19] Foreseeability has become the critical issue when dealing with the lessor's duty of care and liability. Foreseeability hinges on whether the owner either knows or has reason to suspect from a prior history of criminal activity at or near the property that there is a (high)

21, 2022).

11. Don Catalono, *Pros and Cons of a Modified Gross Lease*, REOPTIMIZER (June 10, 2020), https://www.reoptimizer.com/real-estate-optimization-blog/pros-and-cons-of-a-modified-gross-lease [https://perma.cc/8N49-K8JS].

12. Larson, *supra* note 1.

13. *Liability for Criminal Activity*, JUSTIA, https://www.justia.com/real-estate/landlord-tenant/information-for-landlords/liability-for-criminal-activity/ [https://perma.cc/DP2W-6T2F] (last visited Feb. 15, 2021).

14. *Id.*

15. *Third Party Crime in the Retail and Hospitality Industry: Are You Protected?*, BROWN HUTCHINSON, LLP, https://namwolf.org/wp-content/uploads/2017/12/Pac_Hospitality_Compendium_Supplement.pdf [https://perma.cc/2GGS-UE5T] (last visited Feb 15, 2021).

16. *FAQ – Landlord Responsibilities: Criminal Activities*, FINDLAW, https://realestate.findlaw.com/landlord-tenant-law/faq-landlord-responsibilities-criminal-activities.html [https://perma.cc/UUT2-97MZ] (last visited Feb. 15, 2021).

17. *Id.*

18. *Id.*

19. *Id.*

probability of illegal behavior that would endanger members of society.[20]

One of the more surprising developments is the increased trend by the courts of finding commercial landowners and lessors liable for the trademark infringement activities of their tenants.[21] Intellectual property owners have become increasingly frustrated by the inability to hold the sellers of counterfeit goods financially responsible, since these individuals usually lack the resources to pay a fine or judgment. This has caused a shift in tactics whereby the product's owner is now focusing their attention on the specific point of sale of the counterfeit goods: shopping centers, owners of flea markets and owners of other premises that are used to sell the illegal merchandise.[22] After all, the location of the sale forms the connection between the illegal activity and the legal realm of commercial leases. Therefore, it is ideal to hold landowners accountable, and the holder of the patent, copyright or trademark may devote their resources when enforcing their intellectual property rights.[23] Lessors and owners now risk becoming embroiled in expensive legal battles as the result of intellectual property violations by their commercial tenants.[24]

II. THE PROBLEM WITH COUNTERFEIT GOODS

From fake watches to mock pharmaceuticals, counterfeiting is one of the biggest underground businesses in the world, and it continues to expand.[25] The trade war with China has exacerbated this problem, as Chinese nationals are increasing the output of these illegal knockoffs. It is also becoming harder to detect a fake product because of 3D printing and other new technology.[26] The problem is so pervasive that it costs the U.S.

20. BROWN HUTCHINSON, LLP, *supra* note 15.

21. Brett Carroll and Timothy Andrea, *Cases Highlight Commercial Landlord Potential Liability for Trademark Infringement by Tenants*, HOLLAND AND KNIGHT ALERT (Mar. 13, 2019), https://www.hklaw.com/en/insights/publications/2019/03/cases-highlight-commercial-landlord-potential-liab [https://perma.cc/9UN8-DGFP].

22. Kang Lee & Nicholas Torti, *Liability of Landlords for the Sale of Counterfeit Goods by Tenants in the United States and Canada*, INT'L. COUNS. OF SHOPPING CTRS., MARTINEAU, DUMOULIN, LLP, https://www.icsc.com/newsletters/article/liability-of-landlords-for-the-sale-of-counterfeit-goods-by-tenants-in-the [https://perma.cc/6UWX-4RKJ] (last visited Feb. 15, 2021).

23. *Id*.

24. *Id*.

25. Arlee Sowder, *The Harmful Effects of Counterfeit Goods*, ATHENS ST. U. BUS. INSIGHTS: A C. OF BUS. RES. J. (2013), https://www.athens.edu/journal/spring-2013/asowder-couterfeit/ [https://perma.cc/W63W-PLXE].

26. Jennifer Schlesinger and Andrea Day, *Here's How the Trade War Could Lead to a Boom in Counterfeit Goods*, CNBC (Mar. 13, 2019, 2:07 PM), https://www.cnbc.com/2019/

economy about $600 billion a year, or 3 percent of the U.S. gross domestic product.[27] The problem is almost impossible to eradicate because of cheap overhead, high profits, and a "cloak-and-dagger" business style.[28] At one time, the sale of counterfeit goods seemed to be limited to suspicious characters lurking on the street corners, but these counterfeit goods are now being peddled in every segment of the economy from sporting venues to flea markets.[29]

Americans seem immune to the harmful effects of counterfeiting. They think that knockoffs are limited to fake handbags, sunglasses, and watches, and they fail to appreciate the effects that counterfeit goods have on American enterprises.[30] The electronics industry is particularly hard hit, as they face slumping sales due to knockoff parts. It is little known that between 5% and 20% of global electronics parts are counterfeit and find their way into distribution supply chains like Apple and Target.[31] Those who knowingly buy counterfeit goods are not likely to have bought genuine equivalents and frequently make these purchases because the knockoff versions are much less expensive.[32] This results in illegitimate sellers stealing an owner's intellectual property (IP) without paying taxes or adhering to the regulations and quality standards required of the real product.[33] Finally, it is believed that counterfeiting costs 2.6 million jobs with projected employment losses of between 4.2 and 5.4 million by 2022.[34]

III. INTELLECTUAL PROPERTY RIGHTS

The type of counterfeit item sold will determine what intellectual

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03/13/heres-how-the-trade-war-could-lead-to-a-boom-in-counterfeit-goods.html [https://perma.cc/AMQ7-C4UM].

27. *Id.*

28. Sowder, *supra* note 25.

29. Louis Ederer & Matthew Salzmann, *Counterfeit Merchandise: They're Not Just Doing It for Sport*, 247 N.Y. L. J. 8 (Jan. 12, 2012), https://www.arnoldporter.com/~/media/files/perspectives/publications/2012/01/counterfeit-merchandise-theyre-not-just-doing-it__/files/publication/fileattachment/arnoldporterllpnewyorklawjournal11212.pdf [https://perma.cc/J5YU-L3RU].

