

February 2023
MPT-2
Drafters' Point Sheet

In B&B Inc. v. Happy Frocks Inc.

The MPT point sheet addresses the factual and legal points encompassed within this MPT. It presents the expected issues that might be addressed by an examinee in a thorough answer to the problem, but it should not be construed as a model answer.

B&B Inc. v. Happy Frocks Inc. DRAFTERS' POINT SHEET

In this performance test item, the examinee works for the law firm of Aziz & Shapiro LLP. The firm has represented Happy Frocks Inc., a maker of children's clothing, in a lawsuit brought by B&B Inc. for trademark infringement.

At a post-trial hearing, the court orally informed the parties of its conclusion that Happy Frocks was liable for trademark infringement and required the submission of briefs on the remedies plaintiff B&B was seeking. Those remedies include a permanent injunction, actual damages, and that portion of Happy Frocks's profits attributable to the trademark infringement.

The examinee is asked to draft a persuasive brief arguing that no award of profits is justified in this case. The examinee is given factors to consider in making this argument. (The examinee is told that others in the firm are dealing with the questions of injunctive relief, actual damages, and any mathematical computations required.)

The File contains the instructional memorandum, the firm's guidelines for persuasive briefs, excerpts from the trial transcript, and the transcript of the post-trial hearing in which the court orally announced its conclusion that Happy Frocks was liable for trademark infringement and asked for briefs from both sides on B&B's requested remedies. The Library contains excerpts from the United States Supreme Court decision in *Romag Fasteners, Inc. v. Fossil Group, Inc.*, holding that willfulness is not a prerequisite to an award of profits, and a Franklin federal district court decision in *Spindrift Automotive Accessories, Inc. v. Holt Enterprises, Ltd.*, setting forth the factors to be analyzed in determining if an award of profits is justified.

The following discussion covers all the points the drafters intended to raise in the problem.

I. FORMAT AND OVERVIEW

The examinee must, first, master the legal basis for an award of profits, as revealed by the cases in the Library; second, master the facts as set forth in the trial transcript contained in the File; and third, argue persuasively that no award of profits is justified in this case.

The examinee should first briefly note the rationale for an award of profits, as set forth in *Spindrift*: (1) to deter a wrongdoer from doing so again, (2) to prevent the defendant's unjust enrichment, and (3) to compensate the plaintiff for the harms caused by the infringement. The

examinee should then address the five factors that would justify such an award, again as set forth in *Spindrift*:

1. The infringer's mental state. If the infringer showed willfulness, recklessness, a callous disregard for the plaintiff's rights, willful blindness, or an intent to deceive, that would argue for an award of profits. On the other hand, mere negligence or an innocent mental state would argue against an award of profits.

2. The connection between the infringer's profits and the infringement. If the plaintiff was harmed by lost or diverted sales, beyond the actual damages suffered, or if consumers were confused by the infringement into thinking that the plaintiff authorized the sales, that would argue for an award of profits. If it was certain that the infringer benefited economically from the infringement, that too would argue for an award of profits.

3. The adequacy of other remedies. If the plaintiff will be made whole by other remedies, including injunctive relief and actual damages, there would be no basis for an award of profits.

4. Equitable defenses. If the defendant could claim laches, failure to timely act, acquiescence in the infringement, or unclean hands on the part of the plaintiff, such defenses would argue against an award of profits.

5. The public interest. An award of profits could be justified if there is a public interest present, such as ensuring public safety or deterring future infringement.

In the discussion of the factors in *Spindrift*, the factors are applied to the facts of that case to help guide the examinee in applying the factors to Happy Frocks's case. Finally, the examinee should note that, as observed in *Spindrift*, all factors do not necessarily have equal weight, and it is within the court's discretion to determine the overall balance arguing for or against an award of profits.

After applying the factors to the facts of the present case, the examinee should argue that an award of profits is not justified in this matter.

II. DISCUSSION

A. Facts

The firm's client, Happy Frocks Inc., is a maker of high-end children's clothing. Four manufacturers do the actual manufacture of the clothing overseas, under agreements with Happy

Frocks. B&B Inc. is a manufacturer of accessories, such as buttons, for clothing. B&B's buttons are made from high-quality materials and all bear its trademarked logo. About nine years ago, Happy Frocks entered into an agreement with B&B under which B&B would supply the buttons to Happy Frocks's overseas manufacturers, which would use only those buttons for Happy Frocks clothing. Those manufacturers would pay B&B for the buttons they needed and then bill Happy Frocks for the amounts paid. The relationship between Happy Frocks and B&B was mutually beneficial for many years.

