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Intellectual Property Alert

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SCOTUS goes 9–0 on affiliate liability under Lanham Act

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The US Supreme Court's unanimous decision found that party affiliates who are not named defendants are not liable to pay damages award in trademark dispute.



What's the impact?

- With an emphasis on adhering to the principle of corporate separateness, SCOTUS ruled that the Fourth Circuit ignored important distinctions under the Lanham act and vacated nearly \$47 million in damages.
- The ruling limited its scope to determining relevant defendants and did not address the just-sum provision, government access to certain tax/accounting records, or courts' ability to pierce the corporate veil.

Should affiliates of a company be liable for payment of damages in a trademark dispute, if they were not named defendants in the case? On February 26, 2025, Justice Kagan penned a unanimous decision by the US Supreme Court that said no, and vacated the award and remanded *Dewberry Engineers, Inc. v. Dewberry Group, Inc.* back to the district court. The Fourth Circuit had affirmed the decision of the US District Court of the Eastern District of Virginia,

ordering affiliates of Defendant Dewberry Group to pay Plaintiff Dewberry Engineers nearly \$47 million in disgorged profits and attorneys' fees and costs.

Dewberry Engineers, Inc. v. Dewberry Group, Inc.

The parties, both real estate developers, disputed use of the mark "Dewberry" for almost twenty years. Dewberry Engineers initially filed suit against Dewberry Group in 2006 for trademark infringement, which resolved with a settlement agreement. The settlement allowed Dewberry Group to engage in limited continued use of the name "Dewberry." Dewberry Group then rebranded in 2017, and Dewberry Engineers filed suit again in 2020, alleging that Dewberry Group was using "Dewberry" for its new sub-brands in breach of the settlement agreement.

On August 11, 2021, the district court entered summary judgment in favor of plaintiff Dewberry Engineers for trademark infringement. The court then held a bench trial in October 2021 to calculate damages. On March 2, 2022, the court awarded plaintiff Dewberry Engineers almost \$43 million in damages. On July 26, 2022, the court also found the case exceptional and awarded plaintiff almost \$4 million in attorneys' fees and costs treating Dewberry Group and its affiliates as a single corporate entity because it provided its infringing services to affiliate companies under common ownership. Thus, the revenues associated with Dewberry Group's conduct appeared on the affiliates' balance sheets.

Dewberry Group filed an appeal to the Fourth Circuit, which affirmed the district court's decision.

Supreme Court examines corporate separateness issue

The Supreme Court reversed and remanded the Fourth Circuit and held that when awarding profits under the Lanham Act for trademark infringement, a court can only award profits ascribable to the defendant itself, which is the party against whom relief or recovery is sought. It elaborated that separately incorporated organizations are separate legal units with distinct legal rights and obligations, even if the entities are affiliated by having a common name. Accordingly, the "defendant's profits" identified in the Lanham Act are the *defendant's* profits alone, not including its affiliates. Here, Dewberry Engineers chose not to add Dewberry Group's affiliates as defendants, so the only relevant defendant is Dewberry Group itself.

Yet, since Dewberry Group operated at a loss for decades, and its affiliates earned tens of millions of dollars in profits, the district court decided to treat Dewberry Group and its affiliates as a single corporate entity for purposes of calculating the lost profits award, reasoning that if the affiliate companies were viewed separately, the entire Dewberry Group enterprise would "evade the financial consequences of its willful, bad faith infringement." Although a divided Fourth Circuit panel affirmed the award, the Supreme Court disagreed.

The Supreme Court held unanimously that the Lanham Act did not support the approach the courts below took. The Supreme Court found that the district court disregarded corporate formalities and the principle of corporate separateness by deciding that both Dewberry Group and its affiliates' profits should count toward calculating lost profits, and went beyond the Lanham Act by ignoring the distinction between a corporate defendant and its separately incorporated affiliates.

Dewberry's limited scope leaves questions unanswered

Some questions have been left unanswered. For example, the Supreme Court declined to address the just-sum provision, which would enable a court, after first assessing the "defendant's profits," to determine that a different figure better reflects the "defendant's true financial gain," and concluded only that the courts below did not invoke that provision. The Supreme Court also did not weigh in on the government's position respecting whether courts can 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." Finally, the Supreme Court provided no opinion on whether corporate veil-piercing is an available option on remand.

The Supreme Court stressed that it only held that the lower courts were incorrect to treat Dewberry Group and its affiliates as a single entity in calculating the defendant's profits. Justice Sonia Sotomayor wrote a concurrence inviting lower courts to use other methods to calculate a defendant's profits for disgorgement. The case was remanded to the district court.

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