30. Sowder, *supra* note 25.

31. Sowder, *supra* note 25.

32. *5 Ways Counterfeiting Hurts Society - And What We Can Do About It*, INT'L CHAMBER OF COM., https://iccwbo.org/media-wall/news-speeches/5-ways-counterfeiting-hurts-society-and-what-we-can-do-about-it/ [https://perma.cc/VH7M-MQFA] (last visited Feb. 15, 2021).

33. *Id.*

34. *Id.*

property rights have been violated, including copyright, trademark, and patent protections.[35]

A. *Types of Intellectual Property*

The premise for safeguarding the creative talents of individuals is contained in the United States Constitution, which provides: "To promote the progress of Science and useful Arts by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[36] This provision provides the basis upon which federal patent and copyright laws exist, although neither term is outlined in the Constitution.[37] In turn, intellectual property denotes fabrications of the mind, such as inventions; artistic works; designs and symbols, as well as names and images used in commerce.[38]

The most frequent intellectual property dispute is that of infringement. This occurs when IP is used without the owner's permission by a third party, and the infringement can relate to various kinds of intellectual property, such as *copyright*, *patent*, and *trademark infringements*.[39]

A copyright is a type of security granted by law for original works of authorship fixed in a tangible medium of expression, and the recognized symbol for copyright is ©. This protection covers both published and unpublished works.[40] Examples of creative undertakings include the writing of a book, play, poem or song, computer program or video game, or movie. Protection is extended to the form of expression, and it does not cover facts, ideas, systems, or methods of operation, but it may safeguard the way these concepts are expressed.[41] This explains why a work must be reduced to a tangible form to obtain copyright protection. For instance, an idea is fixed in a tangible form when a song is written on paper or an original painting is placed on a canvas.[42]

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35. Lee & Torti, *supra* note 22.

36. U.S. CONST., art. I, § VIII.

37. *Origins and Scope of the Power*, JUSTIA, https://law.justia.com/constitution/us/article-1/50-copyrights-and-patents.html [https://perma.cc/32DC-LRN3] (last visited Feb. 15, 2021).

38. *What Is Intellectual Property*, WORLD INTELL. PROP. ORG., https://www.wipo.int/about-ip/en/ [https://perma.cc/A35Y-KYK9] (last visited Feb. 15, 2021).

39. *Types of Intellectual Property Disputes*, LEGAL MATCH, https://www.legalmatch.com/law-library/article/types-of-intellectual-property-disputes.html [https://perma.cc/8VN4-HGDY] (last visited Feb. 15, 2021).

40. *Copyright in General*, U.S. COPYRIGHT OFF., https://www.copyright.gov/help/faq/faq-general.html [https://perma.cc/CXR2-VGKC] (last visited Feb. 16, 2021).

41. *Id.*

42. *What is a Copyright*, FINDLAW, https://smallbusiness.findlaw.com/intellectual-prope

The owner of a copyright obtains many valuable property rights such as the exclusive ability to reproduce and distribute copyrighted materials, perform or display the work in public, or create a derivative product such as the transformation of a novel into a motion picture.[43] It is not necessary, however, to register the item with the United States Copyright Office to gain legal protection.[44] Protection is obtained as soon as the work is recorded in some fashion, such as scribbling it down in a notebook or storing the information on a flash drive.[45] The filing with the government merely makes an official record of the copyright.[46] The owner can transfer any of his or her exclusive rights in the copyright to a third party, such as what might occur when the author of a song assigns the rights to the composition to a music publishing company.[47] Items prone to infringement by a commercial lessee are bootleg copies of movies and records, prints of popular books, and copies of video games.[48]

A trademark refers to a word, name, phrase, symbol, or design, or any combination utilized to identify and distinguish the goods or services of one party from those of others, and to indicate the source of that good or service.[49] In other words, a trademark usually protects brand names and logos used on goods and services.[50] However, shapes, sounds, smells, and colors are also subject to protection.[51]

Examples of well-known marks include the Nike swoosh or slogan "Just Do It," the McDonald's golden arches, and the name IPad or Coca-Cola written it its distinctive font. These words or symbols are associated with one company and permit a person to immediately recognize a specific brand or company.[52] Trademark protection is not obtained by registering the mark with the U.S. Patent and Trademark Office. Rather, it arises by employing a mark in business to identify the origination of the company's goods or services.[53] Items sold at flea markets and commercial venues that

rty/what-is-copyright.html [https://perma.cc/B2ZC-JYCC] (last visited Feb. 16, 2021).

43. Samuel D. Hodge, Jr., *Intellectual Property and Cyberlaw*, in Legal and Regulatory Environment of Business 584 (McGraw Hill 4th ed. 2018).

44. *Id*.

45. *Id*.

46. *Id*.

47. FINDLAW, *supra* note 42.

48. Lee & Torti, *supra* note 22.

49. Hodge, Jr., *supra* note 43.

50. *Protecting Your Trademark*, United States Patent and Trademark Office, 2, https://www.uspto.gov/sites/default/files/documents/BasicFacts.pdf [https://perma.cc/922E-QHB2] (last visited Feb. 16, 2021).

51. Hodge, Jr., *supra* note 43, at 587.

52. Hodge, Jr., *supra* note 43, at 587.

53. Jane Haskins, *What Is a Trademark*, LEGAL ZOOM, https://www.legalzoom.com/artic

constitute trademark infringements include knockoffs of famous handbags, like Louis Vuitton and Coach products, fake Rolex watches, and Ray-Ban sunglasses.[54]

A patent is the issuance of a property right by the government to an inventor to exclude others from making or using an invention. Generally, the term for a new patent is 20 years from the date when the application for the patent was filed or, in special instances, from the date an earlier related application was registered with the United States Patent and Trademark Office, subject to the payment of certain maintenance fees. The term of a patent may be extended under certain circumstances.[55] A patent is important because it provides the inventor with "the right to exclude others from making, using, offering for sale, or selling" the invention in the United States or "importing" the invention into the United States for a time.[56]

The patent owner may permit others to use the invention on mutually agreed upon terms. The owner may also transfer the right to the patent to a third party, who will then become the new owner of the intellectual property. Upon the expiration of a patent, it enters the public domain, and anyone can exploit the invention without liability.[57] An invention can include a product or a process for producing a specific compound. Several products encompass many inventions, such as a computer that may contain hundreds of inventions working in concert.[58] Examples of infringing patent violations by commercial lessees are selling pirated video game consoles or games or a variety of electronic devices.[59]

The law provides various remedies for infringement of intellectual property rights, including damages, attorneys' fees, injunctive relief, lost profits, and statutory damages. The infringing item may even be seized and destroyed under the proper circumstances.[60] An infringer may also be forced to account for injury to the reputation of a business or the diminution in the

les/what-is-a-trademark [https://perma.cc/D46K-AUJM] (last visited Feb. 16, 2021).