Sometime in 2020, an employee of B&B was shopping and found Happy Frocks clothing that contained buttons not made by B&B, but which were made to appear like B&B buttons, including B&B's trademarked logo. These non-B&B buttons were made from cheap plastic, rather than the high-quality materials B&B uses for its buttons. Quality Clothes, one of Happy Frocks's overseas manufacturers, manufactured the offending clothing. B&B investigated and concluded from billing records that for about a year, the clothes Happy Frocks was selling that were manufactured by Quality Clothes contained the offending buttons. Although each of Happy Frocks's manufacturers normally bought tens of thousands of buttons from B&B annually, B&B found that Quality Clothes had only bought hundreds of buttons for the prior year. B&B concluded that the non-B&B buttons had been used for at least one year previous. B&B promptly had its lawyer send a cease-and-desist letter to Happy Frocks, demanding that the manufacture and sale of the offending clothing cease, and requesting compensation for the alleged infringement of its trademark. The letter did not identify Quality Clothes as the overseas manufacturer of the clothing.

When Happy Frocks received the letter, one of its managers called B&B and said they would look into it. B&B did not hear further from Happy Frocks.

Happy Frocks began an investigation of the claim, which took some time, as it required obtaining current samples from all four of its overseas manufacturers. It concluded that Quality Clothes was indeed using non-B&B buttons. Happy Frocks then terminated its relationship with Quality Clothes and ceased selling the offending Quality Clothes-manufactured clothing it had on hand in its inventory. Happy Frocks did not inform B&B of its action. Happy Frocks also did not recall Quality Clothes-manufactured clothing from the over 900 retailers it supplied, as it believed that doing so would be an impossible task, although it had previously recalled another item of clothing from about 600 retailers. Its chief executive officer, Samuel Harris, did admit on cross-examination that Happy Frocks had recalled items from retailers in the past but claimed that the

previous recall was possible because of the smaller scope of that recall compared to the present situation involving over 900 retailers.

Happy Frocks set quality standards for each of its overseas manufacturers to follow in making the clothing. Happy Frocks routinely checked the quality of the goods its manufacturers supplied, to be sure they were up to the quality standards Happy Frocks specified. In the course of its investigation, Happy Frocks found that Quality Clothes had used non-B&B buttons for at least a year prior to the discovery of the use by B&B. This confirmed B&B's conclusion that the offending buttons had been used for at least a year. Thus, four shipments of clothes with non-B&B buttons from Quality Clothes had been received by Happy Frocks without its noticing that non-B&B buttons were being used. During that same one-year period, Happy Frocks's retailers were clamoring for increased supplies of the Quality Clothes-manufactured line of clothing, and to meet the demand, Happy Frocks instructed its employees to process the orders as quickly as possible. According to the plaintiff, this put pressure on Happy Frocks's quality control officer and led to the failure to detect the non-B&B buttons; Happy Frocks's CEO vehemently denied that such was the case.

Cross-examination of Happy Frocks's CEO revealed that Happy Frocks made \$450,000 in profits from the sale of the clothing with the infringing buttons. However, Happy Frocks found that it had been billed and had paid Quality Clothes for the normal number of B&B buttons, when in fact Quality Clothes had been using the inferior and cheaper non-B&B buttons. Further, Happy Frocks lost the value of the inventory it could not sell. In sum, Harris, the CEO, testified that Happy Frocks lost a considerable amount of money, which it did not believe would be easy to recover, given Quality Clothes's overseas location.

Some nine months after sending its cease-and-desist letter, and not having heard from Happy Frocks beyond the initial promise to "look into it," B&B sued Happy Frocks for trademark infringement. The suit was apparently timed at a point when Happy Frocks's sales were to peak, so as to bring maximum pressure on Happy Frocks to settle.

The infringing buttons were in no way dangerous (e.g., they were not poisonous). Nor did they impact B&B's business; despite the amounts lost from sales of its buttons to Quality Clothes, B&B's revenues increased in the relevant period, and it lost no sales to any other customers. A survey of consumers Happy Frocks commissioned found that 3% of the respondents said that they noticed the trademarked logo on the buttons and that it added to the desirability of the clothes. But

only 6% of all consumers stated that a brand name on a button was even one reason for buying an article of clothing, and less than 1% said that it was the only reason for buying an article of clothing.

B. Legal Argument

1. Overview

Examinees should begin their argument by noting that the Supreme Court has held that willfulness is not a prerequisite to an award of profits in trademark infringement actions such as this that allege false or misleading use of trademarks. *Romag*. Rather, willfulness is only one of several factors that may justify an award of profits. Accordingly, even if Happy Frocks's infringement of B&B's trademark was not willful, an award of profits may still be justified.

Examinees might then briefly reference the rationales for an award of profits in *Spindrift*, which states that three rationales justify an award of profits: (1) deterrence, (2) preventing unjust enrichment, and (3) compensation for the harms done.

Given these purposes, several factors must be analyzed if an award of profits is to be made. These factors are not of equal value, but the overall balance of factors is within the discretion of the court.

2. Factors to Be Discussed

a. The Infringer's Mental State

Spindrift explains that facts showing the infringer's mental state form one factor in determining that balance. If the infringer showed recklessness, callous disregard for the plaintiff's rights, willful blindness, or a specific intent to deceive, the factor weighs in favor of an award of profits. If, on the other hand, the infringement was innocent or the result of mere negligence, that would weigh against an award.

