

Are Landlords Liable for Online Infringement by Tenants?

by Noel D. Humphreys

New Jersey landlords may be secondarily liable for Internet copyright and trademark infringement by their tenants. Many commercial and residential leases include covenants whereby tenants promise to comply with applicable law. These provisions permit the landlord to terminate the lease if the tenant fails to comply with the law.

Landlords may wish to consider whether the digital era has rendered those provisions too risky. On the one hand, the standard provision allows landlords to avoid liability by providing leverage over unruly and non-law-abiding tenants. However, if the tenant is infringing copyrighted works or trademarked goods and services, this may not be the case. The law has developed in a way that has increased the likelihood a landlord may become liable as a third-party infringer for intellectual property infringement.

The dilemma can be attributed, in part, to the predominance of the Internet. Described as a “billion Xerox machines on steroids,”¹ the Internet has made copying both inexpensive and eerily simple. Indeed, “[t]he only costs of becoming a global distributor (or pirate) of digital content are the price of a computer, Internet access, and electricity.”² Beyond that, Internet copying of music and movies provides a user the thrill of something tangible that he or she once had to purchase.

Efforts to stop online infringement have had varied success, as direct infringers usually lack assets to satisfy judgments against them. In fact, direct infringers often resume

their activities with relative ease. By invoking theories of contributory and vicarious liability, however, intellectual property owners may seek to levy upon the landlord’s premises and other assets. Theories of contributory and vicarious liability may provide opportunities to aid enforcement of copyright and trademark laws, but they also create tremendous liability risks for landlords.

Unlike laws governing patents,³ secondary liability for copyright and trademark infringement requires infringement by a primary actor. The prerequisite was well-articulated in the landmark *Sony Betamax* case.⁴ Universal and Walt Disney had attempted to hold Sony, the manufacturer of Betamax videotape recorders, liable because individuals recorded the plaintiffs’ copyrighted works in an infringing way. The Supreme Court held that the underlying recording by Betamax users constituted a “fair use,” and that, absent a direct infringement, Sony could not be held contributorily liable.

Although *Sony Betamax* represented a well-publicized, short-term defeat for copyright owners, in the quarter-century since, intellectual property jurisprudence has slowly eroded the limits placed on secondary liability and expanded the rights of intellectual property owners. The Ninth Circuit Court of Appeals recently considered two cases that seem likely to become influential in this area.

In the first, *Perfect 10, Inc., v. Visa International Service Association*,⁵ the plaintiff alleged that Visa processed credit card payments to website operators who directly infringed the plaintiff’s copyrighted works by posting Internet copies of the plaintiff’s photos of scantily clad women. In the second case, *Perfect 10 v. Amazon.com, Inc.*,⁶ the plaintiff sued Internet search engines for yielding search results with thumbnail images of the plaintiff’s copyrighted photographs.

In neither case did the Ninth Circuit grant the prayed-for relief. Nevertheless, both decisions, including the dissent of Judge Alex Kozinski in *Visa*, provide useful guidance for individuals seeking to avoid secondary liability for both copyright and trademark infringement.

Vicarious Liability for Copyright Infringement

“One...infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.”⁷ Alternatively, “[t]o state a claim for vicarious copyright infringement, a plaintiff must allege that the defendant has (1) the right and the ability to supervise the infringing conduct and (2) a direct financial interest in the infringing activity.”⁸

In *Visa*, the plaintiff argued that Visa had the right and ability to control the infringements on the sites for which it processed payments because Visa’s own rules and regulations permitted it to “require member merchants to cease illegal activity” as a condition for receiving continued services.⁹ Further, if Visa had refused to process payments to the allegedly infringing sites, the operators of those sites would have ceased their infringement, possibly by going out of business.

