

When Landlords Are Liable For TM Infringement By Tenants

By **Diane McDermott, Philip Lapatin and Brett Carroll** (April 10, 2019)

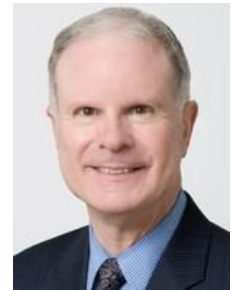
The mutually beneficial relationship between a commercial property owner/landlord and tenant is typically memorialized by a detailed and carefully considered contractual relationship between the parties. Significant care is taken in drafting relevant lease provisions to anticipate problems which may arise during the tenure of the relationship/tenancy including allocating responsibility for potential claims.



Diane McDermott

While carefully crafted lease provision can serve to protect a property owner/landlord in many ways, new areas of potential exposure exist which owners/landlords should consider carefully. Proactive evaluation, planning and action can make the difference in whether the owner/landlord is left facing serious claims for damages arising out of a tenant's unlawful conduct.

One such area of potential vulnerability involves alleged trademark infringement activity of a tenant. Increasingly, prominent brands are willing to protect their trademarks vigilantly, which, in turn, has implicated potential owner/landlord exposure as a result of a tenant's conduct. The recent jury verdict in *Omega v. 375 Canal Street*[1] in the U.S. District Court for the Southern District of New York confirms that owners/landlords need to be even more zealous in evaluating tenants for commercial leases, including addressing promptly alleged illegal activity of such tenants upon reasonable notice.



Philip Lapatin

This article summarizes briefly the expansion of trademark infringement exposure in the commercial property context and provides recommendations which owners/landlords should consider to avoid any direct exposure.

The Expansion of Trademark Infringement Liability in the Commercial Property Context

Towards the end of the 20th century, several courts around the country extended liability for trademark infringement beyond just the party engaging in the infringing activity.



Brett Carroll

In *Inwood Laboratories Inc. v. Ives Laboriates Inc.*, the U.S. Supreme Court held that a third party could be contributorily liable for trademark infringement in certain circumstances.[2] There, independent pharmacists labeled a generic version of a drug under the brand-name label. The manufacturer of the brand-name drug sought to hold the manufacturer of the generic version responsible for this infringing activity. The Supreme Court held that a manufacturer could be liable for infringing activity if it "intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." [3]

Following the Supreme Court's lead in *Inwood*, two federal circuit courts further extended liability for contributory infringement in a very unique way — to commercial property owners.[4] In each case, the courts held that the commercial owners of properties that hosted flea markets were contributorily liable for the infringing activities of its flea market

vendors.

Hard Rock Cafe Licensing Corp. v. Concession Services Inc., a case in the U.S. Court of Appeals for the Seventh Circuit, involved a vendor selling fake t-shirts and infringing on Hard Rock's trademarks at a commercial property owned by the defendant.

Fonovisa Inc. v. Cherry Auction Inc, a case in the U.S. Court of Appeals for the Ninth Circuit, involved a vendor selling fake recordings and infringing on Fonovisa's trademarks and copyrights. In Fonovisa, the defendant owned several commercial buildings, known as "swap meets," where it hosted a variety of individual vendors selling goods. The vendors paid the owner a fee in exchange for the space in the building, parking and advertising.

At least one federal court went a step further and concluded that a commercial landlord could be liable for contributory infringement when its retail tenants, rather than simple vendors, committed trademark infringement.[5]

Each of these courts emphasized the fact that the commercial landlords knew or should have known of the infringing activities from prior incidents and did not act to abate or prevent the infringing conduct.[6]

A Recent Jury Verdict in New York

In 2012, several prominent brands, including Omega and Swatch watches, believed that retailers located at a commercial building in New York City had infringed on several of their trademarks by selling counterfeit watches. In Omega, the brands sued the commercial landlord of the property, arguing that the landlord should be held liable for the infringement. The brands argued that the landlord knew that the tenants were selling counterfeit goods, and the claims survived both a motion to dismiss and a motion for summary judgment. After almost six years of litigation, the jury returned a verdict in favor of the brands, awarding damages of \$275,000 per trademark for a total award of \$1.1 million.

Omega highlights the various ways that a commercial landlord's knowledge of infringing activity can be established. The brands alleged that the landlord had direct knowledge of the infringing activities, pointing to several arrests for the selling at counterfeit watches at the leased property in 2010 and 2011. On top of that, the brands contacted the landlord and notified them of the arrest, to which the landlord responded that the offending tenants had been removed. Yet, in 2012, within a year of this dialogue between the brands and the landlord, the brands allege that several of their investigators purchased the counterfeit watches at the leased premises.

In addition to this evidence of direct knowledge, the brands highlighted several other facts that support the conclusion that the landlord had, at the very least, constructive knowledge of the infringing activity.

