LUXOTTICA GROUP, S.P.A. V. GREENBRIAR MARKETPLACE II, LLC—LANDLORD IS "KNOCKED-OFF" BY TENANT'S CONDUCT

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Introduction

Counterfeit luxury items have become increasingly prevalent in our society. Whether on eBay, or at a street-side vendor or flea market, most people can recall a time where they witnessed a "knock-off" good being offered for sale. Though we will often joke at stories of purchasing a fake Louis Vuitton purse for twenty dollars or picking up a five-dollar pair of "Ray-Bans," the law sees such instances as far from humorous. What most people don't see are the government raids and federal investigations that go into the "black market" for these goods. Further, the manufacturers themselves find little humor in the theft of their trademarks and brand image, oftentimes commencing litigation against those selling the counterfeit items.

While one might expect those engaging in the sales to subject themselves to criminal and civil liability, often overlooked is that such liability can extend beyond those primary actors. As such, a commercial landlord may find itself in the crosshairs of the law for the conduct of its tenants. This article will explore this concept and its underlying law while also analyzing a recent Georgia district court case exemplifying the topic. Though the case has yet to go to trial, the court's firm early-stage rejections of the landlord's asserted defenses provides ample illustration for the standards a court will subject commercial landlords.

Background on Counterfeiting and Governing Law

The law governing the sale of "knock-off" goods is known as the Lanham Act. The Lanham Act, also referred to as the Trademark Act of 1946, is a federal statute prescribing forbidden conduct with regards to trademarks, service marks, and unfair competition. In essence, a trademark can be classified as a word, phrase, logo, name, symbol, or any combination thereof. These trademarks act to identify and distinguish the goods of the trademark holder from those manufactured and sold by others. For example, an apple with a bite taken out is synonymously known and associated with Apple, Inc. Therefore, if one were to sell an electronic device bearing this trademarked logo, the public may confuse the product as belonging to Apple. This example bears light onto what the Lanham act seeks to protect, the dilution of brand from the unauthorized sale of items containing well-known identifiers.

What's more, conduct in violation of the Lanham Act can result in numerous civil penalties. Importantly, in cases involving the use of a counterfeit mark in connection with the sale of goods, a court may award the complaining party between $1,000 and $200,000 in damages *per* item. The court may further award any profits gained by the defendant through the unlawful sale, as well as awarding attorney's fees to the successful complainant. These damages may be trebled by the court in instances where the defendant is found to have acted intentionally. As the preceding discussion suggests, the penalties imposed by the Lanham Act can place a losing

defendant in a position of serious financial consequence. Accordingly, a commercial landlord should view the following case as a cautionary tale.

Luxottica Group, S.p.A. v. Greenbriar Marketplace II, LLC

Background of Luxottica's Case

While the name Luxottica might not ring a bell, the brands it produces and sell have gained high public notoriety. Brands such as Oakley, Ray-Ban, and Persol are all owned by the Italian corporation. Luxottica additionally manufacturers lenses and frames for notable designer brands such as Chanel, Giorgio Armani, Prada, Versace, and Dolce & Gabbana.

On December 19, 2013, the United States Department of Homeland Security and the Atlanta Police Department raided the Greenbriar Discount Mall and the adjacent Greenbriar Strip Plaza, seizing thousands of counterfeit products, including counterfeit Ray-Ban and Oakley merchandise. Shortly thereafter, between October, 2014 and December, 2015, Luxottica's own investigators observed sales of fake Ray-Ban and Oakley sunglasses and were able to purchase multiple pairs of the counterfeited glasses while undercover.

Luxottica eventually sent a cease and desist letter addressed to the "Owner/Manager" of the "Greenbrier Strip Plaza Warehouse" on January 9, 2015, notifying them that tenants at the Greenbrier Strip Plaza Warehouse were trafficking in counterfeit Ray-Ban and Oakley merchandise. Subsequent to this mailing, Luxottica initiated suit against the owners and operators of the Greenbrier Discount Mall in the United States District Court of the Northern District of Georgia. At the heart of its complaint, Luxottica seeks to hold Greenbriar Marketplace II, LLC and its constituents as the owners and operators of the Greenbriar Discount Mall, contributorily liable pursuant to the Lanham Act for the infringing acts of the tenants.

The Greenbriar Strip Plaza

Defendant Greenbriar Marketplace II, LLC ("Greenbriar") is the owner of the Greenbriar Strip Plaza, a shopping center comprising of a large 95,810 square foot anchor store space, several smaller retail storefronts, and adjoining parking lots. Greenbriar leases that anchor tenant space to co-defendant 2925 Properties, LLC for the operation of the Greenbriar Discount Mall. The Greenbriar Discount Mall is essentially a flea market comprising of numerous individual vendors selling various goods.

Greenbriar has two members, Tabas Two, LLLP and Kimberly Swindall. Both Tabas Two and Swindall own a fifty percent interest in Greenbriar. Additionally, Swindall is the sole member and owner of 2925 Properties and a co-defendant to the suit. Due to Swindall's interests in both Greenbriar and 2925, it could be argued both entities could effectively be considered the landlord of the flea market vendors.

Luxottica's final defendant in its Lanham Act suit, Albert Ashkouti, is neither a direct owner nor member of Greenbrier. However, Ashkouti found himself in Luxottica's sights by virtue of his ownership and membership in Tabas Holdings and Tabas Two. Ashkouti's involvement constitutes a sixty-seven percent ownership in Tabas Holdings, which in turn owns 1% of Tabas

Two. Additionally, Ashkouti is one of the limited partners of Tabas Two and is listed with the Georgia Secretary of State as the registered agent for Greenbriar.

