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Brief re: B&B Inc. v. Happy Frocks Inc.

I. Caption [omitted]

II. Statement of Facts [omitted]

III. Legal Argument

A. Happy Frocks Inc. ("Happy") owes no lost profit damages to B&B Inc ("B&B") because they had no intention of infringing on B&B's trademark and the connection between the infringement and Happy's profits are far too attenuated.

Trademark infringement has a variety of available damages under the Lanham Act. (Fossil Group). The focus on ill-gotten profits is one that has been tried and litigated, with the Supreme Court providing guidance on factors to weigh in determining whether awarding plaintiff with lost profits is appropriate in a given case. In Fossil Group ("Fossil"), SCOTUS determined that "a defendant's mental state is a highly important consideration in determining whether an award of profits is appropriate," but it is not the only consideration. One year later in Holt Enterprises ("Holt"), SCOTUS provided that profit damages serve three purposes: (1) deterrence from future infringement, (2) prevent defendant from being unjustly enriched, and (3) to compensate the plaintiff for any harm that may have come from the infringement. (Holt). There are several factors that courts will look to in determining whether to award lost profits. (Holt). Though they do not each hold the same weight, the court will look to (1) the infringer's mental state, (2) the connection between the profits the infringer received and the infringement itself, (3) whether other remedies are adequate without lost profit damages, (4) whether defendant is entitled to any equitable defenses, and (5) whether the public has an interest in an award of lost profits for the plaintiff. (Holt).

1. Happy did not willfully infringe on B&B's trademark for the buttons because they did not know of the infringement, and took immediate action as soon as it came to their attention.

As noted above, the mental state of the defendant is a highly influential factor in determining whether the award of lost profit damages is appropriate in a case. (Fossil). A court will look to whether the defendant acted willfully, recklessly, or with callous disregard for the plaintiff's trademark rights. (Holt). However, mere negligence is a factor that weighs against an award of damages. In Holt, the defendant knowingly and deliberately sold automotive parts that were not made by the plaintiff, but contained plaintiff's trademark. (Id.). Further, Holt continued this use even after the plaintiff notified them that it was against plaintiff's trademark. (Id.)

In the present case, Happy did not knowingly, willfully, or callously infringe on B&B's trademark. Happy entered into business with B&B so that they could have buttons on their high-end children's clothing line that were of good quality. (transcript). However, Happy did not directly make the clothes. (Id.). Rather, Happy has several clothing manufacturer's overseas that it contracts with to make clothes that include the buttons. (Id.).

Immediately upon learning of the trademark infringement, Happy started an investigation to determine who may have been infringing the trademark. (Id.). Upon learning that Quality Clothes ("Quality") was the culprit, Happy ended up canceling their contract with Quality as it was a contract violation for them to not abide by the B&B trademark. (Id.). B&B may argue that Happy should have had better quality control inspections, however, the fact of the matter is that Happy did have quality control inspections. (Id.). The difference between B&B buttons and the plastic ones used by Quality were not readily discernible just by looking, though closer inspection would make it clear they were plastic. (Id.) However, buttons on an item of clothing are only one part of a clothing inspection and may be missed. The facts and circumstances show that Happy may have acted negligently by not finding the infringement sooner through its quality control inspections, but this certainly does not rise to the level of recklessness or a callous disregard for B&B's trademark, especially in light of Happy's immediate actions to stop the infringement. Thus, Happy's state of mind weighs in favor of no profit damages.

2. The connection between the profits Happy received from the infringing clothes and the infringement itself is far too attenuated for B&B to claim that the lost profits were due to B&B's trademark being on the infringing buttons.

The Court in Holt analyzed several questions in determining the strength of the connection between the sale of the clothing and the trademark. The questions look to whether the trademark owner was harmed due to lost sales, whether the infringer's profits flow directly from the infringement, whether consumers may have been confused by the infringement, and whether it could be certain that the infringer benefited from the infringement. (Holt). In Holt, the defendant sold counterfeit auto parts that it received for 25% less than that of getting the parts from plaintiff. (Id.). Despite this, defendant sold the parts for the full amount as if they were genuine. (Id.)

