MPT-2 — Sample Answer 1

AZIZ & SHAPIRO LLP

MEMORANDUM

To: Hamid Aziz

Re: Happy Frocks Inc. Liability for profits

Date: 2/21/23

I. Legal Argument

In a trademark infringement action, the defendant's profits that are attributable to the infringement are recoverable by the plaintiff. An award of profits is justified by three rationales: (1) to deter wrongdoing, (2) to prevent defendant's unjust enrichment, and (3) to compensate the plaintiff for the harm. *Spindrift Automotive Accessories, Inc. v. Holt Enterprises, Ltd.* (2021). To determine whether to award an infringer's profits to the plaintiff, the court applies a balancing test, but the factors are not weighted equally--rather, the court will exercise discretion in assessing each factor's importance and decide if the equities weigh in favor of awarding defendant's profits to the plaintiff. *Id.* The factors to be considered are as follows: (1) the infringer's mental state, (2) the connection between infringer's profits and the infringement, (3) the adequacy of other remedies, (4) equitable defenses, and (5) the public interest. *Id.*

a. The infringer's mental state weighs against profits because at most, Happy Frocks acted with negligence.

The more culpable the defendant's actions, the more likely they are to be subject to an award of profits. The mental states that weigh in favor of awarding profits are: willfulness, recklessness, callous disregard for the plaintiff's rights, willful blindness, and a specific intent to deceive. On the other hand, the mental states that weigh against an award of profits are: mere negligence or an innocent nature to the infringement. Here, Happy Frocks did not willfully, recklessly, or otherwise sell the infringing products. Rather, Happy Frocks actions in selling the infringing products were with mere negligence. Happy Frocks's manufacturer, Quality Clothes, was the one using the infringing buttons and deceived Happy Frocks by asking for enough money to buy B&B's buttons when it really was using cheap copies. In addition, as soon as Happy Frocks became aware of the infringement, it recalled all Quality Clothes's products and terminated business with them. Even though Happy Frocks was supposed to do quality inspections that would have caught the infringement, this can at most be attributed to negligence. Therefore, this factor weighs against profits.

b. The connection between infringer's profits and the infringement weighs against profits because the trademark owner was not harmed, Happy Frocks profits did not flow from the infringement, consumers were unaware, and Happy Frocks actually was harmed.

The connections considered for this factor are whether the trademark owner was harmed by lost or diverted sales, whether the infringer's profits flow from the infringement, whether consumers were confused by the infringement, and whether the benefit to the infringer is certain or not. Here, B&B was not harmed by the infringement because they testified their sales increased. Also, the infringer's profits did not flow from the infringement because they were still sending Quality Clothes the amount it would cost to buy B&B's buttons; only Quality Clothes profited from this. Next, the consumers were likely not confused by the infringement because the expert testimony of Tiffany Chen proves that only 3% of consumers look at logos on buttons and care where they come from. Finally, there is no benefit to the infringer because not only did they not benefit from buying cheaper buttons, but also they had to pull all their items from the stores, and lost a lot of money because of that. Therefore, this factor weighs against profits.

c. The adequacy of other remedies weighs against profits because they fully cover the losses and do not overreach.

The adequacy factor looks at whether other remedies are sufficient to make the plaintiff whole without an award of profits; if the plaintiff is made whole by other remedies, then awarding profits is not appropriate. Here, since an injunction and money damages are being sought, Happy Frocks terminated its relationship with Quality Clothes, and stopped using infringing buttons, it seems like profits are unnecessary. An injunction will prevent it from happening again and since Happy Frocks did not profit from this, the loss of the button sales to B&B, which would be the actual damages, would be adequate to remedy B&B.

d. Equitable defenses weigh against profits because Happy Frocks can prove that the plaintiff failed to act timely.