54. Lee & Torti, *supra* note 22.

55. *General Information Concerning Patents*, United States Patent and Trademark Office, https://www.uspto.gov/patents-getting-started/general-information-concerning-patents [https://perma.cc/9ZC3-GRYK] (last visited Feb. 16, 2021).

56. *What Is a Patent*, STOPfakes.gov (July 7, 2016), https://www.stopfakes.gov/article?id=What-is-a-Patent [https://perma.cc/A2BJ-FQCC].

57. *Frequently Asked Questions: Patents Basics*, WORLD INTELL. PROP. ORG., https://www.wipo.int/patents/en/faq_patents.html [https://perma.cc/DR6Q-2QN4] (last visited Feb. 16, 2021).

58. *Id.*

59. Lee & Torti, *supra* note 22.

60. Jeffrey Johnson, *What Remedies Are Available for Infringement of Intellectual Property Rights?* (June 19, 2018), https://law.freeadvice.com/intellectual_property/copyright_law/intellectual-property-infringement-remedies.htm [https://perma.cc/U7Z2-H529].

worth of the patent, copyright, or trademark.[61]

B. The Movement to Hold Lessors Liable for Counterfeit Goods

As the result of judicial pronouncements, a census has emerged that: (1) the owner or lessor of a flea market, super-max center, shopping complex, or commercial establishment may be found liable for trademark infringement on its premise, and (2) that willful ignorance of that criminal activity may constitute constructive knowledge of the selling of counterfeit goods.[62]

Traditionally, these lawsuits have sought injunctive relief to compel landlords to stop the sale of counterfeit goods on their premises, but these actions do not always solve the problem. Tenants are often interchangeable and frequently judgment proof. When one leaves, another takes its place. Therefore, the idea was conceived to sue the landlords for monetary relief, and federal judges have upheld awards of millions of dollars in damages against landlords premised on their tenants' intellectual property infringements.[63] Also, officers of the lessee can be held personally liable for these violations.[64]

Two main causes of action against landlords have emerged over counterfeit goods: contributory liability and vicarious liability.[65] Contributory liability is a court-inspired cause of action that continues to evolve and is premised upon the common law of torts.[66] The theory has its foundation in the Lanham or Trademark Act of 1946,[67] which applies to trademarks, service marks, and unfair competition.[68] An infringement of a registered mark involves the use of "any reproduction, counterfeit copy, or colorable imitation" to sell goods that "is likely to cause confusion, or to

61. *Id.*

62. William Borchard, *Landlord Insight – Avoiding Liability for Counterfeits Sold on Your Premises*, COWAN, LIEBOWITZ AND LATMAN (Jan. 23, 2020), https://www.cll.com/newsroom-news-172789 [https://perma.cc/PQS5-4JDR].

63. Bryan Huntington, *Lessor Beware: Courts Are Increasingly Willing to Hold Commercial Landlords Liable for Their Tenants' Trademark Infringements*, 76 BENCH AND B. MINN. 27, 29 May/June 2019.

64. *Id*.

65. David Creeggan, *Ouch! Landlord Hit with $2.6 Million in Damages for Tenants Sale of Counterfeit Goods*, TRAINOR FAIRBROOK, https://trainorfairbrook.com/ouch-landlord-hit-with-2-6-million-in-damages-for-tenants-sale-of-counterfeit-goods/ [https://perma.cc/6H35-F8AP] (last visited Feb. 19, 2021).

66. Huntington, *supra* note 63, at 27.

67. 15 U.S.C. §1051 et seq.

68. Huntington, *supra* note 63, at 27.

cause mistake, or to deceive."[69] To successfully bring a claim, the owner of the trademark must prove that (1) the party has an enforceable and legally protected mark; (2) the person owns the mark; and (3) the offender's use of the mark to identify goods or services causes a likelihood of confusion.[70] Successful plaintiffs have the option of either obtaining treble damages or minimum statutory damages, which can range from $1000 up to $2,000,000 per counterfeit sale plus counsel fees.[71]

Inwood v. Ives is the first case[72] to apply secondary liability for a trademark violation.[73] The dispute involved the manufacturing of a generic drug intended to replicate the look of a similar medication made by a competitor under a registered trademark that was being dispensed by pharmacies.[74] The action was filed under the Lanham Act, and the court noted that liability for trademark infringement can reach beyond those who mislabel goods with the mark of another.[75] Even if a manufacturer does not directly control others in the circulation of the product, it can be liable for the infringing conduct under particular conditions.[76] Therefore, if the maker or distributor intentionally causes another to infringe upon a trademark, or if it persists in giving its product to someone "whom it knows or has reason to know is committing trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit."[77]

Since this Supreme Court pronouncement, the courts have expanded the holding to cover infringements that are neither intentional nor point to a specific good but where the defendant has added in some fashion to the trademark transgression.[78] Courts generally will examine four things in deciding a claim against the landlord 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;

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69. 15 U.S.C. § 1114(1).

70. *Lanham Act*, LEGAL INFORMATION INSTITUTE, https://www.law.cornell.edu/wex/lanham_act [https://perma.cc/KK4W-87RY] (last visited Feb. 19, 2021).

71. Huntington, *supra* note 63, at 27.

72. *See* Darin Klemchuk, *Secondary Liability for Trademark Infringement*, KLEMCHUK, LLP (July 24, 2017), https://www.klemchuk.com/legal-insights/secondary-liability-for-trademark-infringement [https://perma.cc/7DQP-MBA9].