Here, Happy did not benefit from the infringement. The facts show that Happy had no reason on their books to know of the infringement or benefit from it. (transcript). Quality was supposed to buy the trademarked buttons from B&B, then bill Happy for the cost. (Id.). Quality did this with the counterfeit, plastic buttons, charging Happy the cost of the B&B buttons. (Id.). Happy was paying for what it thought was the correct buttons, at a higher rate than what Quality was receiving the counterfeit ones for. Further, Happy's trademark survey expert conducted a survey that showed that only 3% of the sampled consumers that bought Happy clothes manufactured by Quality had actually noticed the buttons and thought it added a desirability factor. (Id.). They also conducted a general survey and found that less than 1% of consumers would buy clothing solely because of the brand on the button while 6% may factor that in. (Id.). B&B itself acknowledged that their sales actually increased during the infringing period, though they would have more so if Quality purchased the buttons from them. (Id.) However, the negative effects on Happy for Quality's conduct, coupled with the data that shows buttons are a minimal factor in people's clothing purchases make this factor weigh in Happy's favor of not paying profit damages.

3. B&B can receive adequate remedy through the other damage awards of an injunction as that will prevent Happy from any further sale of trademark infringing product.

As noted by the Supreme Court, a plaintiff that has won a trademark infringement suit may be able to receive (1) actual damages, (2) injunctive relief, or (3) lost profits. These other damages are being discussed in a separate part of this brief. It is simply worth noting that profits are not the only claim for damages, especially when the defendant does not act willfully in infringing plaintiff's trademark.

4. Happy has a claim of laches against B&B because they waited nine months before bringing the trademark infringement lawsuit.

The defense of laches focuses on whether the plaintiff had an unreasonable delay in bringing the action without just reason. When equitable defenses exist, they work against the award of lost profit damages.

Here, B&B sent a cease and desist letter to Happy within a week or two of learning about the trademark infringement. (Transcript). This was a quick response. Happy's response to the letter was also quick. Since B&B did not provide Happy with any information they would need to quickly put an end to the infringement, Happy had to conduct an investigation to learn which of their manufacturers was causing the infringement, and, at that point, whether the infringement claim was even valid. (Transcript.). The investigation took several weeks, however, as soon as they confirmed it was Quality that had been infringing, they told them to stop immediately and canceled the contract they had with them. (Id.). Though Happy did not inform B&B that it took action, the fact that they took immediate steps to investigate and cure the problem weigh in their favor.

However, B&B waited nine months to bring the trademark infringement lawsuit. (Id.). They brought the lawsuit a week before Black Friday, the biggest shopping day of the year. (Id.) They could offer no justified reason for the delay. (Id.). One could pose that the delay may have been calculated to harm Happy rather than protect the B&B patent. The equitable defense of laches is another factor that weighs against awarding B&B profit damages.

5. There is no public interest in awarding B&B profit damages as there was no public harm from the infringement that occurred.

In Holt, the court weighed whether there was a public interest in determining an award of profit damages. Generally, an award of profit damages would stem from a public safety risk. (Holt).

Though the buttons were made of plastic, they did not pose any increase risk to the public than the B&B buttons do. (Transcript). As such, this factor has minimal weight. Though it certainly does not weigh against Happy.

#### IV. Conclusion

Happy has done just about everything they could to cure the trademark infringement that one of their manufacturers decided to pursue. Happy did not willfully or knowingly infringe on the B&B trademark. As soon as Happy became aware of potential trademark infringement, they immediately investigated and canceled their contract with the relevant manufacturer once the infringement was confirmed. The trademark infringement does not lead to any significant increase in unjustified profits, rather, the evidence suggests that very few people buy clothing just because of the button that is on it. In all, B&B is not entitled to profit damages from Happy.