If the defendant has a claim of equitable defenses such as laches, plaintiff's failure to timely act, plaintiff's acquiescence, or unclean hands, then this would weigh in against an award of profits. Here, defendant likely has a claim for plaintiff's failure to timely act. While B&B testified that they did immediately send a cease and desist letter, on cross-examination it was discovered that it actually took them 9 months to send the letter. In addition, the letter was vague and required Happy Frocks to investigate on their own to determine which manufacturer was responsible. In combination, this delay on B&B's part weighs against awarding profits.

e. The public interest weighs against profits because there is no public danger from use of the buttons and the infringement already stopped.

If there is a public interest in preserving public safety or deterring other infringements, then the public interest weighs in favor of awarding profits. Here, B&B testified that the copy buttons were neither dangerous, poisonous, nor pose a choking hazard. Also, Happy Frocks as already stopped infringing and even terminated its relationship with Quality Clothes, which was the manufacturer that was actually responsible for the infringement--thus, risk of future infringements is low. Therefore, there is not a significant public interest in awarding B&B profits in this case.

II. Conclusion

In conclusion, it is unlikely that Happy Frocks will have to pay profit damages to B&B because when each factor is weighed, the result is that none of them weigh in favor of awarding profits. Unlike the defendant's case in *Spindrift*, profits should not be awarded because here, there was no culpable mental state, the connection between the infringement and the profits is weak, other remedies are available and adequate, an equitable defense is available, and the public interest in safety and deterrence low--thus, Happy Frocks should not be responsible for profit damages.

MPT-2 — Sample Answer 2

B&B Inc is Not Entitled to Profit Damages From Happy Frocks, Inc.

I. Caption [Omitted per instructions]

II. Statement of Facts [Omitted per instructions]

III. Legal Argument

Introduction:

This portion of this brief will explain why Happy Frocks ought not to be held liable for profits as a result of trademark infringement. When deciding issues of lost profits Courts typically rely on three rationale, as articulated by the District Court of Franklin in the Spindrift case (2012), when awarding lost profits. (1) Deter wrongdoer from doing it again, (2) prevent defendant's unjust enrichment and (3) to compensate the plaintiff for harms caused by the infringement. Courts also look at the following factors (1) infringer's mental state, (2) the connection between the infringer's profits and the infringement, (3) the adequacy of other remedies, (4) equitable defenses and (5) the public interest. The factors are not equally and the court must apply its discretion when weighing them. The Supreme Court in Romag (2020) stated that "the defendant's mental state is a highly important consideration." Willfulness is is a very important factor but not, as the infringers in both Romag and Spindrift argued, a prerequisite for recovering profits.

A. Happy Frock's mental state does not support an award of profit damages as Happy Frock's infringement was not willful as it was done by an overseas manufacturer without Happy Frock's knowledge and Happy Frock ceased the behavior once notified by B&B.

Happy Frocks ought not be liable for profit damages here due to the lack of a willfull or knowing mental state in relation to the infringement. In Spindrift (2021) the Franklin District Court awarded profit damages partially due to the defendant's mental state. The Romag (2020) case suggests that the defendant's mental state is the most important, but not dispositive, factor in determining whether to award profit damages in a trademark action. In Spindrift the defendant knowingly and deliberately sold the infringing parts themselves. The same defendant continued to do so after being told of the infringement, "this conduct by Holt was hardly innocent." This is distinguishable from our present case where Happy Frock's actions are neither knowing nor deliberate. The infringing here was done by a sub manufacturer, not by Happy Frock. The infringement was done by the named defendant directly in Spindrift. Happy Frock did not receive notice of the infringment until the fourth shipment of goods came from the infringing sub manufacturer Quality Clothes. Quality Clothes is an overseas company distinct from Happy Frocks. Upon learning of the infringement Happy Frocks, after a brief investigation to confirm the allegation, instructed Quality Clothes to stop the infringement, terminated the relationship with them, and stopped selling items from that manufacturer. That sufficiently distinguishes us from the defendant in Spindrift. Happy Frocks did not know the infringement was going on, they stopped it once told about it, and they stopped selling the infringing products. Happy Frocks themselves were damaged by the infringement as Mr. Harris said in his direct examination; "they were still billing us and we were still paying them for the cost of the buttons from B&B." It cannot be said that Happy Frocks acted knowingly or willfully here in terms of selling trademark infringing products thus an award of profit damages would not be proper here.

