

# THIRD CIRCUIT VACATES, REMANDS \$10.6 MILLION AWARD DUE TO TRADEMARK OWNER'S DELAY IN FILING INFRINGEMENT CLAIM – PRIOR COMMON LAW TRADEMARK RIGHTS UPHELD OVER FEDERAL TRADEMARK REGISTRATION

On Aug. 10, 2021, the U.S. Court of Appeals for the Third Circuit affirmed a jury ruling that the mark KARS 4 KIDS infringed the common law mark CARS FOR KIDS in *Kars 4 Kids, Inc. v. American Can!*, No. 2813. However, the court remanded the case to district court for reassessment of damages based on the district court's failure to properly evaluate the disgorgement of profits and whether the CARS FOR KIDS owner, American Can, delayed too long before filing its claim for infringement.

American Can and KARS 4 KIDS owner, Kars 4 Kids, Inc., are charities which provide funding to various children's programs via sales of donated vehicles. Kars 4 Kids operates and advertises nationally, while American Can operates and advertises only in Texas. American Can has used its unregistered mark, CARS FOR KIDS, in Texas since the early 1990s, and Kars 4 Kids began using its KARS 4 KIDS mark in its name in 1995. Once American Can saw Kars 4 Kids' advertisements in 2003, it sent a cease and desist letter demanding Kars 4 Kids cease use of the infringing mark. Although Kars 4 Kids continued to advertise on a national scale, American Can claimed to not see ads in Texas for KARS 4 KIDS for years and did not bring an infringement claim until 2015.

The opinion decided four important points of which trademark owners should be aware.

**First, American Can won on its infringement claim, which the Third Circuit**

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**upheld, even though it did not have a federal registration for its mark, CARS FOR KIDS, and its rights only reached to the Texas borders.** This illustrates how powerful common law rights in trademarks can be.

**Second, Kars 4 Kids is stuck with the jury ruling on infringement liability and cannot appeal it,** as it failed to raise the issue of whether American Can had a valid trademark in the first place. Kars 4 Kids brought a post-trial Rule 50 motion, but in it, did not include arguments against the validity of the CARS FOR KIDS mark. The district court ruled Kars 4 Kids nonetheless did not waive the right to challenge the validity of the mark, but the Third Circuit disagreed.

**Third, the Third Circuit has advised that, on remand, the district court must take a closer look at whether Kars 4 Kids' national advertisements, not merely Texas-directed advertisements, reached Texas** during the period between when American Can first discovered Kars 4 Kids' use of its mark (2003) and when American Can filed its infringement claim (2015). The court stated this is key evidence to determine whether American Can was justified in its delay or whether American Can's claim was time barred.

**Lastly, the Third Circuit ruled that the district court failed to consider all relevant factors in its disgorgement of profits analysis.** Specifically, disgorgement involves several factors, including, for example, any unreasonable delay in the plaintiff bringing its claims, as well as a calculation of net profits lost due to the infringement. The district court only considered the latter factor—the net profits lost—and ignored the others. Thus, the district court must consider all disgorgement factors on remand, which may result in a lower damages award for American Can.

Our attorneys have experience representing trademark owners of all types and sizes, including charities like those involved in this dispute. Please contact your regular AT attorney or one of our authors listed below if you wish to discuss your specific needs.