



LANDLORD LIABILITY FOR TRADEMARK INFRINGEMENT IS A HARD ROCK TO CRACK

By: Jim Astrachan

How far must a landlord go to avoid liability for the trademark infringement of its tenants? Can it close its eyes to misdeeds, or must it inspect its tenants' goods? The answer may surprise.

If a manufacturer or distributor intentionally induces someone to infringe a trademark, or if it continues to supply its product to someone it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorially responsible for any harm done as a result of the deceit. For example, a generic drug manufacturer who knows that pharmacists are palming off their look-alike drug to retail customers may be contributorially liable for the pharmacists' trademark infringement. This can occur even though the drug manufacturer exerts no control over the pharmacists.

As clear as this doctrine appears to be, how is it applied to a person who does not make or distribute the products that are palmed off? Such as a landlord whose tenants sell knock-offs.

The Hard Rock Cafe's licensing arm owns trademarks used on hats, tee shirts and sweatshirts. Millions of people worldwide celebrate their Hard Rock affinity by purchasing these clothing items at authorized outlets. Between 1986 and 1992 the Chicago Hard Rock, alone, sold 500,000 tee shirts at an average gross profit of \$10 per shirt. But although Hard Rock tries very hard to retain its trademark monopoly, its famous trademarks are well known targets for an army of counterfeiters and their distributors. Visit many flea markets, and you are bound to run across clothing bearing the Hard Rock trademark.

It really doesn't matter how diligently Hard Rock pursues the retailers; one disappears and five spring up to take its place. The only way to make a dent in the network is to eliminate the seller's venue, and to do this, the trademark's owner must be able to hold the landlord liable for the trademark infringement of its tenants. It's not cheerful to sell products on the street in February.

Not too long ago, Hard Rock sued the operator of a flea market where two tenants were selling knock-off merchandise. The landlord made its money four ways: booth rent, booth reservation to enable a vendor to keep the same location, admission fee and concession sales. The landlord's manager strolled around the market four or five times daily to find vendors who violated the rules against selling drugs, live animals or "illegal goods". There had been a couple of seizures of counterfeit goods by federal agents from a few of the landlord's tenants, but there was never any follow-up with the landlord. Nor had Hard Rock publicized its counterfeit problem. The question became whether the landlord knew enough

about the illegal acts of its tenants to make it contributorially liable for their infringement, or was it merely negligent having failed to take reasonable steps to detect and prevent the sale of counterfeit goods. The former would make it liable, the later would not.

A landlord cannot ignore evidence of illegal sales and later seek to avoid responsibility by claiming it had no knowledge that sales were occurring on its property. This is characterized as "willful blindness" and is equivalent to actual knowledge for purposes of determining liability under the Lanham Act. To be willfully blind, however, the landlord must have had some reason to suspect that counterfeit goods were being sold at its flea market and deliberately failed to investigate.

Willful blindness, or actual knowledge, is far different from negligence. Mere negligence will not make the landlord contributorially liable for trademark infringement.

It would seem, then, that a landlord who does not wish to be liable for the infringing acts of its tenant has two choices, each polar opposites. At one pole, a landlord can create and enforce a policy to prevent the sale of counterfeit goods. This would likely require the landlord to maintain a record of its tenants' names and addresses. All tenants would be required to sign a "lease" advising of the landlord's policy against the sale of infringing goods. The landlord would post the premises. Finally the landlord would walk around the premises and examine the

merchandise sold by its tenants and evict any tenant who appeared to sell knock-offs. And isn't a policy and plan of action evidence that the landlord suspected infringement?

Because a landlord has no affirmative duty to take precautions against the sale of infringing products absent some suspicion, at the other pole a landlord might actually be better off by doing absolutely nothing, for once the landlord learns of wrongdoing and fails to act, it exposes itself to contributory liability. A landlord who strolls around his flea market, spies some shirts bearing Hard Rock trademarks, and notices that the quality was inferior and the price cheap, should suspect wrongdoing. He becomes obligated to act.

There are steps the mark's owner can take to cause a landlord to become suspicious of its tenants' activities and develop a case of "willful blindness" if it fails to act. First, the mark's owner can advertise to landlords, vendors and consumers that, in the case of Hard Rock, authentic merchandise can only be purchased in Hard Rock's stores. Second, if the merchandise is more sophisticated than tee shirts, watches or purses, for example, the mark's owner can notify the public how to distinguish genuine from fake.

Given the state of the law and the liability a landlord may incur if it undertakes half-heartedly to ferret out tenants who sell knock-offs, a landlord might be well advised to undertake no actions unless actually confronted or put on constructive notice.

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