B&B will try and counter this argument by saying that Happy Frock must have known of the infringement due to the fact they received four shipments of faulty goods.Further, they will argue, Happy Frock inspected each shipment. Finally, they will say, Happy Frock actually ordered an increase in production to meet new demand. We can counter this by stating, as Mr. Harris said, that the issue wasn't discovered until the fourth shipment. Yes this may illustrate negligent quality control methods but that does not establish the sort of willful or knowing mental state that is sufficient to support an award of profits damages. Happy Frock was only negligent, if anything, here and thus profit damages should not be awarded. Profits were awarded in both Romag and Spindrift, however we are told in those cases those defendants knowingly infringed and continued the wrongful acts after recieving notice. Thus our case is distinguishable as Happy Frock did not do the infringing themselves, they instructed their sub-manufacturer to cease the infringement upon learning of it, and at most were negligent in their application of their own quality control methods. This court itself in its February 17th, 2023 post-trial hearing stated that "I realize defendant did not initiate the infringement." Happy Frock did not act with the type of mental state shown in Spindrift justifying an award of profits damages. Given that this is the most important of the five factors articulated here, Happy Frocks ought not be liable for profit damages. B&B may point to the fact that Happy Frock did not do a recall of all products. Happy Frock explained why this would be difficult for them to do. It was simply not practical to initiate a full product recall, and the cessation of their relationship with Quality Clothes in addition to them telling Quality to stop immediately should show their mental state does not arise to knowing or willful.

B. The connection between the infringer's profits and the infringement do not support an award of profits damages as B&B's sales increased during the applicable period, Happy Frock lost money as a result of the infringement and it cannot be said that the trademark owner was harmed by diverted sales or that Happy Frock's profits flowed directly from the infringement.

In Spindrift, the Franklin District court explained this factor as measuring the trademark owner's harm from lost or diverted sales resulting from the infringement and measuring the profits gained by the infringer as a result of the infringement. In that case the defendant charged the public full price while actually using counterfeit infringing products that cost him significantly less. Thus profits from the breach were shown. Our case can be distinguished from these facts such that a similar award of profits damages is not appropriate here.

Mr. Garcia, of B&B, could not say for certain whether consumers purchase items due to the B&B logo being on the button. Happy Frock's expert witness testified that only 3% of consumers noticed the buttons and thought that the B&B logo made that item more desirable.

This was a survey of actual Happy Frocks customers. A different survey of consumers of children's clothes generally found that 6% of customers said that the presence of a brand name on buttons was one of many factors that went into their decision to buy something. Less than 1% said it was the reason for buying something. Thus, at worst 6% of the people buying Happy Frock's products were tricked or induced to purchase the product as a result of the infringement. This is not a substantial enough connection to justify an award of profit damages here.

B&B will attempt to counter this by arguing that the $450,000 made by Happy Frock as a result of selling the infringing products shows an adequate connection between profit and infringement such that profits should be awarded. Happy Frock actually accelerate their processing of shipments from Quality due to demand.This argument should fail as they will not be able to show that the sales were a result of the infringement. Happy Frock's own evidence, articulated above, shows that 97% of consumers do not notice the logo on the button of their products. Thus it seems impossible to say that the profits enjoyed by Happy Frock were actually due to the infringement. People simply do not care what buttons are on a product. Further, Happy Frock actually lost money as a result of the infringement. They were still being billed for the full price of B&B buttons by Quality Clothing. They have also lost their on hand inventory and thus will not be able to profit from that. This factor thus does not support an award of profits damages and such a claim for that relief should be denied.

