

Gibson TM Win Shows Delays Don't Bar Injunction

By **Vikram Mathrani and Bea Swedlow** (November 2, 2022)

In *Gibson Brands Inc. v. Armadillo Distribution Enterprises Inc.*, the U.S. District Court for the Eastern District of Texas **issued** a permanent injunction in July in favor of famed guitar maker Gibson, despite the jury finding Gibson's 40-year delay in bringing suit too long.[1]

The court also denied an accounting of the defendant's profits. The decision provides useful guidance about how delay can affect different types of relief available under the Lanham Act.

Laches Did Not Bar a Permanent Injunction

Gibson sued guitar competitor Armadillo in 2019 for infringement of several Gibson trademarks. Gibson requested monetary damages and a permanent injunction preventing Armadillo from selling infringing products in the future.

Armadillo denied the allegations and pled laches as an affirmative defense, arguing that Gibson waited far too long to enforce its trademarks, resulting in severe prejudice to Armadillo. Normally, a 40-year period of delay would suggest a lack of diligence in bringing a claim, precluding relief.

However, the court determined that injunctive relief was appropriate, particularly noting that Gibson was irreparably harmed through the loss of control of its reputation due to the infringing goods.

The court also found that despite Gibson's 40-year delay, a wait the jury found was excessive, that delay did not bar an injunction. The court suggested that there may be no delay that would be long enough to bar injunctive relief.[2]

Citing U.S. Supreme Court and U.S. Court of Appeals for the Fifth Circuit cases, including some from the 1800s, the court's analysis focused extensively on the public interest prong required to secure an injunction and emphasized that a goal of the Lanham Act is to avert consumer confusion, even if it takes a trademark owner a lengthy amount of time to assert its rights.

The Lanham Act's legislative history may provide context to the court's reasoning, as one of the act's objectives was to "protect the ability of consumers to distinguish among competing producers." [3]

Considering this public-focused perspective, the court suggested that consumer protection should prevail, regardless of how long it might take a trademark holder to assert its rights, even though this is in conflict with other cases on laches.

For example, the U.S. Court of Appeals for the Ninth Circuit has explained that a district court "must weigh the plaintiff's delay and the resulting prejudice to the defendant to determine whether and to what extent laches bars the requested relief, including a request for an injunction." [4]



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The Ninth Circuit in *Pinkette Clothing Inc. v. Cosmetic Warriors Ltd.* found in 2018 that laches barred an injunction after the mark holder waited five years to assert its rights and the infringer had openly invested in its use of the mark by pursuing trade shows, advertising, expanding its warehouse and expanding its employment base.[5]

The U.S. Court of Appeals for the Fourth Circuit also stated in 1996 in *Sara Lee Corp. v. Kayser-Roth Corp.* that courts should analyze a plaintiff's delay and identified aggravating factors when determining whether laches should bar an injunction that could shift the balance of the equities "to the defendants' advantage," such as whether there has been "a grossly long period of delay." [6]

The Gibson court found significant that even though Gibson "inexcusably delayed" and "undu[ly] prejudiced" Armadillo, it did not affirmatively act to induce reliance by Armadillo.[7]

The Gibson opinion quoted the Fifth Circuit's 1985 *Conan Properties Inc. v. Conans Pizza Inc.* ruling that "laches or acquiescence may bar injunctive relief if the trademark owner conducted itself in a way that induced the infringer's reliance or if an injunction would result in substantial prejudice to the infringer." [8]

The court contrasted Gibson's mere delay in bringing suit to a Fifth Circuit case where a trademark owner visited a restaurant that infringed its marks, took pictures with the restaurant's owners, and wished the owners success.[9]

The court found that such a situation, where the mark owner engaged in affirmative acts implicitly or explicitly authorizing the infringing conduct, would bar an injunction.

In contrast, Gibson's conduct amounted only to delay — albeit by 40 years — but was not an affirmative action that implicitly or explicitly authorized the use of its marks.[10]

Laches Contributed to Bar Disgorgement of Profits

Even though the court saw past Gibson's 40-year delay for purposes of the injunction, the delay was fatal to its request for disgorgement of Armadillo's profits.

Disgorgement under Title 15 of the U.S. Code, Section 1117(a), is a powerful Lanham Act remedy because it allows recovery of damages even if a plaintiff is not able to quantify its own lost profits.

It allows a plaintiff to transfer a defendant's profits to itself, and is especially potent because it puts the burden on the defendant to accurately show expenses in order to avoid the court awarding all of its sales.[11]

As the Gibson court noted, a court does not automatically award disgorgement if a plaintiff proves infringement. Disgorgement is instead subject to "the principles of equity." [12] Further, where an injunction satisfies the equities of the case, a court can choose not to award a defendant's profits.[13]

In determining whether to award disgorgement of profits, a Fifth Circuit court considers the following six-factor test:

1. Whether the defendant intended 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 her rights;
5. The public interest in making the conduct unprofitable; and
6. Whether it is a case of palming off.[14]

While the court found that Armadillo intended to deceive, it declined to award an accounting of profits based on the adequacy of the other remedies and the public interest. It reasoned that the public interest was already served by granting a permanent injunction.