The majority held that the plaintiff failed to state a claim for vicarious infringement. Contrary to the plaintiff’s allegations, Visa’s rules and regulations did not give it “the right or ability to control the actual infringing activity.”¹⁰ Like Google’s displaying of search results from allegedly infringing sites in *Amazon*, Visa’s “mere ability to withdraw a financial ‘carrot’ [did] not create the ‘stick’ of ‘right and ability to control’ that vicarious infringement requires.”¹¹

The majority also noted that companies that make the computers, supply the software, or generate the electricity that an infringing site uses are not vicariously liable. Although these companies are capable of destroying the ability of a website to infringe, this is simply not the kind of control that vicarious liability envisions. Rather, as in *Napster*¹² the infringing services must be “more intimate and directly intertwined” than Visa’s role in the current matter.¹³

Judge Kozinski, chief judge of the cir-

cuit court, dissented in *Amazon*, writing:

Accepting the truth of plaintiff’s allegations...the credit cards are easily liable for indirect copyright infringement: They knowingly provide a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale. If such active participation in infringing conduct does not amount to indirect infringement, it’s hard to imagine what would. By straining to absolve defendants of liability, the majority leaves our law in disarray.¹⁴

Contrary to the majority’s position, Kozinski wrote that the contract between the merchant and the card processor gave Visa exactly the sort of right and ability to supervise the infringing conduct that could trigger vicarious liability. “That the pirates might find some other way of doing business is of no consequence,” as it is “perfectly clear that the cards do have the ‘practical ability’ to force websites that display their logos and use their payment systems to remove unlawful merchandise.”¹⁵ Moreover, “we have never required an ‘absolute right to stop [the infringing] activity’ as a predicate for vicarious liability; it’s enough if defendants have the ‘practical ability’ to do so.”¹⁶

Kozinski also criticized the majority’s analogy to computer makers, software suppliers, and electricity providers. Unlike credit card service providers, computer and software makers and utility companies do not have contractual relationships with their customers that permit them to control how the customer uses their products.

Unlike credit card companies and search engines, flea market operators have been found to have enough control to be liable for vicarious copyright liability. In a New Jersey federal district court case, *Arista Records, Inc., v. Flea*

World, Inc., record companies sued a flea market operator and its principal owners and managers for vicarious copyright infringement.¹⁷ The plaintiff showed that the defendants regulated what the various vendors could sell; controlled the locations of the vendors based on their merchandise; patrolled the aisles with security personnel at regular intervals; and from time to time, had excluded vendors who did not follow the rules. The Recording Industry Association of America (RIAA) notified the flea market operators, its security personnel, and the local police of the vendors’ alleged infringing activity, but the plaintiffs alleged the defendants ignored repeated demands to curtail sales of pirated and counterfeit merchandise.

Judge Jerome B. Simandle held that the flea market operators had the right and ability to supervise and control the infringing vendors, and that they obtained a financial benefit from the vendors’ infringement.¹⁸

In *Amazon*, the Ninth Circuit distinguished the practical ability to supervise and control found in the flea market cases. There, Google’s Internet search engine directed users to websites that contained infringing copies of the plaintiff’s photos. Because Google lacked a contractual relationship with the infringing sites, the court held that, both from a software and contractual rights point of view, Google lacked “the practical ability to police the infringing activities of third-party websites.”¹⁹

Vicarious Liability for Trademark Infringement

The *Visa* majority also dismissed the plaintiff’s vicarious trademark infringement claims for the alleged sales of photographs bearing “Perfect 10” marks by unauthorized websites, relying on *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*²⁰ Hard Rock Café had sued the operator of

Chicago-area flea markets where vendors had been selling counterfeit Hard Rock Café T-shirts. According to the court, vicarious trademark liability required “finding that the defendant and the infringer [had] an apparent or actual partnership, [had] authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product.”²¹ This standard is more restrictive than for vicarious copyright infringement.²² Consequently, the Seventh Circuit held that while the defendant could be contributorily liable for infringing the plaintiff’s trademark, it could not be found vicariously liable.

Courts have sometimes failed to vigilantly police the line between vicarious liability and contributory liability. Basically, however, “contributory liability is based on the defendant’s failure to stop its own actions which facilitate third-party infringement, while vicarious liability is based on the defendant’s failure to cause a third-party to stop its directly infringing activities.”²³

Contributory Liability for Copyright Infringement

The Supreme Court, in *Sony Betamax*, used the concept of contributory liability to hold that the maker of a device that can be used for infringement should not be held liable “if the product is widely used for legitimate, unobjectionable purposes.”²⁴ Over the years, this concept has been subject to varying formulations.

