

## **Alert** | Trademark & Brand Management



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### **SCOTUS Rules that Trademark Infringement Plaintiff Cannot Marry ‘Single’ *Dewberry* Defendant to Affiliates’ Profits**

#### **Go-To Guide**

- Supreme Court rules trademark infringement plaintiffs can’t claim profits from defendant’s corporate affiliates.
- Decision emphasizes importance of corporate separateness in trademark cases.
- Trademark plaintiffs may consider broader strategies when identifying potential defendants.
- Courts may still examine “economic realities” to determine a defendant’s true financial gain.

On Feb. 26, 2025, the U.S. Supreme Court issued its opinion in *Dewberry Group, Inc. v. Dewberry Engineers Inc.* The Court considered whether a defendant in a trademark infringement suit can be held liable for the profits its non-party corporate affiliates earn under the provisions of Lanham Act Section 35(a) that allow for recovery of “the defendant’s profits.” In a decision that may have ramifications for how future trademark infringement cases are litigated, the Supreme Court held that a court can award only profits that are properly ascribable to the defendant.

## Background

The case involved two companies – Dewberry Engineers and Dewberry Group – doing business in the commercial real estate sector in the southeastern United States.

Dewberry Group, owned by developer John Dewberry, provided shared legal, financial, operational, and marketing services to Mr. Dewberry’s various separately incorporated companies, each of which owned a piece of commercial property for lease. The lessors kept their rental income on their own books and paid Dewberry Group below-market services fees. As a result, shared service provider Dewberry Group operated at a loss for decades while the property-owning affiliates raked in tens of millions of dollars in profit.

For nearly two decades, Dewberry Engineers, owner of a federal trademark registration for the mark DEWBERRY, tried to enforce its rights against Dewberry Group. A 2007 settlement agreement between the parties fell apart when Dewberry Group, about a decade later, resumed using the “Dewberry” name in materials marketing its affiliates’ properties.

Dewberry Engineers sued Dewberry Group for trademark infringement under the Lanham Act and won. Finding Dewberry Group’s infringement “intentional, willful, and in bad faith,” the district court awarded Dewberry Engineers “the defendant’s profits” under Lanham Act Section 35(a). The sole named defendant in the case – Dewberry Group – reported no profits. Nonetheless, the district court, finding that the profits from Dewberry Group’s conduct “show up exclusively on the [property-owning affiliates’] books,” decided to treat Dewberry Group and its affiliates “as a single corporate entity” to reflect the “economic reality” of their relationship. The court thus totaled the profits the affiliates earned during the years of Dewberry Group’s infringement and awarded nearly \$43 million to Dewberry Engineers.

On appeal, a divided Court of Appeals for the Fourth Circuit affirmed the profits award, adopting the district court’s rationale that the “economic reality” of Dewberry Group’s relationship with its affiliates mandated that all the companies be treated “as a single corporate entity.” Thereafter, the Supreme Court granted Dewberry Group’s petition for certiorari.

## The Supreme Court Opinion

Justice Kagan, writing for a unanimous Court, began her analysis by examining the language of Lanham Act Section 35(a), which provides in relevant part that a prevailing plaintiff in a trademark infringement suit may recover “the defendant’s profits.” Noting that the term “defendant” is not specifically defined in the Lanham Act, Justice Kagan looked to the definition in *Black’s Law Dictionary*, which defines “defendant” as “the party against whom relief or recovery is sought in an action or suit.” In this case, Justice Kagan noted, the “defendant” is “Dewberry Group alone” and that Dewberry Engineers “chose not to add the Group’s property-owning affiliates as defendants.”

Justice Kagan observed that treating Dewberry Group and its affiliates as a single corporate entity ran afoul of the principle of corporate separateness. She reasoned that “if corporate law treated all affiliated companies as (in the district court’s phrase) ‘a single corporate entity,’ we might construe ‘defendant’ in the same vein” and “sweep[ ] in the named defendant’s affiliates because they lack a distinct identity.” But as Justice Kagan pointed out, “[i]t is long settled as a matter of American corporate law that separately incorporated organizations are separate legal units with distinct legal rights and obligations.” In the absence of any exception to this rule, such as piercing the corporate veil to prevent fraudulent conduct (which Dewberry Engineers neither alleged nor proved), “the demand to respect corporate formalities remains.”

Justice Kagan dispensed with Dewberry Engineers' argument that a court may take account of an affiliate's profits under the so-called "just sum provision" in Section 35(a). Under that provision, "[i]f the court shall find that the amount of the recovery based on profits is either inadequate or excessive, the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances." Dewberry Engineers argued that this provision entitled courts to determine that a different figure than a defendant's profits better reflects the "defendant's true financial gain." But as Justice Kagan wrote, the courts below did not invoke the just sum provision and, in any event, "the fear that 'corporate formalities' would . . . insulate infringing conduct from any penalty . . . cannot justify ignoring the distinction between a corporate defendant and its separately incorporated affiliates." Because the courts below approved an award including non-defendants by treating the defendant and its affiliates as a single corporate entity, their holding "went further than the Lanham Act permits."

The Court expressed no view on Dewberry Engineers' understanding of the just sum provision, because whether or how they could have used the provision was not properly before the Court. Importantly, the Court left open the possibility that a lower court, even without relying on the just sum provision, could "look behind a defendant's tax or accounting records to consider 'the economic realities of a transaction' and identify the defendant's 'true financial gain.'"

In a concurring opinion, Justice Sotomayor emphasized that Section 35(a) directs courts to calculate the defendant's profits "subject to the principles of equity." Those principles, she wrote, "support the view that companies cannot evade accountability for wrongdoing through creative accounting." Thus, the text of the Lanham Act "forecloses any claim that Congress looked favorably on easy evasion."

### Takeaways

The Court's opinion leaves no doubt that a trademark infringement plaintiff cannot rely on the "single corporate entity" approach to capture the profits of a parent company, child company, sister company, or other affiliate. Accordingly, plaintiffs should consider casting a wide net in their initial complaints and be prepared to amend their complaints to include additional defendants as discovery progresses. In anticipation of such wider nets, both intracompany and intercompany agreements should be thoughtful and strategic in their approaches to indemnification, knowing that the likelihood of an entity having to prove its non-involvement in alleged wrongdoing may increase.

Because the Supreme Court's ruling was narrow, in future cases, courts may face the issues of whether and how to examine the economic realities of complex corporate structures involving multiple interrelated affiliates. This may involve extensive fact discovery and expert testimony on not only the propriety of such arrangements (i.e., whether the defendant sought to divert profits through accounting sleight of hand) but also consideration of whether the profits at issue can, in Justice Kagan's words, be "properly ascrib[ed] to the defendant itself."

The focus on "principles of equity" Justice Sotomayor espoused may provide a more viable approach to the question of whose profits to measure than the just sum provision Dewberry Engineers advanced before the Supreme Court, which primarily asks how much, not whom. The just sum provision intends to give a district court leeway to increase or decrease an award of the defendant's profits considering the circumstances; it is not meant to allow a plaintiff to sweep up the profits non-party affiliates earned. On the other hand, because profit disgorgement is an equitable remedy, the Supreme Court's decision may encourage trademark infringement plaintiffs to invoke the equitable powers the Lanham Act bestows upon courts to attempt to unweave creative accounting, tax, and corporate schemes and arrive at an award that reflects the defendant's true financial gain.

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