C. Injunctive relief and an award of economic damages is sufficient to compensate B&B and ensure that no further infringement takes place, thus Happy Frocks should not be held liable for profit damages as deterrence and making the plaintiff whole are achieved through other remedies.

In Spindrift, the court said there are three remedies for trademark infringement; (1) actual damages, (2) injunctive relief, and (3) the portion of the defendant's profits attributable to the infringement. In Spindrift, the plaintiff failed to illustrate the necessary evidence to support an award of the defendants profits. An injunction was sufficient.

Similarly, B&B can, and likely will, get actual damages here as well as an injunction blocking future infringement. Given that B&B will be unable to show real harm to their reputation due to lack of evidence, injunctive relief and actual damages are sufficient awards here. The injunction will ensure the infringement does not continue. Happy Frock has already voluntarily ceased selling the products. Only 6% at most of consumers consider the button when making a purchasing decision thus there is not significant harm to the B&B brand that they can quantify or point to. Actual damages will be sufficient to compensate B&B for the actual economic damages suffered as a result of the infringement and injunctive relief will ensure it does not continue. B&B will counter this by saying their brand has been harmed and the behavior could continue later. They do not have evidence to support either of those claims thus this factor does not support an award of the defendant's profits in addition to actual damages and injunctive relief.

D. B&B should not be awarded profit damages as Happy Frock has the equitable defense of laches available as B&B waited nine months to bring this action after knowing of the infringement.

In Spindrift, the court noted that Spindrift brought suit immediately upon learning of the infringement and thus no equitable defenses were available to the defendant. This is distinguishable from our case as B&B waited nine months to bring this action after learning of the facts giving rise to is. Thus, the equitable defense of laches is available to Happy Frocks and no award should be made based on Happy Frock's profits. B&B also failed to immediately move for an injunction blocking the infringement as the plaintiff in Spindrift did. B&B did send a cease and desist letter immediately and they will raise this in rebuttable to our argument here. Laches concerns when a plaintiff actually brings an action. The cease and desist letter is not enough action to overcome the fact that they waited nine months to bring suit and seek an injunction. Equity thus does not support an award of the defendant's profits here as the plaintiff, B&B, inappropriately waited nine months to bring this action. There is nothing in the record justifying such a delay. Equity does not support a plaintiff waiting to bring an action in order to maximize recovery. The existence of laches here as a viable defenses means this factor does not support an award of the defendant's profits in addition to actual damages and injunctive relief.

E. The public interest here is not served by an award of profit damages as the infringing buttons do not pose any additional harm to the public at large.

In Spindrift, the court articulated this factor as "is there a public interest in making an award of profits, such as preserving public safety or deterring other infringements" They found that this factor did not support an award of the defendant's profits due to the existence of an injunction and lack of evidence showing that the parts caused danger to the public. Similarly, we can show both of those things here and thus the public interest is not served by an award of the Defendant's profits.

Happy Frocks has voluntarily stopped the infringing practices here and there is no evidence of any intent to resume that behavior. In addition, if the court were to issue permanent injunctive relief here that would further block the behavior from starting again. Either of these things , or both, illustrate that the public interest wouldn't really be served by an award of defendant's profits. Happy Frock isn't planning on doing this again, they didn't knowingly do it to begin with and an injunction is perfectly adequate to ensure that it does not happen again. Further, trial testimony shows that the infringing product is not a danger to the public. B&B's CEO admitted during direct examination that the infringing buttons are not toxic and do not present any greater chocking hazard as genuine B&B buttons. Thus they are not a danger to the public, and the public interest would not be served by an award of the defendant's profits here.