73. Inwood Labs., Inc v. Ives Labs., Inc., 456 U.S. 844 (1982).

74. *Id.* at 849.

75. *Id.* at 854.

76. *Id.*

77. *Id.*

78. Klemchuk, *supra* note 72.

3. The lessor persisted to provide its services notwithstanding that knowledge; and
4. The landlord employed adequate remedial actions to stop the infringing activity.[79]

The first and third elements are easily fulfilled because the lessors provide the rental space, gas and electric, parking and other services to its tenants. The second requirement is more difficult to prove because the landlord's mere negligence in knowing about the continuing trademark infringement is not enough. A landlord has no affirmative duty to take precautions against the sale of infringing products without actual or constructive knowledge of the illegal activities. However, the courts will not permit a landlord to be willfully blind to a trademark infringement.[80] That is far different from merely being negligent and can constitute a form of constructive knowledge of the unlawful conduct.[81] Willful blindness can be established if the lessor has reason to believe that counterfeit items are being sold at its property and deliberately fails to look into the matter.[82] This is a two-pronged test: the landlord must subjectively believe that there is a significant chance that a fact exists and then take considered steps to avoid learning of that detail.[83]

The second theory is dubbed vicarious liability, and it is not as clearly defined as contributory infringement. Rather, it has evolved through federal court decisions.[84] Vicarious liability is a type 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.[85] Liability will attach if the landlord has the power and ability to halt or restrict the infringing conduct and derives a direct financial benefit from such activities.[86] Showing a direct financial benefit requires an actual profit sharing between the infringing

79. Huntington, *supra* note 63, at *2.
80. Huntington, *supra* note 63, at 29.
81. Borchard, *supra* note 62.
82. Jim Astrachan, *Landlord Liability for Trademark Infringement Is a Hard Rock to Crack*, Astrachan, Gunst, and Thomas, at 2, https://www.agtlawyers.com/_cms/_media/files/resources/articles/2002%20articles/dec2002.pdf [https://perma.cc/7YWE-4DX4] (last visited Feb. 18, 2021).
83. J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, §25.20. (March 2020 Update).
84. Klemchuk, *supra* note 72.
85. Curtis Karnow, *Indirect Liability on the Internet and the Loss of Control*, https://web.archive.org/web/20100219005230/http://www.isoc.org/isoc/conferences/inet/99/proceedings/3e/3e_2.htm [https://perma.cc/B8ZR-ZQHM] (last visited Feb. 19, 2021).
86. *Vicarious Liability*, LEGAL INFORMATION INSTITUTE, https://www.law.cornell.edu/wex/vicarious_infringement [https://perma.cc/T96M-MVX5] (last visited Feb. 19, 2021).

party and lessor.[87] For a trademark infringement, however, it is not enough to merely show that the tenant paid a fee to the lessor for use of the premises.[88] The evidence must show a profit-sharing arrangement.[89] The rules are more relaxed in a copyright case where there is no requirement of a direct financial arrangement.[90] Rather, the connection can be established by showing that the landlord charged an admission or parking fee.[91]

Its first application emerged in cases involving the rental of dance halls, where lessors were found vicariously liable for the copyright infringement by bands that performed songs without the permission of the copyright owner.[92] Liability attached even though the owners had no direct knowledge of the infringements and had even warned the music groups not to perform copyrighted works without permission from the copyright holders.[93]

The breakthrough decision on vicarious liability for the sale of counterfeit recordings is *Shapiro, Bernstein and Co. v. H.L. Green Co.*[94] This matter involved a copyright infringement suit against the proprietor of a series of retail establishments, where a concession was selling bootleg records. While the law on respondeat superior normally imposes liability on a principal for copyright infringements by an employee, the court fashioned a remedy for enforcing copyrights against a defendant whose financial interests were comingled with the infringer.[95] Over the subsequent years, the doctrine has been expanded to cover landlords who supply the venue, such as a flea market and similar locations.[96]

IV. COURT CASES

The following in a chronological summary of the court decisions following the landmark case of *Inwood v. Ives* that laid the groundwork for finding commercial landlords liable for intellectual property infringements by their tenants. The cases tend to build on each other as the courts refine

87. Michael McCue, *Secondary Liability for Trademark and Copyright Infringement*, LEWIS ROCA ROTHGERBER CHRISTIE LLP (Feb. 5, 2012), https://www.lewisroca.com/assets/htmldocuments/M.%20McCue%20Utah%20Cyber%20Symposium%20SECONDARY%20LIABILITY%20Sept%2023.pdf_ [https://perma.cc/4DZU-WHMT].
88. *Id*.
89. *Id*.
90. *Id*.
91. *Id.*
92. Lee & Torti*, supra* note 22.
93. Karnow, *supra* note 85.
94. Shapiro, Bernstein & Co. v. H.L. Green Co, 316 F.2d 304 (2d Cir.1963).
95. Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259 (9th Cir. 1996).
96. McCue, *supra* note 87.

the law in view of the changing facts and distinguishing features of each case.

In 1992, the court expanded the *Inwood* holding of secondary liability to a landlord for a trademark infringement in *Hard Rock Licensing Corporation v. Concession Services, Incorporated*.[97] The plaintiff dispatched investigators to look for the counterfeit sales of its goods.[98] They found that a vendor at three flea markets owned by the defendant was selling counterfeit Hard Rock t-shirts. Suit was instituted under the Lanham Act for trademark violations. The court issued an injunction, directing the owner of the flea markets to prevent the sale of the counterfeit merchandise at its locations.[99] The defendant appealed, claiming that it was not liable for the actions of an independent vendor.[100]

The facts showed that the lessor obtained revenue from its flea market operations in several ways. It rented space to vendors for a flat fee, it charged a storage fee to reserve the same space, customers were charged an admission fee, and it ran concession stands inside the markets.[101] Its supervision of the flea markets was minimal, and it posted a sign prohibiting vendors from selling illegal goods.[102] Two off-duty police officers were also present, and a manager walked around each location about five times a day.[103]