The court further explained that one of the goals of awarding a defendant's profits is to deter future infringement, and because it already granted an injunction and thereby prevented future infringement, it satisfied the equities.[15]

This may be unsatisfying to plaintiffs who are not only interested in deterring future infringement but also seek money damages for past infringement. It puts plaintiffs in a position where they may have to choose between permanent injunctive relief or disgorgement, because granting the former will make the latter less likely.

It may strike practitioners as contradictory that laches would preclude disgorgement of profits but not preclude an injunction.

However, there are a couple of ways to reconcile this apparent disparate treatment. The first is simply that the factors and tests for the two remedies are different.

In the Fifth Circuit, delay on its own is not enough for laches to bar an injunction. A plaintiff needs to affirmatively act to induce the defendant into believing that it is permitted to infringe. If a defendant cannot make this showing, it greatly inhibits its ability to bar injunctive relief.

In contrast, the test for granting disgorgement of profits includes undue delay as a factor that weighs against a disgorgement award.

The second way to reconcile the different treatment of remedies is to look at the Lanham Act remedies with the consumer focus in mind. Transferring the defendant's profits to the plaintiff clearly helps the plaintiff, but it does not, by itself, protect the consumer.

Granting a permanent injunction safeguards the public and thus furthers the consumer-protective objective of the Lanham Act more so than awarding disgorgement of profits.

Strategies for Litigants

The Gibson case demonstrates that — under certain circumstances — it may never be too late for a trademark holder to pursue and assert its rights.

Although trademark owners should consistently monitor their competitor's conduct and diligently enforce their rights against infringers, in the event they have neglected this practice, or even if they have monitored their competitors but have not taken action against infringement, they should strongly consider when the time is right.

The case shows that permanent injunctive relief remains a viable enforcement tool in some cases, despite significant delay, which can provide leverage for a trademark holder against its competitors.

On the other side, businesses should not assume that just because a trademark owner has not yet enforced its rights that they have free rein to infringe.

As this case illustrates, an accused infringer may find itself the subject of a suit even if it has been selling infringing goods for 40 years without complaint.

When seeking a permanent injunction, a trademark holder should emphasize the public's interest in granting the injunction. The plaintiff should underscore how an injunction will reduce consumer confusion and allow a purchaser to better distinguish the plaintiff's products from those of its competitors.

Even though a lengthy and undue delay may not bar a plaintiff from seeking an injunction, it may prevent a plaintiff from obtaining disgorgement of the defendant's profits.

Undue delay is an express factor in a court's determination about whether to award disgorgement of profits. If seeking disgorgement damages is of chief concern, then a plaintiff should enforce its rights immediately.

Moreover, a trademark holder aiming to prioritize disgorgement as a remedy should consider whether also seeking an injunction reduces its ability to obtain disgorgement damages.

Because a permanent injunction can serve the equities and factor against an award of disgorgement of profits, if there is a large amount of money damages at stake, a plaintiff should reconsider whether it should seek both an injunction and a disgorgement accounting.

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[1] *Gibson Brands, Inc. v. Armadillo Distribution Enterprises, Inc.*, No. 4:19-CV-00358, 2022 WL 3008501 (E.D. Tex. July 28, 2022).

[2] *Id.*, at *5.

[3] *Id.*; *Park ' N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 198 (1985).

[4] *Pinkette Clothing, Inc. v. Cosmetic Warriors Ltd.*, 894 F.3d 1015, 1027 (9th Cir. 2018).

[5] *Id.* at 1028.

[6] *Sara Lee Corp. v. Kayser-Roth Corp.*, 81 F.3d 455, 461 n.8 (4th Cir. 1996).

[7] *Gibson*, 2022 WL 3008501, at *1, *5.

[8] Id., at *5. (citing *Conan Props. v. Conans Pizza, Inc.*, 752 F.2d 145, 153 (5th Cir. 1985)).

[9] Gibson, 2022 WL 3008501, at *5.

[10] The court did find that an injunction covering some of the infringing products would amount to "substantial prejudice" and carved those products out of the injunctive relief. For example, the court did not enjoin an entire product line that also included noninfringing products. Gibson, 2022 WL 3008501, at *6.

[11] 15 U.S.C. § 1117(a).

[12] Gibson, 2022 WL 3008501, at *7.

[13] Id.

[14] Id.

[15] Id., at *8.