Dewberry Group v. Dewberry Engineers: Supreme Court Rejects Aggregation of Affiliates' Profits in Trademark Infringement Case

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On February 26, 2025, the U.S. Supreme Court issued a unanimous decision in *Dewberry Group, Inc. v. Dewberry Engineers Inc.*, holding that a disgorgement award for trademark infringement under the Lanham Act can only include the profits of named defendants, not those of non-party affiliated companies. The decision reversed a $43 million award that the lower courts had granted to Dewberry Engineers, a competitor of Dewberry Group, based on the aggregated profits of Dewberry Group and its property-owning affiliates. While the decision clarifies that the profits of companies not named as defendants in trademark infringement actions should be shielded, the decision left many questions unanswered that could expand the scope of defendant liability in the future. Justice Sonia Sotomayor wrote a concurrence arguably inviting lower courts to use other methods to look beyond a defendant's profits for disgorgement.

The Lanham Act and *Dewberry*

Respondent Dewberry Engineers is a commercial real estate development corporation that owns two federal trademark registrations for DEWBERRY. Petitioner Dewberry Group is a Georgia real estate development business owned by developer John Dewberry. In 2006, Dewberry Group (then d/b/a Dewberry Capital) sent Respondent a cease-and-desist letter asserting common law trademark rights to "Dewberry" and claiming a likelihood of confusion between the parties' marks. Respondent then sued Petitioner for registered trademark infringement. The parties settled a year later, signing a confidential settlement agreement that allowed the Respondent unfettered use of its registered marks and put strict limitations on the Petitioner's use of the term "Dewberry."

The parties operated peacefully under this agreement until 2017, when Petitioner rebranded as Dewberry Group and filed several Dewberry-formative trademark applications with the United States Patent and Trademark Office, in violation of the settlement agreement. The Respondent sued Petitioner in May 2020 for breach of contract and trademark infringement, and on August 11, 2021, the federal district court for the Eastern District of Viriginia granted summary judgment in favor of the

Respondent on both of its claims. The district court held that a disgorgement of over $42 million of "Petitioner's profits" was appropriate. Although the Petitioner had presented evidence from its tax returns that it generated no profits, the court calculated the profits award by considering the revenues and profits of entities affiliated with the Petitioner. Though the court had previously acknowledged that the affiliates were "third parties, separated by the corporate veil" and were not parties to the litigation, the court found that, without the revenue generated by the affiliate entities, Petitioner as a single tax entity would not exist.

A divided Fourth Circuit panel affirmed, because a district court's disgorgement award is "subject to the principles of equity," and the district court in this instance weighed the equities and appropriately exercised its discretion in calculating the award. The Fourth Circuit further held that the district court properly exercised its equitable discretion to hold Petitioner to account for affiliates under common ownership. The court stated that this result was necessary to prevent trademark infringers from using corporate formalities to insulate their infringement from financial consequences and shirk legal accountability.

Dewberry Group filed a petition for certiorari to the Supreme Court of the United States on February 16, 2024, that was granted on June 24, 2024. The case was heard on December 11, 2024, and the Court issued its unanimous decision on February 26, 2025.

Supreme Court Holding

The Supreme Court reversed the Fourth Circuit's decision, emphasizing that the Lanham Act's remedies provision, 15 U.S.C. § 1117(a), allows for the recovery of the "defendant's profits" only, not those of affiliated companies, aligning with the amicus brief Debevoise attorneys submitted on behalf of the International Trademark Association (INTA). The Court clarified that the term "defendant" refers solely to the party named in the lawsuit, which in this case was Dewberry Group alone, not any of the affiliate companies, as Dewberry Engineers had argued, and thus the affiliates' profits should not have been recoverable. The Court based its reasoning in part on the principle of corporate separateness, which maintains the separate legal identities of affiliated companies unless there is a valid reason to pierce that separation—also referred to as piercing the corporate veil. Because Dewberry Engineers never argued for piercing the corporate veil, and neither lower court did so, the Court held that the need to respect corporate formalities, combined with the Lanham Act's text and the principle that trademark remedies should be specific to the defendant's wrongful conduct, meant that "defendant's profits" under the Lanham Act should be understood to only apply to the named Defendant.