The court found that the defendant was guilty of "willful blindness that counterfeit goods were being sold on their premises."[104] The shirts were of poor quality and the labels were cut and sold at a fraction of the price charged by Hard Rock.[105] 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.[106] It also advertised and promoted the activities on its property and supervised the premises.[107] Therefore, it was required to take reasonable steps to prevent the sale of counterfeit goods.[108] The Lanham Act protects trademarks as well as Hard Rock's investment in

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97. Hard Rock Licensing Corporation v. Concession Services, Inc., 955 F.2d 1143 (7th Cir. 1992).
98. *Id.*
99. *Id.* at 1145.
100. *Id.*
101. *Id.* at 1146.
102. *Id.*
103. *Id.*
104. *Id.* at 1148.
105. *Id.*
106. *Id.*
107. *Id.*
108. *Id.*

a fashionable image and seller of quality goods.[109]

The court then analyzed the theories of contributory and vicarious liability. The court noted that a trademark infringement applies to a manufacturer or distributor of illegal goods, but it was concerned whether that liability was applicable to someone else such as the landlord.[110] In answering that question in the affirmative, the court looked at the Restatement (Second) of Torts § 877 and found that the common law imposed the same duty upon landlords that it imposed on manufactures and distributors. Therefore, the court extended the holding in *Inwood Labs* pertaining to contributory liability to landlords of commercial properties.[111] However, those landlords do not have to be more dutiful guardians of a trademark holder's commercial interests, nor do they have an affirmative duty to seek out and prevent violations.[112]

As for vicarious lability, this theory mandates a determination that the defendant and infringer have an apparent or actual partnership, have authority to bind each other to contracts with thirds parties, or have joint ownership or control over the offending item.[113] However, secondary liability for a trademark infringement should be more narrowly defined than the law applicable to secondary lability for a copyright violation.[114]

Polo Ralph Lauren Corporation v. Chinatown Gift Shop was decided two years later, and it involved a suit against retailers and their landlords for a claimed trademark infringement.[115] The defendant owned a building in New York, which was leased to a tenant who sold goods that allegedly infringed on a variety of trademarks, and it was asserted that the defendant knew of this illegal conduct and did nothing to stop it.[116] The complaint alleged that the lessor was contributorily liable under the Lanham Act.[117] The defendant countered that the plaintiffs failed to state a claim because the Trademark Act was not directed to landlords.[118]

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

109. *Id.*
110. *Id.*
111. *Id.* at 1149.
112. *Id.*
113. *Id.*
114. *Id.* at 1150.
115. Polo Ralph Lauren Corp. v. Chinatown Gift Shop, 855 F. Supp. 648 (S.D.N.Y. 1994).
116. *Id.* at 649.
117. *Id.*
118. *Id.*

trademarks.[119] The court cited the *Inwood Laboratories, Inc*. and *Hard Rock* decisions as its precedent and ruled that the plaintiffs had pled a legally sufficient cause of action against a retail brick and mortar complex.[120]

Fonovisa, Inc. v. Cherry Auction, Inc. arose in 1996 and involved the Ninth Circuit Court of Appeals.[121] The suit involved the operator of a swap meet or flea market, where vendors were selling counterfeit records with the knowledge of the defendant.[122] In fact, the evidence showed that the Sheriff had raided the flea market in 1991 and seized thousands of counterfeit records.[123] The following year, the Sheriff discovered that illegal records were still being sold at the market, and it sent a letter to the defendant about the ongoing infringement and reminded the lessor that they had agreed to give the Sheriff identifying information about each vendor.[124]

The suit was premised on both contributory and vicarious liability claims.[125] The court noted that the Second Circuit had developed the idea of vicarious liability as an outgrowth of the principles of respondent superior.[126] The court had fashioned a remedy because the lessor's economic interests were intertwined with the infringer's even though there was no employment relationship.[127] In the instant case, the court agreed that the defendant did not control or have a financial interest with the infringer, nor did they supervise or profit from the vendor's sales.[128] However, because the defendant promoted and organized the flea market and exercised a level of control over the infringer, the claim against them should not have been dismissed.[129] As for the requirement of a financial interest, 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.[130]

A California District Court in 2009 had the opportunity to revisit the liability of a landowner for tenants engaged in trademark counterfeiting with the distinguishing factor that the landlord leased the property to a different

119. *Id.* at 650.
120. *Id.*
121. Fonovisa, 76 F.3d 259.
122. *Id*.
123. *Id*.
124. *Id.* at 261.
125. *Id*.
126. *Id.* at 261–62.
127. *Id.* at 262.
128. *Id*.
129. *Id.* at 263.
130. *Id*.

entity who independently ran the flea market and rented space to the offending vendors. *Luis Vuitton Malletier v. The Flea Market, Inc.* was a contributory trademark infringement action against one of the largest open-air flea markets in the country, covering 120 acres of land.[131] A number of tenants and subtenants operated concessions at the market and sold fake Luis Vuitton merchandise.[132] 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.[133] 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.[134] 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.[135]

Unlike *Fonovisa, Inc. v. Cherry Auction, Inc.*, where the defendant both owned and operated the market, the facts of this case show that the defendant and the market operator were two separate entities in which the market owner did not exercise any control over the business operation.[136] This is an important distinction since no case had held that a property owner may be responsible for a contributory trademark violation merely because it rented the land to a separate entity, which then operated the flea market and rented space to others.[137] Property ownership by itself fails to demonstrate that the defendant exercised control over the sale of the illegal goods.[138]

The District Court in New Hampshire examined the issue in 2011 and provided a detailed explanation on what constitutes willful blindness to the illegal activities taking place on a property. In *Coach, Inc. v. Gata Corporation,* the plaintiff made high-end handbags and related items.[139] Gata ran a flea market, and Martin Taylor was the sole shareholder of that

131. Luis Vuitton Malletier v. The Flea Mkt., Inc., No. C 09-01062 CW, 2009 WL 1625946 (N.D. Cal. June 10, 2009).
132. *Id.*
133. *Id.* at *2.
134. *Id.*
135. *Id.*
136. *Id.*
137. *Id.* at *2-3.
138. *Id.* at *3.
139. Coach, Inc. v. Gata Corp., No. 10-cv-141-LM, 2011 WL 2358671 (D. N.H. June 9, 2011).