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**I. Happy Frocks is not liable for any damages related to earned profits because all five factors balance in favor of not awarding profits on the infringing clothing.**

As was made clear by the United States Supreme Court in *Romag Fasteners, inc. v. Fossil Group, inc.*, "willful" infringement of a trademark is not a prerequisite for an award of profits upon a finding of infringement. This principle, however was qualified multiple times, stating that the mental state of the infringer, while not dispositive, is a *highly important consideration*. *Romag (emphasis added)*. The Court further acknowledge that some circuits had followed a rule that prohibited an award of damages when the defendant did not infringe willfully. This rule has now been overturned, and District Court in Franklin has adopted the "highly important consideration" model. Beyond the consideration of the infringer's mental state, this Court in a previous opinion outlined four additional considerations that should be used as a balancing test alongside the defendant's mental state. These factors are:

1. the infringer's mental state;
2. the connection between the profits and the infringement;
3. the adequacy of other remedies;
4. equitable defenses; and
5. the public interest.

*Spindrift Automotive Accessories, Inc. v. Holt Enterprises, Ltd.*, (Fr. Dist. Ct. 2021).

**a. Happy Frocks was not willful, willfully blind, reckless, or have a callous disregard for the plaintiff's rights.**

As the Court noted in the post-trial hearing transcript, "the defendant did not initiate the infringement." There is no evidence to support that Happy Frocks actually knew about the infringement, and decided to sell the infringing product anyways. In fact, upon learning of the infringement, Happy Frocks terminated the contract with the actual infringer. Trans. of Samuel Harris. This could hardly be considered "willful" infringement when preventative steps were taken almost immediately upon verification of the claim to infringement. Further, they cannot be "willfully blind" to the infringement when Samuel Harris testified as to their quality control practices.

Next, there was no reckless behavior on the part of Happy Frocks, in that they did not act without regard for their consequences. Specifically, B&B will likely argue that the accelerated process for quality control was reckless, however there is no evidence to support that claim other than the fact that the infringing buttons were not discovered. However, Quality Clothes was still charging Happy Frocks for the B&B button reimbursement. Trans. of Samuel Harris. In the mind of Happy Frocks and their quality control team, they were getting charged for the B&B buttons, the samples all had buttons with the B&B logo, and with the unique look. The only distinction was the material. While yes, one of the quality control employees could have been able to determine there was something wrong with the buttons, their failure to determine that information was not reckless. Additionally, there was no callous disregard for plaintiff's rights, because there was never any sign that, once Happy Frocks knew of the infringement, they acted without regard of that knowledge. In fact, upon determining that information, they immediately acted with substantial regard for the plaintiff's rights by terminating the contract of their highest selling manufacturer.

At best, the defendant's mental state was negligent to the infringement. In *Spindrift*, this court held that, "mere negligence, or an innocent nature to the infringement, would argue against an award of profits." *Spindrift*. Because Happy Frocks was merely negligent at best, this factor balances against an award of profits.

**b. There was little to no relationship between the earned profits and the infringement due to the expert's determinations.**

This Court posed multiple questions to parse out the relationship between profits and infringement in *Spindrift*. Notably, the court asked "Do the infringer's profits flow directly from or were they caused by the infringement?" and "What is the certainty that the infringer benefited from the infringement?" *Id.* Here, we do not have to speculate as to the relationship of the profits to the infringement. An expert in trademark surveys conducted a survey as to these questions. *Trans. of Tiffany Chen*. In her testimony, Ms. Chen testified that only "3% of respondents said they noticed the logo and thought it added to the desirability of the clothes." While this may seem like a lot, adding to the desirability does not necessarily mean the profits flowed directly from or were caused by that infringement. The most telling response is that "less than 1% said the appearance of a brand name on a button was the only reason for purchasing a particular item of clothing over another." *Id.* Notably, this question did not mention B&B, but simply a brand name on a button. This conclusion by Ms. Chen surely demonstrates that there was a negligible relationship between the profits and the infringement. Because "the use of B&B's logo on the buttons played a minimal role in the closing purchase," this factor also weighs against a finding of an award of profits.