Court's Legal Discussion

The court began its analysis by affirming that under certain circumstances, liability for trademark infringement can extend beyond the entities that actually perform the acts of infringement. That liability could be triggered if one intentionally induces another to infringe a trademark, or if he or she supplies services to somebody he or she knows or has reason to know is engaging in trademark infringement. Accordingly, for Luxottica to succeed on its claim for contributory trademark infringement, Luxottica would have to demonstrate two things. First, Luxottica would need to establish that a third party had directly engaged in infringing conduct. Secondly, Luxottica would need to show that the defendants "contributed to that conduct either by knowingly inducing or causing the conduct, or by materially participating in it."

Because the average landlord would likely not engage in the intentional facilitation of trademark infringement, the court's conception of "has reason to know," is of most importance. In defining what instances will satisfy this requirement, the court cited to acts of "willful blindness" where a landlord fails to investigate suspicious activity. A police investigation into the tenant would therefore trigger a landlord's duty to conduct its own investigation.

In addition to the knowledge required of the landlord, the essential aspect to a contributory infringement claim is the contribution or facilitation of the infringing conduct. In the context of a commercial landlord, this facilitation is the leased premises whereby the tenant engages in the conduct. As such, this facilitation constitutes the required inducement, or furtherance of the infringer's actions. However, to establish this aspect of its case, Luxottica would need to evince that the defendants possessed a degree of control over the tenant's acts of trademark infringement.

Defendant's Arguments

In arguing the sufficiency of Luxottica's evidence, all aforementioned defendants did not challenge the tenant's direct acts of infringement nor whether they possessed knowledge of the alleged sale of counterfeit merchandise. Instead, the defendant's arguments focus solely upon the contention that they lacked a requisite degree of control over the Discount Mall and the infringing conduct of its flea market vendors to be held contributorily liable. With specific regards to Greenbriar, it argued on summary judgment that it could not be contributorily liable for infringement as a property owner because 2925 Properties was solely responsible for the operation, use, and management of the property. Further, Greenbriar asserted that it had no right of control over the flea market under the lease as 2925 was the direct landlord.

Court's Analysis of Luxottica's Evidence and Defendant's Arguments

Responding to Greenbriar's asserted lack of control, the court stated such argument blatantly ignored Swindall's ownership and direct management interests in both Greenbriar and 2925. In

the court's opinion, a reasonable jury could find from the various written correspondence in the record and her central financial and management position, that Swindall was a point person for Greenbriar and that she had knowledge of the sale of counterfeit merchandise. That knowledge was based on her knowledge of the arrests of certain vendors during the 2013 raid. Therefore, a jury could conclude that Swindall had the authority and ability on behalf of Greenbriar to revoke the leases of the flea market vendors and even her own 2925 lease as flea market operator. As such, although Greenbriar acted in an attenuated landlord capacity regarding the flea market, Swindall's dual interests established a sufficiency of evidence that Greenbriar facilitated the infringing conduct.

While the court was quick to note the sufficiency of evidence against the other defendants, the court was just as quick to acknowledge the lack thereof against Ashkouti. Luxottica would fail to bring forth any documents or direct testimony as to Greenbriar's organizational structure and management to implicate Ashkouti. Nevertheless, Luxottica argued Ashkouti was the agent in control of Greenbriar and that "he and no one else was behind Greenbriar Marketplace's unwillingness to exercise Greenbriar's Clear contractual power under its lease agreement with 2925 Properties to halt the ongoing counterfeiting activities by terminating its lease agreement with 2925 Properties."

In rejecting the attempt to hold Ashkouti liable, the court relied on Luxottica's own evidence which suggested Ashkouti's interest in Greenbriar was purely financial. With respect to the operation and management of the property, Ashkouti visited the shopping center once in 2004 when Greenbriar purchased the property, and only once thereafter. More significantly, Ashkouti did not personally have an office at the shopping center and did not regularly patrol the premises or his tenants at the shopping center for lease compliance issues. He instead relied on Greenbriar's property management company and Swindall to handle all other affairs concerning Greenbriar and its leases. Because of his lack of oversight of the flea market and distant derivative control of Greenbriar and 2925, Ashkouti's relationship was thus too attenuated to assert a cause of action for contributory infringement. Conversely, Luxottica would have to show Ashkouti actually participated in the decisions or "the evidence showed he was so intertwined with Greenbriar and 2925 Properties' operations that a reasonable jury could hold him liable for contributory infringement."

Practice Tips and Conclusion

Although the Luxottica case has yet to arrive at trial, the court's analysis may nevertheless act as a cautionary tale. As seen in the discussion, a landlord providing a leased space to a tenant engaged in the sale "knock-off" goods can potentially be found contributorily liable where that landlord knew or should have known about such conduct. What can be reasonably gleaned from the case is that a landlord cannot simply turn a blind eye to its tenant's activities for the sake of maintaining a profitable lease. Accordingly, it should always be in the landlord's best interest to investigate instances of suspicious tenant conduct resembling the sale of "knock-off" merchandise. Not only would that conduct constitute a breach of a typical lease agreement but also open a proverbial Pandora's Box of Lanham Act liability.