entity and routinely worked at the market.[140] It was his task to check the stands of the vendors for illegal merchandise.[141] Chinese vendors were the main renters of stalls, and there had been a dramatic increase in counterfeit goods with their presence.[142] The flea market charged a premium to those who sold purses and Coach products that would normally sell for $300 and were priced under $20.[143]

Over the years, the flea market had been raided numerous times by law enforcement officials, resulting in the seizure of numerous fake Coach items.[144] Various vendors had also been arrested for these illegal activities.[145] On August 4, 2009, a representative from Coach informed Taylor to take remedial measures to stop the sale of the counterfeit items.[146] The defendants then posted a sign prohibiting the sale of Coach merchandise, but they never provided Flea Market employees with training on how to detect counterfeit goods.[147] They also adopted a policy that any vendor caught selling counterfeit items would be prohibited from renting a stand, but no one was ever told to leave. Despite these steps, the offending goods continued to be sold.[148]

A contributory trademark infringement suit was filed, asserting that the counterfeit goods tarnished the Coach brand and that the defendants exhibited a willful blindness to the illegal conduct of its vendors.[149] The court noted that the Lanham Act identifies different types of conduct that constitute a trademark infringement and that liability may be imposed not only on the infringer, but also on others who induce or facilitate the infringing actions.[150] It went on to note that court precedent shows that flea market operators could "be liable for trademark violations by a vendor if it knew or had reason to know of them."[151] This knowledge requirement may be satisfied by showing willful blindness in which the defendant suspects wrongdoing and deliberately fails to investigate.[152] This necessitates a showing that the defendant comprehends what a reasonable person would

140. *Id.* at *5.
141. *Id.*
142. *Id.*
143. *Id.* at *6.
144. *Id.*
145. *Id.*
146. *Id.*
147. *Id.*
148. *Id.* at *6–7.
149. *Id.* at *8.
150. *Id.*
151. *Id.* at *9.
152. *Id.*

understand.[153]

The defendants argued that there was no showing that they exhibited willful blindness and moved for a summary judgment.[154] The court disagreed and noted that Coach demonstrated that the defendants had undisputed knowledge of the illegal activities. They were aware of the police raids, and they knew the Coach items were being visibly displayed for sale and were being sold at fraction of their price.[155] Once the government raided the market, any lack of knowledge by the defendants of the illegal activities taking place on their premises would constitute willful blindness.[156] Also, a deliberate failure to investigate or a purposeful contrivance to dodge learning of the counterfeit sales would establish willful blindness.[157]

The Sixth Circuit Court of Appeals became involved in a contributory trademark infringement case in 2013 when it decided *Coach, Inc. v. Goodfellow*.[158] This was a case of first impression before this Circuit on whether a flea market operator could be found contributorily liable for a trademark infringement by its vendors.[159]

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.[160] The evidence revealed that Goodfellow controlled the flea market and rented about 75 different booths to vendors.[161] The day-to-day operations of the market was managed by one of the defendant's employees.[162] Coach sent a letter to the defendant notifying him about the counterfeit sales of Coach merchandise and demanded that all sales of these goods be stopped.[163] A few months later, a different letter was sent by the District Attorney to Goodfellow, informing him that the sales were continuing and that he was in willful disregard of the law.[164] A month later, a raid was conducted and counterfeit Coach products were seized.[165]

Goodfellow admitted that he knew that vendors continued to sell the counterfeit goods on his premises, and he was aware of the raids.[166]

153. *Id.*
154. *Id.*
155. *Id.* at *12.
156. *Id.*
157. *Id.*
158. Coach, Inc. v. Goodfellow, 717 F.3d 498 (6th Cir. 2013).
159. *Id.* at 499.
160. *Id.* at 500.
161. *Id.*
162. *Id.*
163. *Id.*
164. *Id.*
165. *Id.*
166. *Id.*

However, he had posted signs against the selling of counterfeit goods, and he scheduled meetings with the vendors when the market was not opened for business.[167] The plaintiff filed a motion for summary judgment, and the defendant failed to respond.[168] Therefore, the court found that Goodfellow was contributorily liable for the sales of the counterfeit Coach products.[169] The defendant moved to set aside the order granting the summary judgment.[170] This was denied, and the case proceeded to trial where Coach was awarded $5,040,000 in damages plus attorney fees.[171] The defendant appealed, claiming that the Lanham Act did not support a finding of contributory liability for trademark infringement by a third party.

The court noted that secondary liability was first recognized in *Inwood Laboratories* and has since then been applied to flea market operators, subjecting them to liability for trademark infringement by vendors.[172] That liability can extend to a property owner if they knew or had reason to know of the violations by their vendors.[173] This includes willful blindness by the property owner.[174] The court then provided an excellent summary of the cases on the topic that have been handed down over the years.[175] In this case, Goodfellow had actual knowledge of the infringing activities over a long period of time, and he failed to take any remedial measures to prevent the violations.[176] Therefore, he was properly charged with willful blindness toward the ongoing infringing activities to make out a case of contributory liability.[177]

Coach filed a subsequent lawsuit in the federal District Court of New Hampshire.[178] This was the second case filed in this jurisdiction by the plaintiff, thereby displaying a very aggressive approach to prevent counterfeiting of its goods.[179] In *Coach, Inc. v. Sapatis*, the handbag designer sued the founder and former owner of a flea market, at which location vendors were selling counterfeit bags.[180] The business was eventually transferred to the defendant's daughter for $100,000, but Sapatis retained

167. *Id*.
168. *Id*.
169. *Id*.
170. *Id.* at 499–500.
171. *Id.*
172. *Id.* at 503.
173. *Id.*
174. *Id*.
175. *Id*.
176. *Id*.
177. *Id.* at 505.
178. *Id.*
179. *Id*.
180. Coach, Inc. v. Sapatis, 994 F. Supp. 2d 192 (D. N.H. 2014).

ownership of the land and received $36,000 in annual rent.[181] This sum was generated by the admission fees charged to the customers.[182] The defendant also maintained the books for the market and wrote checks to himself in his daughter's name.[183]