Conclusion

Weighing these factors as the court in Spindrif did, we can see that none of the five factors truly support an award of the defendant's profits. Further the first factor is the most important one according to the Supreme Court's decision in Romag and we have sufficiently argued and illustrated above that Happy Frock did not infringe willingly or knowingly here. Given the lack of support for an award of defendant's profits as a result of analyzing the five factors articulated in Spindrift, this court ought not make an award of Happy Frock's profits to B&B as a result of trademark infringement. Happy frock did not act knowingly. There is little to no evidence of harm to the B&B logo as a result of the infringement, nor is there evidence that Happy Frock's profits resulted from the infringement. Injunctive relief and actual damages are sufficient to fully compensate B&B. Happy Frock has laches as an available equitable remedy, and the public interest would not be served by an award of Happy Frock's profits. For all of these reasons, this court should not award B&B Happy Frock's profits as additional damages.

MPT-2 — Sample Answer 3

I. Caption

II. Statement of Facts

III. Legal Argument

There are three remedies for trademark infringement: (1) the actual damages suffered by the plaintiff; (2) injunctive relief, barring future infringements; and (3) that portion of the defendant's profits that are attributable to the infringement. In this matter, a portion of the defendant's profits are not appropriate because the Happy Frocks did not have a harmful mental state, there was no connection between the infringer's profits and the infringement, there are other adequate remedies, Happy Frocks has equitable defenses and there is no harm to the public interest at this time.

Generally, an award of profits is justified by three rationales: (1) to deter a wrongdoer from doing so again, (2) to prevent the defendant's unjust enrichment, and (3) to compensate the plaintiff for harms caused by the infringement. Spendthrift Automotive Accessories.
In determining whether to award profits to the Plaintiff the court must further weigh the infringer's mental state, the connection between the infringer's profits and the infringement, the adequacy of other remedies, equitable defenses and the public interest. Id. These factors are not assigned equal weight, as the district court's discretion lies in assessing the relative importance of these factors in a particular factual situation and determining whether, on the whole, the equities weigh in favor of granting profits.

1. Profits should not be awarded to the Plaintiff as Happy Frocks did not have a harmful mental state, as they were defrauded by their manufacturer and did not intend to infringe on the trademark.

A defendant's state of mind has a bearing on what relief a plaintiff should receive. An innocent trademark violator often stands in very different shoes than an intentional one. Some courts have held that a plaintiff can win a profits remedy only on the showing that the defendant willfully infringed on the it trademark. However, the court in Romag, found that although willfulness is a highly important consideration in awarding profits under the Lanham Act (provides the remedies for trademark infringement) it is not an absolute precondition. The court held that willfullness is not "an inflexible precondition to recover" of a defendant's profits under the Act but rather "a defendant's mental state is a highly important consideration in determining whether an award of profits is appropriate."

The Defendant's mental state should be considered in light of the harm to the trademark owner and to consumers. In addition to willfullness, factors such as recklessness, callous disregard for the plaintiff's rights, willful blindness, and a specific intent to deceive should be taken into account. However, mere negligence of an innocent nature to the infringement, would be contrary to the award of profits.

Here, although Happy Frocks did not immediately respond to the cease and desist letter this was not due to ill intentions but rather they had to investigate the allegations contained in the letter as the letter did not indicate which manufacturer was using the incorrect buttons. It took Happy Frocks several weeks to get correct samples from all the overseas manufacturers. As soon as they found out it was Quality Clothes who was manufacturing with the wrong buttons Happy Frocks immediately stopped their production. Not only did Happy Frocks stop production they terminated their relationship with Quality Clothes and stopped selling their inventory of clothing that Quality Clothes had manufactured. Aside from this, Happy Frocks was truly unaware of the use of the wrong buttons as Quality Clothes was supposed to buy the buttons directly from Plaintiff and then invoice Happy Frocks. However, although Quality Clothes was using the wrong buttons they were still invoicing Happy Frocks. Happy Frocks was still paying the invoices and this caused them a severe financial loss.

Further, Happy Frocks had procedures in place to ensure the quality of the clothes produced by their manufacturers. They received 4 shipments from Quality Clothes in the time period the wrong buttons were used. Happy Frocks however, did not notice the use of the wrong buttons until the last shipment came in. Although demand was high for the product during the time of the shipment and employees were told to work quickly, there is no evidence that Happy Frocks worked in a manner that cut corners or harm the consumers. There was no negligent action much less intentional action on the part ofHappy Frocks.