**c. B&B will be made whole by actual damages and injunctive relief, such that an additional award of profits would be excessive.**

Similar to *Spindrift*'s argument, before this Court, B&B will likely argue that their customers will lose confidence in their brand with the sale of the cheaper buttons. This Court found that argument not compelling in *Spindrift*, as there was no factual record to support the claim of lost confidence. This lack of factual evidence is also present in this case.

Further, because Happy Frocks was under contract to buy the buttons from B&B, the actual damages are somewhat easily calculable, as how many buttons Quality Clothes should have bought rather than infringing. Additionally, an injunction would ensure there is no further infringement. As such, there is no need to award profits as B&B would be in the same position as if there was no infringement with the award of actual damages and injunctive relief. Because an award of profits would make B&B more than whole, this factor also balances against an award of profit.

**d. B&B failed to initiate this suit for nine months after the discovery of infringement, granting a possible equitable defense to Happy Frocks.**

In *Spindrift*, this Court held that when the defendant has no equitable defenses, this factor weighs in favor of awarding profits. However, unlike *Spindrift*, Happy Frocks is entitled to an equitable defense, namely the failure to timely act on the part of the plaintiff. B&B admitted, through testimony of their CEO Vera Garcia, that they waited nine months after discovery of the infringement to initiate a suit. *Trans. of Vera Garcia*. Rather, they sent a cease and desist letter, and upon receiving no reply (which was later explained by Happy Frocks as being due to their cancellation of the infringing manufacturer's contract, and determining a reply to be unnecessary when the issue was remedied.) B&B waited until the week before Black Friday. B&B initiated their suit when it would be too late for Happy Frocks to get back their inventory, such that Happy Frocks profits made off of infringing

products would be substantially higher. Presumably, if B&B timely filed their suit, they would not have had a claim to nearly as much profit as they are attempting to claim now.

Because Happy Frocks is entitled to raise the equitable defense of failure to timely file, this factor also weighs against awarding profits to B&B.

**e. There is no public interest in an award of profits because the infringement did not jeopardize public safety nor is there any intent for further infringement.**

The final factor to consider is whether or not it is in the public's interest to award profits to B&B. In *Spindrift*, this Court held that "given the existence of the injunction and the lack of evidence that infringing parts case a danger to the public, and award of profits cannot be justified based on this factor." As noted in Vera Garcia's testimony, none of the infringing buttons are dangerous to the public. Further, Ms. Garcia's testimony acknowledges that none of the other clothing manufacturers stopped using B&B buttons. Lastly, her testimony acknowledges that Happy Frocks made Quality Clothes stop, and there is no ongoing infringement.

Because the infringing buttons do not cause any threat to public safety, there is no balance in favor of profits. Additionally, if there is a finding for an injunction, that will satisfy the desire to protect from future infringement. The injunction is unnecessary for this point because Happy Frocks had already ceased infringement and made it abundantly clear that they did not and do not condone that activity. And finally, without any evidence that Quality Clothes' infringement made any of the other manufacturers believe that they could do the same, there is no risk for any of the other manufactures to copy Quality Clothes in their infringement.

Without any justification to establish a public interest in awarding profits to B&B, this factor also weighs against awarding profits.

**II. With all five factors weighing against a finding of an award of profits, there is no justification for finding Happy Frocks liable for its profits relating to the infringement.**

As this Court noted in *Spindrift*, these factors are to be balanced. While the defendant in *Spindrift* was found to be liable for an award of profits, the court found three of the five factors to balance in favor of awarding profits. That is not the case here. None of the five factors favor a finding of an award of profits to be appropriate. As such, Defendant Happy Frocks respectfully requests this court to deny the plaintiff's request for an award of profits as a remedy for the finding of trademark infringement.

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