In *Amazon*, the plaintiffs alleged that Google’s links to sites that contained unauthorized copies of its photographs justified a finding of contributory liability against Google. The court held:

[A] computer system operator can be held contributorily liable if it ‘has actual knowledge that specific infringing material is available using its system...and can ‘take simple measures

to prevent further damage’ to copyrighted works...yet continues to provide access to infringing works.”²⁵

By comparison, in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, the Supreme Court held that “[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement.”²⁶ Further,

[o]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties....[M]ere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability.²⁷

In the *Arista Records* flea market case, Judge Simandle endorsed an alternative formulation in which a plaintiff must show the defendants: 1) had knowledge of the infringing activity, and 2) induced, caused, or materially contributed to the infringing conduct of another.²⁸ Consistent with other cases in this area, such as *Sony Betamax*, Simandle made little effort to determine whether the direct infringement on which the secondary liability was predicated pertained specifically to the plaintiff’s particular copyrights. Rather, to be liable, the defendants needed only constructive knowledge of infringement generally.

Simandle concluded:

[T]he intent of the Defendants is not relevant as Defendants materially contribute to infringement by simply providing the environment—space, facilities and other services—where infringing activity occurs, controlling the merchandising therein, and deriving daily economic benefit through rental of space to the infringers.²⁹

Accordingly, there may be many different paths to impose contributory liability for copyright infringement.

Contributory Liability for Trademark Infringement

To be liable for contributory trademark infringement, a defendant must have: 1) “intentionally induced” the primary infringer to infringe; or 2) continued to supply an infringing product to an infringer with knowledge that the infringer is mislabeling the particular product.

In *Visa*, the majority held that liability required “[d]irect control and monitoring of the instrumentality used by [the] third party to infringe the plaintiff’s mark.”³⁰ There, the majority held the plaintiff had not pled facts sufficient to show such a level of culpability on the part of the credit card processors. Judge Kozinski, in dissent, disagreed, arguing that “[w]ithout defendants’ payment systems, the infringers would find it much harder to peddle their infringing goods,” and that, therefore, the plaintiff had stated a claim for contributory trademark infringement.³¹

In *Hard Rock Café*, the Seventh Circuit looked to the Restatement of Torts, which held the flea market operator responsible for the torts of those it permitted on its premises “knowing or having reason to know that the other is acting or will act tortiously.”³² The flea market operator may be liable for contributory trademark violations by the vendor if the operator knows or has reason to know of the violations. Willful blindness—that is, a suspicion of wrongdoing followed by a deliberate failure to investigate—is equivalent to actual knowledge for these purposes.³³ The court held the flea market operator had no affirmative duty to take precautions against the sale of counterfeit T-shirts. Instead, the evidence needed to show that the flea market operator had more specific knowledge than simply a failure

to more dutifully guard Hard Rock Café's trademark interests.³⁴

Landlord Liability for Copyright and Trademark Infringement

*Deutsch v. Arnold*³⁵ established that a landlord who leases a premises to a direct infringer for a fixed rental and does not participate directly in the infringing activity is not liable for contributory infringement. Second Circuit Judge Learned Hand's statement of the law apparently remains valid:

Something more than the mere relation of landlord and tenant must exist to give rise to a cause of action by plaintiffs against [the landlord] for infringement of their copyright on the demised premises.³⁶

This contrasts with the so-called 'dance hall cases,' where landlords have been denied immunity from secondary liability for the infringing activity of its lessees. Similarly, the flea market cases illustrate that a vigilant landlord that polices its tenants is more likely than a passive landlord to be held secondarily liable for the infringing conduct of tenants.

In *Polo Ralph Lauren Corp v. Chinatown Gift Shop*,³⁷ the plaintiff designer sued both the counterfeiter and its landlord. The court held that, insofar as counterfeiting of goods may be a crime, precedents holding landlords liable for a tenant's ongoing crime on the premises may apply to cases of counterfeiting of trademarked goods.