Here, the facts do not show any of the attributes that would justify an award. Unlike the situation in *Spindrift*, Happy Frocks's "mental state" was entirely innocent. The facts show that Happy Frocks was unaware of the infringement, as it was initiated by a different entity, Quality Clothes, without Happy Frocks's knowledge. Once Happy Frocks learned of the infringement, it acted promptly to cure the situation, terminating its relationship with Quality Clothes. It could be argued that Happy Frocks was negligent in that its quality control procedures should have revealed

the infringement a year before it was brought to its attention. However, *Spindrift* states that mere negligence is not a basis for an award of profits.

Based on the questioning at trial, it can be anticipated that plaintiff B&B will argue that the increased demand for the Quality Clothes—manufactured clothing line led to Happy Frocks’s pressure on its employees to move the product quickly to retailers. That, B&B will argue, put pressure on Happy Frocks’s quality control officer and led to the failure to detect the infringing buttons. But the testimony of Samuel Harris, the Happy Frocks CEO, flatly rejected that supposition. On balance, then, this factor tips in favor of no award of profits. Finally, B&B will argue that Happy Frocks should have recalled the offending clothing from retailers. Harris said that this would have been impossible, as it would have entailed recalling the items from 900 retailers. But he also testified that, in the past, Happy Frocks had recalled another item of clothing from 600 retailers. Examinees will have to argue that the difference in the scope of the recalls justified Happy Frocks’s refusal to recall the offending clothing.

b. The Connection between the Infringer’s Profits and the Infringement

Here, B&B was, by its own admission, not harmed by the infringement beyond the actual damages it incurred in lost sales to Quality Clothes. Indeed, its revenues increased during the period when the infringement occurred. Further, the survey put into evidence showed that the infringement had a minimal effect on consumers. It might be argued that some measure of profits was due to the use of the infringing buttons and should be accounted for—at most, 3% (based on the consumer survey) of \$450,000 (the total amount of profits), or \$13,500. But the survey showed that even as a general matter, the use of a logo on a clothing button had only the most minimal effect on consumer choice. Further, the argument should point out that Happy Frocks did not benefit from the infringement, as it paid Quality Clothes the full amount it would have paid had Quality Clothes used B&B’s buttons. Happy Frocks’s profits were not increased by the infringement. Indeed, it lost money because it could not sell its inventory. Again, these facts contrast with those in *Spindrift*, where the infringement materially benefited the defendant. On balance, then, the examinee should assert that this factor, too, argues for no award of profits to B&B.

c. The Adequacy of Other Remedies

B&B can recover its actual damages in lost sales to Quality Clothes, and it can obtain an injunction against further infringements. Indeed, Happy Frocks has already taken action against Quality Clothes by terminating their relationship, thus ensuring that, whatever Quality Clothes does in the future, Happy Frocks will no longer infringe. Happy Frocks also ceased selling its inventory of infringing goods, although it did not—and claimed it could not—recall the infringing goods already out in the marketplace through its more than 900 retailers. On balance, the examinee should argue, the remedies of injunction and actual damages are sufficient to compensate B&B for any harm done.

d. Equitable Defenses

Happy Frocks has several equitable defenses against B&B that argue against an award of profits. First, although B&B knew which of Happy Frocks's four overseas manufacturers was using the infringing buttons, it did not so inform Happy Frocks in its cease-and-desist letter. Doing so would have saved Happy Frocks time in pursuing its investigation of the matter. Further, B&B waited nine months from the time it had knowledge of the infringement before bringing suit, and it appears that B&B waited to bring suit until a time when it would put maximum pressure on Happy Frocks to settle on B&B's terms. That failure to act promptly, and for a suspect reason, argues for no award of profits. This contrasts with the situation in *Spindrift*, where the plaintiff acted immediately to halt the infringement.

e. The Public Interest

An award of profits may be justified if there is a public interest in doing so, such as ensuring public safety or deterring other infringements. But here, there is no public safety element; the infringing buttons are not dangerous, by B&B's own admission, unlike the example given in *Spindrift* concerning tainted medicine. While it might be argued that an award of profits will deter others from infringing B&B's trademark by using infringing buttons, that possibility is remote, given that Happy Frocks has terminated its relationship with Quality Clothes. Astute examinees could also note that, once the court's opinion is published and Quality Clothes's use of infringing

buttons is widely known in the trade, the likelihood of further infringements of B&B's trademark will be even more remote.

f. Application of the Factors to the Rationale for an Award of Profits

A nuanced argument will relate the balancing of the five factors back to the rationales that justify an award of profits. In doing so, the argument should emphasize that such an award is not necessary to deter either Happy Frocks or others from infringing; that the infringement has not unjustly enriched Happy Frocks, and in fact has cost Happy Frocks in that it paid Quality Clothes the full cost of B&B's buttons rather than the lesser cost of the non-B&B buttons, as well as losing the value of its Quality Clothes inventory, amounts which it will likely not be able to recover; and that B&B will be adequately compensated for the infringement by actual damages and injunctive relief.

C. Conclusion

The examinee should conclude that each of the five factors argues against an award of profits, and therefore no award of profits to plaintiff B&B is justified in this matter.