The defendant moved for summary judgement, claiming that he only owned the land which he leased to a third party and that he had no significant involvement in the flea market operations or the actions of its vendors.[184] The plaintiff countered that the undisputed evidence showed that the defendant was actively involved in the running of the market, thereby creating an issue of material fact.[185] The court upheld the award against the defendant on the basis of contributory liability.[186] It started its discussion by referencing *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, which sustained a cause of action for contributory liability.[187] It then summarized the various cases that had been rendered to date, which expanded the theory of liability to the owner of a flea market as well as brick and mortar stores.[188] The court noted that the primary inquiry in these types of cases is not whether the defendant owned the property where the trademark infringement took place, but whether the defendant exercised sufficient control over the parties engaging in the infringement.[189] In this litigation, the defendant's activities went far beyond merely owning the property.[190] He exercised sufficient control over the flea market, so he was liable for the conduct of the vendors.[191]

In 2016, a District Court in Georgia was asked to decide whether the owners and operators of a flea market in Fulton County were liable for the actions of their vendors who sold counterfeit sunglasses.[192] *Luxottixa Group, S.P.A. v. Greenbriar Marketplace, II, LLC* is a suit that arose after law enforcement officials raided the Greenbriar Discount Mall and confiscated thousands of counterfeit goods, including Ray-Ban sunglasses.[193] The facts revealed that plaintiff sent a cease and desist letter to the "owner/manager"

181. *Id.* at 194.
182. *Id.*
183. *Id.* at 195.
184. *Id.*
185. *Id.* at 199.
186. *Id.*
187. *Id.*
188. *Id.* at 198–99.
189. *Id.* at 199.
190. *Id.*
191. *Id.* at 200.
192. *Id.*
193. Luxottixa Group, S.P.A. v. Greenbriar Marketplace, II, LLC, 212 F. Supp.3d 1375 (N.D. Ga. 2016).

of a warehouse, informing them that tenants were selling counterfeit products.[194] Suit was filed, and the defendant moved for summary judgment, asserting that they could not be liable for the actions of the tenants, since it was merely the property owner without any operational or managerial control over the premises.[195]

The court started its discussion by referencing the Lanham Act and *Inwood Labs, Inc., v. Ives Labs, Inc.* as providing the basis for liability for trademark infringement by someone other than the offending seller.[196] The test for contributory liability for an infringement depends on whether the defendant "intended to participate" in the infringement or "actually knew about the infringement."[197] 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.[198] The court then discussed the cases in which courts have extended liability for contributory trademark infringement to lessors, owners, and operators of flea markets and other locations where the tenants sold counterfeit items.[199]

The defendants in this case argued that they did not exercise the required control over the flea market, so they should not be held liable for contributory trademark infringement.[200] The facts, however, showed that the defendant owned the shopping center that included a large anchor store and several other retail storefronts and adjacent parking lots.[201] It engaged in no other business, and its only source of income was from the rental of stores in the mall.[202] The defendant is owned by two separate entities, but a third party operates the mall by subletting space to tenants who have stalls at the flea market.[203] However, one of the defendant's co-owners is the sole proprietor of the entity that operates the mall.[204] In this capacity, he was aware of the raid by law enforcement, which uncovered the counterfeit sunglasses.[205] This raid was also not the first run-in with counterfeiting, nor was it the last, as the entity that ran the mall had been unsuccessful in eliminating the

194. *Id*. at 1377
195. *Id*.
196. *Id*.
197. *Id.* at 1378.
198. *Id*.
199. *Id.* at 1378–79.
200. *Id.* at 1383.
201. *Id*.
202. *Id.* at 1380.
203. *Id.* at 1380–81.
204. *Id*.
205. *Id.* at 1382.

counterfeiting problem.[206]

The lease between the owner of the land and business that ran the flea market provided a clause that the property should not be used in any way that violates the law or governmental directives.[207] The agreement also provided that the mall operator had the right to remove any tenant who violated the lease.[208] The defendant retained control over the premises and was required to operate and maintain the common areas and facilities at the property.[209]

The court noted that in determining liability for contributory infringement, it looks at the degree of control exercised by the defendant over the vendor's means of infringement.[210] In a landlord/tenant context, the "operator of a flea market that rents spaces to vendors exercises substantial control over potential direct infringers."[211] 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,[212] and that individual had direct knowledge of the sale of the counterfeit eyewear.[213] She also had the authority to revoke the leases of the tenants when appropriate.[214] Therefore, the defendant's motion for summary judgment was denied.[215]

Luxottica Group was again involved in a dispute over a trademark infringement involving the tenants of a mall in 2019.[216] In *Luxottica Group, SPA v. Airport Mini Mall, LLC*, the eyewear company sued the owners of a discount mall for the illegal actions of its subtenants, who were selling counterfeit eyewear.[217] The facts demonstrated that the defendants purchased the Old National Village Shopping Center in Georgia in 2004.[218] The Center included 30 storefronts and between 120 to 130 booths leased to various vendors.[219] One of the defendants' daughters managed the shopping center until 2009, at which time the defendants leased the mall to another

206. *Id*.
207. *Id*.
208. *Id*.
209. *Id.* at 1383.
210. *Id.*
211. *Id.* at 1384.
212. *Id.* at 1385.
213. *Id*.
214. *Id.* at 1385–86.
215. *Id.* at 1389.
216. *Id*.
217. Luxottica Grp., SPA v. Airport Mini Mall, L.L.C., 932 F.3d 1303 (11 Cir. 2019).
218. *Id*. at 1309.
219. *Id*.

tenant, who subleased booths to vendors.[220] The property was subsequently leased to Airport Mall, a company that the defendants created and gave to their son.[221] Nevertheless, the defendants continued to supply the mall with utilities, repairs, painting, cleaning, and parking.[222] During the son's tenure, law enforcement agents raided the mall on three occasions and seized counterfeit eyewear bearing the Luxottica's marks.[223] Despite the raids and letters from the plaintiff, the defendants took no action to evict the infringing subtenants.[224]