Conclusion

These recent cases show that an intellectual property owner who claims infringement under a theory of vicarious or contributory liability has a better chance of recovering damages against an active landlord that manages and supervises the demised premises than against one that is more passive. Indeed,

a 'compliance with law' clause in a lease may give a plaintiff a basis for claiming that a landlord has the right and ability to supervise the infringing conduct.

A flea market operator typically superintends the activities of tenants more actively and frequently than most landlords do. However, a landlord must weigh the tradeoff among the competing interests. A landlord needs to protect his or her property and foster respect for the property in a tenant's mind by keeping an eye on the premises. A landlord faces a dilemma. On the one hand, if the landlord too actively supervises a tenant that participates in infringing activities, he or she could face potential liability under a theory of contributory copyright infringement, perhaps. On the other hand, if the landlord ignores a suspicion that a tenant participates in infringing activity, whether online or physically, he or she could face potential liability for doing too little to curb copyright infringement.

Lately, many residential developments and colleges and universities have begun to offer their tenants wired or Wi-Fi Internet services. These arrangements typically include promises by tenants or students to refrain from using such access for file-sharing, running servers, or moving big files (unauthorized copies of movies, for example). In light of these recent decisions, a landlord must decide how to enforce such policies effectively. If the landlord actively supervises network use, he or she may become liable for infringements that he or she is unable to stop. On the other hand, if the landlord remains willfully blind or does nothing to police user activity, he or she could be held liable for profiting from failure to supervise the network despite authority to do so.

Perhaps, a combination of a clear 'compliance with law' covenant in a lease and a measured, not-too-intrusive pattern of compliance supervision on

the landlord's part best insulates the landlord from third-party intellectual property infringement claims.

Since *Sony Betamax* and the advent of the Internet, plaintiffs have been looking for ways to punish infringement on the Internet, and the winds of American politics have blown toward supporting rights of intellectual property owners. These recent cases suggest there is plenty of new ground for litigation over secondary liability for landlords based on infringements by their tenants. ☪

Endnotes

1. Vito Peraino, The Law of Increasing Returns, *Wired*, Aug. 1999, at 145.
2. Raymond Shih Ray Ku, The Creative Destruction of Copyright: Napster and the New Economics of Digital Technology, 69 *U. Chi. L. Rev.* 263, 271-72 (2002)
3. See 35 U.S.C. 271(b) (branding anyone who "actively induces infringement of a patent" as an infringer).
4. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).
5. 494 F.3d 788 (9th Cir. 2007).
6. 508 F.3d 1146 (9th Cir. 2007).
7. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005).
8. 494 F.3d at 802.
9. *Id.* at 804.
10. *Id.*
11. *Id.* at 803.
12. *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).
13. *Id.*
14. *Id.* at 810-11.
15. *Id.* at 817-18.
16. *Id.* at 818 (alteration in original).
17. *Arista Records, Inc., v. Flea World, Inc.*, No. 03-2670, 2006 WL 842883 (D.N.J. 2006).
18. *Accord Fonovisa, Inc., v. Cherry Auction, Inc.*, 76 F. 3d 259 (9th Cir. 1996).
19. 508 F.3d 1146, 1174.

20. 955 F.2d 1143 (7th Cir. 1991).
21. *Id.* at 1150.
22. Trademark law is more analogous to patent law in this regard. *See Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984).
23. 508 F.3d at 1175.
24. 464 U.S. at 442.
25. 508 F.3d at 1172 (citation omitted).
26. 545 U.S. 913, 930.
27. *Id.* at 936-37.
28. 2006 WL 842883, at *15. This formulation derives from *Gershwin Publishing Corp v. Columbia Artists Mgmt, Inc.*, 443 F. 2d 1159 (2d Cir. 1971).
29. 2006 WL 842883, at *19.
30. 494 F.3d at 807.
31. *Id.* at 822.
32. 955 F.2d at 1149.
33. *Id.*
34. The court in *Fonovisia v. Cherry Auction*, 76 F.3d 259, 265 (9th Cir. 1996), followed the *Hard Rock Café* decision.
35. 98 F.2d 686 (2d Cir. 1938).
36. *Id.* at 688.
37. 855 F. Supp. 648 (S.D.N.Y. 1994).

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