The Court explicitly noted that there were three questions that fell outside the scope of its ruling: (1) the use of the "just-sum provision" in the Lanham Act to adjust disgorgement awards based on the defendant's true financial gain; (2) the examination of a defendant's tax or accounting records to understand the economic realities; and (3) the possibility of veil-piercing in this case on remand.

Justice Sotomayor filed a concurring opinion which laid out a possible roadmap for the lower courts to disgorge affiliated companies' profits while remaining faithful to the Court's holding here. Her concurrence emphasized that principles of corporate separateness neither prevent courts from considering practical business realities, nor do they force courts to accept corporate accounting schemes that seek to obscure a defendant's true financial gain via its relationship with affiliates. She noted instead the "myriad" ways that courts might consider the profits of related entities as relevant evidence without attributing those profits directly to the defendant, including accounting for non-arm's-length relationships where a defendant charges below-market rates to affiliates or considering evidence of indirect compensation through cash infusions from a common owner.

The possibility of exploring such issues was left for the lower courts on remand—Justice Sotomayor invited the lower courts to re-open the record if necessary—and the outcomes of the remand proceedings could still lead to potentially expanded liability and litigation discovery for affiliate companies in intellectual property cases.

Implications of the *Dewberry* Opinion

The Court's decision maintains the status quo as it clarifies that only the profits of named defendants can be awarded under the Lanham Act, reinforcing the importance of corporate separateness. The decision underscores several key takeaways for corporations moving forward:

- **Strengthened Support for Freedom in Corporate Structuring**: This ruling limits the recovery for plaintiffs who sue only one entity within a corporate family, and thus supports the use of strategic corporate structuring to minimize exposure to profits awards in intellectual property cases.

- **Limitations in Scope of Litigation Discovery**: Had the court upheld the decisions of the lower courts to consider the profits of non-party affiliates in calculating "defendant's damages," the scope of discovery could have been expanded to encompass legally separate corporate affiliates' information and documents. With the Court's definitive ruling against the inclusion of non-party affiliates, defendants

can curtail fishing expeditions into affiliate records if those affiliates are not named as co-defendants.

- **Plaintiffs Still Have Options to Maximize Disgorgement Awards**: The decision leaves open several strategies for plaintiffs to seek higher profits awards, such as suing multiple defendants in a corporate family, invoking the just-sum provision, challenging the defendant's accounting methods, or attempting to pierce the corporate veil. Additionally, courts may still consider the profits of related entities as relevant evidence in calculating the defendant's profits without disregarding corporate formalities, as suggested by Justice Sotomayor.

Questions Left Unanswered

The Supreme Court's decision is a narrow one, and its approach to address the narrow question presented while leaving other important questions unanswered has become increasingly common in the Court's intellectual property jurisprudence. For example, in *Warner Chappell Music, Inc. v. Nealy*, which held that a copyright owner can recover damages under the Copyright Act for any timely infringement claim, regardless of when the infringement occurred, the Court left unanswered the applicability of the discovery rule in all copyright cases. Similarly, in *Jack Daniel's Properties v. VIP Products*, it held that the Rogers test does not apply where an alleged infringer uses the trademark as a source identifier for its own goods, but did not address the Rogers test for balancing trademark rights against First Amendment speech. Likewise here, while the Court decided the narrow question of the meaning of the term "defendant" in the context of the remedies provision of the Lanham Act, it left much unanswered, including neglecting to rule on the meaning of the "just-sum" provision. Beyond those unanswered questions, Dewberry Engineers may still be able to recover an award of profits that accounts for some amount of affiliates' profits attributable to the Defendant, but that will depend on whether such theories are supported by the record on remand and whether the lower courts hold that those theories have been adequately preserved. Thus, corporations should continue to monitor the outcomes of the lower courts' remand decisions to understand the expansiveness of the Lanham Act's profits remedies provision.

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Please do not hesitate to contact us with any questions.

Megan K. Bannigan
Partner, New York
+1 212 909 6127
mkbannigan@debevoise.com

Jared I. Kagan
Counsel, New York
+1 212 909 6598
jikagan@debevoise.com

Clara Correa
Associate, New York
+1 212 909 6554
ccorrea@debevoise.com

Jacob Hochberger
Associate, New York
+1 212 909 6295
jhochberger@debevoise.com

Chris Zheng
Associate, New York
+1 212 909 7491
cwzheng@debevoise.com