Suit was filed against the property owners for contributory trademark infringement.[225] Following an eleven-day trial, the jury found the property owners liable to the tune of $1.9 million. The defense appealed, but the award was upheld.[226] In recognizing the theory of contributory liability, the court referenced the Lanham Act and *Inwood Laboratories, Inc. v. Ives Laboratories, Inc*.[227] It then noted that a contributory trademark infringement claim is premised on two elements: (1) an individual or entity must commit a trademark violation under the Lanham Act; and (2) the defendant intentionally causes the infringer to commit the illegal act, supplies a product to the violator who it knows is committing an infringement, or supplies a product to the infringer with whom it has constructive knowledge is violating the law.[228] Constructive knowledge can be shown by willful blindness to the seller's unlawful conduct.[229]

While other jurisdictions have decided whether a landlord is responsible for the intellectual property infringements of a tenant, that issue is one of first impression before the Eleventh Circuit.[230] In this case, the defendants supplied the services and support for the tenants.[231] Therefore, a landlord may be contributorily liable for its tenants or subtenants 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 maintenances, that facilitates the violation.[232]

220. *Id*.
221. *Id*.
222. *Id*.
223. *Id*.
224. *Id.* at 1310.
225. *Id*.
226. *Id*.
227. *Id*.
228. *Id.* at 1312.
229. *Id.*
230. *Id.* at 1313.
231. *Id*.
232. *Id*.

Moreover, widespread infringement makes it more probable that a lessor knew about the illegal sales.[233] 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.[234]

V. LESSONS LEARNED

The courts have clearly expressed a willingness to hold owners and lessors of commercial property liable for the transgression of their tenants. The decisions, however, do not mandate that landlords maintain a constant vigil of their property and conduct a ten-point inspection for the sale of counterfeit products.[235] If a raid takes place and counterfeit goods are seized or the owner receives a letter about infringement from a trademark owner, a legal duty will be imposed on the landlord to take action of some form.[236] Ignoring the situation under the facts can result in the imposition of liability under the doctrine of willful blindness.

The cases offer valuable lessons that should be considered by the landlord as a means of reducing exposure to an infringement case. A lease will not automatically shield a landlord from liability for a tenant's sale of counterfeit goods, even if the contract prohibits that conduct.[237] Nevertheless, the lease should provide that a trademark infringement or other failure to obey the law will be considered a breach of contract for which the tenant can be evicted from the premises. The lease should also contain indemnity, insurance, and access-to-premises clauses.[238]

If the lease authorizes the lessor to terminate a tenant's possession of the property for a violation of the law, failure to employ that right will be used against the landlord.[239] In other words, the landlord must enforce the contract's provisions by immediately removing the tenant from the premises.[240] Also, a lessor's renewal of a lease when a tenant has demonstrated a pattern of selling counterfeit goods will be used as proof of

233. *Id.* at 1313–15.

234. *Id.*

235. Tara Tedrow, Jon Gibbs & Ahmad El-Gendi, *Landlord Liability for Tenant's Counterfeit Sales*, LOWNDES (Nov. 26, 2019), https://lowndes-law.com/article-detail/post_detail/landlord-liability-for-tenants-counterfeit-sales [https://perma.cc/N7J6-G7GW].

236. *Id.*

237. Huntington, *supra* note 63, at 29.

238. Borchard, supra note 62, at 3.

239. Huntington, *supra* note 63, at 29.

240. Roy Banerjee, *Landlord Liability for Tenants Selling Counterfeit Goods*, KPPB LAW (Mar. 18, 2019), https://www.kppblaw.com/landlord-liability-for-tenants-selling-counterfeit-goods/ [https://perma.cc/ZK5B-LS8T].

the landlord's willful blindness to a trademark infringement.[241]

If the lessor has reason to think that the lessee is selling counterfeit items or if the landowner receives any complaints or allegations about the tenant's sale of counterfeit items, immediate action must be taken to ascertain the facts.[242] In this regard, some legal analysts maintain that the lessor should take no action to screen or examine a vendor's merchandise unless and until the landlord has actual or constructive knowledge of the illegal activity.[243]

A landlord who has multiple tenants operating in a common space need not know that a specific tenant is selling counter goods for the lessee to incur liability for contributory infringement. It may be enough for the lessor to recognize that a counterfeit item was being peddled at a specific location.[244]

VI. CONCLUSION

Commercial property can be a good investment, but the owners must be aware that they now face the risk of being held liable for the actions of their tenants and third parties. This started out by courts holding commercial owners and lessors liable for the criminal actions of third parties at or near their property or for renting the premises to drug dealers. One of the more surprising developments has been the increasing trend by courts to find commercial landowners and lessors liable for trademark infringements committed by their tenants, an expansion of responsibility premised on the common law.

Counterfeiting is a criminal enterprise that continues to expand, and it costs the economy in this country about $600 billion annually. Efforts to halt the sales of knock-off products have been a daunting challenge, and the items are routinely sold at flea markets, on the Internet, outside of entertainment complexes, and even in brick-and-mortar stores. Consumers are eager participants in these transactions and seem to be immune to the harmful effects of counterfeiting in their zeal to obtain a good bargain. This results in sellers stealing valuable intellectual property rights while failing to adhere to regulations, paying taxes, and lowering the quality standards required of the real product.

Vendors of counterfeit items are elusive targets and often lack the financial resources to pay the statutory penalties for an intellectual property

241. Huntington, *supra* note 63, at 29.
242. Banerjee, *supra* note 240, at 6.
243. Banerjee, *supra* note 240, at 6.
244. Huntington, *supra* note 63, at *5.

violation. This has led to a change in strategy by copyright, patent, and trademark owners. The idea was conceived to pursue legal action against the owners and landlords of the premises used as the base to sell counterfeit goods.

Two main liability theories have emerged for lawsuits against owners and lessors; contributory and vicarious liability. These court-inspired remedies are premised on the common law of torts. While the initial cause of action was based on the Lanham Act and found liability against manufacturers for trademark infringement, courts have had little trouble expanding liability to include owners and lessors of commercial properties in a variety of contexts. This has resulted in the rendering of verdicts in the millions of dollars, and these awards have certainly caught the attention of the lessors of properties where the counterfeit items are sold. While little has been written on whether this development has reduced the sale of these illegal goods, logic certainly suggests that it has made property owners and lessors much more vigilant as to the illegal activities occurring on their premises. They have now been given a financial reason to properly police their properties and take measure to stop the sale of counterfeit items.