In a 2006 case, the landlord consented to a judgment enjoining it from infringing on Louis Vuitton's trademarks and copyrights as a result of counterfeit sales. Similarly, in 2006 and 2009, the landlord was involved in public nuisance suits brought by the city and consented to injunctions in both cases that enjoined the landlord from permitting its property to be used or occupied by counterfeiters. Finally, from 2004 through 2011, another law firm had informed the landlord on various occasions of multiple sales and purchases of counterfeit goods at the location that infringed on other trademarks.

While the landlord in the Omega case likely represents the extreme in terms of a landlord's refusal to act when notified of alleged improper activity, the result confirms how much time

and energy global luxury brands are willing to expend in protecting their trademarks. Further, the case provides a good road map regarding how a landlord should not act in the face of known problems or, at least, in the face of facially legitimate claims raised by a trademark holder.

The Omega jury verdict also confirms how important it is for landlords to consider retail tenants before executing a lease. This is especially true where a less-established tenant is not likely to have the resources to indemnify the landlord for a verdict despite strong indemnification language contained in a lease. While it is less likely that more established tenants would engage in the type of wrongful conduct at issue in these cases, owners/landlords should still consider carefully what steps they can and should take to protect themselves to avoid these claims.

Strategies to Help Avoid Trademark Infringement Claims

1. Commercial retail landlords/owners should conduct an update of their lease terms to ensure appropriate language exists regarding alleged illegal and/or improper activity conducted (especially regarding the sale of knockoff goods). Further, landlords should review their indemnification provisions to ensure the most comprehensive protection (however, often, such provisions are worthless if the tenant is judgment proof).

2. Commercial retail landlords/owners should consider carefully “less established” retail tenants as those tenants are more transient, more likely to engage in the targeted unlawful conduct, and are less likely to have any assets against which the trademark holder can collect.

3. Liability typically establishes when a landlord has knowledge of alleged illegal activity and refuses to act. Commercial retail landlords/owners should carefully address notices (written or oral) from a trademark holder:

- Most importantly, do not ignore. Ignoring claims, whether valid or not, only serves to increase the potential for problems and liability.
- Train all relevant personnel that the issue exists so that notices, whether oral or in writing, are not ignored/disregarded and, instead, are addressed timely.
- Establish a protocol whereby a designated team is notified of any alleged claims made, which likely will include inside and/or outside counsel.
- Act expeditiously in the face of any claim received including establishing early contact with the trademark holder.
- Gather all relevant information from the trademark holder of the alleged wrongful conduct, including any actual evidence of violations.


- Confirm the terms of your lease to understand what advance notice, if any, needs to be given to a tenant and what notice needs to be given regarding defense/indemnification obligations.
- Confirm, in writing, exactly what relief the trademark holder seeks for resolution.
- Conduct an appropriate and efficient investigation of the claims asserted under the direction of counsel to help ensure privilege.
- Work collaboratively, where appropriate, with the trademark holder to better understand strategies to determine whether alleged liability is actual or perceived. Often, trademark holders are in a far better position to confirm alleged violations.
- Consider whether an outside consultant and/or investigator is necessary/appropriate to confirm the investigation. If an outside consultant/investigator is used, use of outside counsel may better establish privilege depending upon the jurisdiction involved.
- If relevant violations appear to exist, provide relevant and proper notice to the tenant to cure, if appropriate, or proceed with default and eviction, as appropriate.
- If a tenant agrees to stop alleged offending conduct, confirm the terms, in writing, with copy to the trademark holder. The agreement might also confirm that any further violation can result in an agreement for judgment for immediate eviction.

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[1] Omega SA et al. v. 375 Canal, LLC, Case No. 1:12-CV-06979-PAC (S.D.N.Y. March 4, 2019).

[2] Inwood Labs., Inc. v. Ives Labs., Inc. , 456 U.S. 844 (1982).

[3] Inwood, 456 U.S. at 854.

[4] Fonovisa Inc. v. Cherry Auction Inc. , 76 F.3d 259 (9th Cir. 1996); Hard Rock Café Licensing Corp. v. Concession Servs., Inc. , 955 F.2d 1143 (7th Cir. 1992)

[5] Polo Ralph Lauren Corp. v. Chinatown Gift Shop , 855 F. Supp. 648 (S.D.N.Y. 1994) (denying a motion to dismiss and concluding that commercial landlord could be liable for contributory trademark infringement when its retail tenants engage in infringing conduct).

[6] See Fonovisa, 76 F.3d at 261 (“There is also no dispute for purposes of this appeal that Cherry Auction and its operators were aware that vendors in their swap meet were selling counterfeit recordings in violation of Fonovisa's trademarks and copyrights.”); Hard Rock Café, 955 F.2d at 1154 (discussing whether the landlord was deliberately ignorant of the infringing activities).