Therefore, Happy Frocks did not have bad intentions and did not intend to infringe the trademark.

2. Happy Frocks does not owe profits to the Plaintiff as there was not a connection between their profits and the infringement because a majority of the customers did not notice the difference in the buttons and the profits of the trademark holder was not hindered as their profits increased.

The court must also weigh whether there was a connection between the infringer's profits and the infringement. To do so the court must consider whether the trademark owner was harmed by lost or diverted sales due to the infringement. These losses and sales must beyond those sales lost by the infringement itself, which would be accounted for by actual damages. Further, the court must analyze whether the infringer's profits flow directly from or were caused by infringement. If they were, then an award of profits is justified. The court must also consider whether the customers were confused by the infringement, in thinking that the trademark owner authorized the infringing acts. Lastly, the court will decipher with what certainty the infringer benefited from the infringement.

Here, the Plaintiff's overall sales were unaffected with sales actually increasing. The only loss suffered was from the sale of the buttons to the offending manufacturer of Happy Frocks, Quality Clothes. Further, although customers may see the B&B logo on the buttons used on the clothing produced, Plaintiff provided no evidence that customers can tell a difference between their buttons and the ones used. Further, Happy Frocks profits do not flow directly from the infringed product as they are buttons and a mere addition to the complete product. Additionally, customers were not confused by the infringement. A survey of 839 customers of Happy Frocks clothes manufactured by Quality Clothes indicated that the use of B&b'S logo on the buttons played a minimal role in the clothing purchase with 3% of the respondents saying that they noticed the logo and thought it added to the desirability of the clothes. Further, another survey of 997 customers of children's clothes indicated that only 6% stated that whether there was a brand name printed on the buttons of clothes was a reason, for purchasing one item of clothing instead of another and less than 1% said that the appearance of a brand name on a button was the only reason for purchasing a particular item of clothing over another.

3. Plaintiff should not be awarded profits as there are other available remedies such as an injunction.

The court must also consider whether the trademark owner would be made whole by other available remedies. Here, the plaintiff would be.

Here, Plaintiff has the opportunity to be granted an injunction which would stop the use of hthe wrong buttons which has already been ceased by Happy Frocks.

4. The Plaintiff should not be granted profits as they waited 9 months before filing their action even though they were aware of their claim and they came with unclean hands by trying to get Happy Frocks to settle on their terms.

The court must further consider whether the defendant has a claim of equitable defenses such as laches or failure to timely act on the part of the plaintiff, acquienseces by the plaintiff in the infringement, or unclean hands.

Here, although Plaintiff sent a letter to their lawyer requesting she write a cease and desist letter to happy Frocks within a week or two, plaintiff waited to file their complaint in this action, seeking an immediate injunction until nine months later, which was a week before the so-called "Black-Friday" sales. This sale is the largest one in retail goods like clothing. As such, the defendant likely has a defense of laches. This would also constitute unclean hands by the plaintiff as they waited to file when they knew that Happy Frocks would suffer the most damage from and injunction, bolstering plaintiff's case. This tactic was also used to try and get happy Frocks to settle the case on their terms.

5. Profits should not be awarded because there is no concern for the public interest due to the infringement sense many consumers do not buy the product due to buttons and there was no increased danger in using the wrong buttons.

Lastly, the court must consider whether a public interest is served by making an award of profits, such as preserving public safety or deterring other infringements. Here, the facts are dissimilar from an infringing medication containing an ingredient that would cause harm to the consumer. The buttons used by Happy Frocks are not poisonous and do not cause concern that children are more likely to swallow them. Further, as in Spendthrift Automotives, here an injunction was granted and therefore there is unlikely a concern for a danger to the public.

Conclusion

Weighing the above factors, the Plaintiff should not be awarded profits from Happy Frocks as the factors clearly weigh in favor of Happy Frocks.