

The ARTICLES



COUNTERFEIT MERCHANDISE SALES: LANDLORD'S PROBLEM?

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If a tenant sells counterfeit merchandise, can the landlord face liability to the trademark owner?

A recent federal appellate court decision said yes, because the landlord knew about the counterfeit merchandise, didn't do anything about it, and helped make it happen by providing ordinary landlord services. In the court's view, that made the landlord a contributor to the infringement. The trademark owner, Luxottica, recovered a substantial judgment against the landlord. (To find this case, search online: Luxottica airport Yeh.)

The facts of the case were pretty egregious, and it doesn't mean that a bit of trademark infringement by a single tenant will create exposure for an ordinary landlord. Still, at a certain point, substantial and continuing trademark infringement by tenants — with full landlord awareness — may potentially create exposure for landlords. It's another new thing to worry about. And it might be difficult or impossible to insure.

The *Luxottica* litigation arose from a flea-market-type operation with dozens of booths. Many of those booths sold counterfeit eyewear, a clear violation of their leases, which expressly prohibited sales of such merchandise.

Even though the landlord knew many tenants sold counterfeit merchandise, the landlord didn't do anything about it — no notices of default, no refusal to renew leases. The landlord effectively looked the other way, leaving the issue to the infringing tenants, the trademark owners and law enforcement.

Eventually, federal authorities confiscated a trailer-truckload full of counterfeit merchandise.

The landlord's lawyer advised the landlord to not do anything about the infringements unless a tenant was convicted of a crime. That advice wasn't very good.

The court said that under federal trademark law, if someone "knowingly facilitates" a trademark infringement, they can become liable as a contributory infringer. The landlord here provided space, lighting, utilities, water, cleaning and other ordinary landlord services to the infringing merchants, which helped make it possible for them to sell their infringing merchandise. That, plus the landlord's continued and chronic knowledge of the infringement, was enough to establish liability.

The court went a step further. It found the individuals behind the landlord personally liable for the infringement, even though the landlord conducted business through a limited liability company (LLC). The court said the individuals committed the acts (i.e., providing landlord services and doing nothing to stop the tenants) that enabled or supported the infringement, and therefore they were directly liable themselves. They couldn't hide behind their LLC. That line of analysis could support personal liability for practically any LLC member who is active in the business. It's an alarming idea.

Under the *Luxottica* case, the acts that triggered personal liability were precisely the acts that any landlord would perform for any tenant, such as turning on air conditioning,

removing garbage and painting walls. If such activities can make individuals liable when their LLC operates real estate and somehow incurs liability because of its actions, there's really no limit to personal liability.

It's often said that "bad facts make bad law." This case presented a great example of that. But it means that, if a landlord knows a tenant is infringing trademarks, the landlord may have an obligation to do something about it, essentially acting as an intellectual property cop.

How far does that go? What if a landlord knows a tenant is illegally selling unregistered securities or operating an illegal betting parlor? Does the landlord become a contributor to the illegality by looking the other way?

Most landlords would, of course, not look the other way, and would try to stop any illegal activities on their property. But the *Luxottica* case suggests that landlords may have external incentives to try to prevent any form of illegal activity on their property.

How much ability does a landlord actually have to prevent illegal activity? Most leases do prohibit illegal activity, so any landlord typically can try to do something about it. In the *Luxottica* case, the leases expressly prohibited the tenants from selling counterfeit merchandise. So this landlord could definitely have done something about it.

Lesson of the story: if a landlord knows its tenants are selling counterfeit merchandise, the landlord shouldn't necessarily look the other way.