# Third Circuit Vacates $10.6 Million Trademark Infringement Award, Clarifying Several Standards to Be Applied by Trial Courts

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In a recent precedential opinion, Kars 4 Kids Inc. v. America Can!, __ F.4th __ (3d Cir. 2021) (publication pending), the United States Court of Appeals for the Third Circuit vacated a $10.6 million trademark infringement judgment against Kars 4 Kids Inc. ("Kars 4 Kids") and remanded to the District Court to reanalyze whether Kars 4 Kids should disgorge its profits to the prevailing party, America Can! Cars for Kids ("America Can"). The decision, penned by Circuit Judge Patty Shwartz, clarifies the correct evidence that should be considered on a trademark infringement laches claim and reaffirms the six-factor test used in this Circuit to determine whether a trademark infringer should disgorge its profits. The Third Circuit also determined that the Lanham Act does not provide for prejudgment interest under section 1117(a), which creates a circuit split with two other Circuits.

Kars 4 Kids and America Can – both charities that sell donated vehicles to fund children's programs – have each been using similar trademarks since the 1990s. In 2003, America Can, based in Texas, sent Kars 4 Kids a cease-and-desist letter regarding its use of the "Kars 4 Kids" mark, and claimed it did not notice additional use of that mark for several years. However, by 2013, it sent another cease-and-desist letter after learning of further use, and in 2014, issue was joined in the underlying lawsuit. Ultimately, both parties filed trademark infringement claims in the United States District Court for the District of New Jersey against each other, alleging trademark infringement, unfair competition, and trademark dilution claims, and seeking damages and equitable relief. Additionally, America Can sought cancellation of one of Kars 4 Kids' trademark registrations. The matter ultimately proceeded to trial before Judge Peter G. Sheridan. At that trial, the jury first determined that America Can had trademark rights and Kars 4 Kids had willfully infringed those rights in Texas. The jury also found neither party proved its trademark dilution claims and that America Can failed to prove that Kars 4 Kids had obtained registration of its mark by false representations, the basis for the cancellation claim.

The District Court then held a bench trial on the equitable claims and remedies. The Court held that the defense of laches – based on the delay between the two cease-and-desist letters from 2003 to 2013 – did not apply, because America Can's executive credibly testified that he did not see Kars 4 Kids' advertisements in Texas from 2004 to 2011 and that Kars 4 Kids seemed to have stopped advertising following the 2003 cease-and-desist letter. The Court also ordered Kars 4 Kids to disgorge its Texas-based profits. To arrive at the disgorgement amount, the Court first examined Kars 4 Kids' gross and net revenues from the donations generated by the sale of vehicles originating from Texas, then deducted Texas-specific advertising expenses, national advertising expenses, and expenses related to compensation and office expenses, and ultimately

ordered Kars 4 Kids to disgorge $10,637,135. Finally, the District Court declined to award America Can enhanced monetary relief.

The Third Circuit considered a number of issues on appeal, four of which are of particular import to trademark litigators.

First, Kars for Kids argued – and the panel agreed – that the District Court had not applied the correct test concerning whether laches applied to bar America Can's claim. Under the relevant Third Circuit law set forth in Santana Products, Inc. v. Bobrick Washroom Equipment, Inc., 401 F.3d 123, 138 (3d Cir. 2005), the court should consider (1) the plaintiff's "inexcusable delay in bringing suit" and (2) the "prejudice to the defendant as a result of the delay." Here, although the District Court considered these elements, the Third Circuit determined that its analysis was in error because it only considered evidence of activity observed by America Can in Texas. Instead, it determined that the District Court should have considered evidence of Kars for Kids' national advertising, and whether those activities would have caused a reasonable entity in America Can's position to file suit sooner. Thus, the matter was remanded to the District Court in order to analyze this evidence and also to consider the effect of any such evidence on the prejudice element.

Second, Kars for Kids argued that the District Court did not use the appropriate analysis concerning disgorgement. The Third Circuit agreed, identifying the six-part test set forth in Banjo Buddies, Inc. v. Renosky, 399 F.3d 168, 175 (3d Cir. 2005), as the correct analysis, and criticizing the District Court for focusing on just one factor – the appropriate accounting methodology to determine diverted sales – rather than all of them. Thus, the Third Circuit remanded for consideration of all six Banjo Buddies factors, which are: "(1) whether the [infringer] had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in making the misconduct unprofitable, and (6) whether it is a case of palming off."

Third, America Can challenged the District Court's denial of enhanced monetary relief. The District Court had declined to award such relief because it determined Kars 4 Kids willfully infringed America Can's mark only in Texas and not any other state and the jury found no fraud in procuring its registration. Although 15 U.S.C. section 1117(a) permits the Court discretion in adjusting an "inadequate or excessive" disgorgement award based on the circumstances of the case, the Third Circuit held that America Can offered no arguments aside from punitive reasons why an enhanced award was appropriate, and that the District Court properly acted within its discretion in declining to award enhanced monetary relief.

Finally, America Can appealed the Court's denial of pre-judgment interest, but the Third Circuit affirmed, explaining that section 1117(a) does not provide for prejudgment interest.

A copy of the Third Circuit opinion can be found at the below link.