

IP Shell Games: Supreme Court to Review Liability of Corporate Affiliates for Trademark Infringement

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by Brok Humbert

In a potential shakeup for corporate liability, the Supreme Court will hear oral argument this year on whether a real estate developer's corporate affiliates should be responsible for a \$46.6 million trademark infringement judgment—despite not being defendants in the case.

Plaintiff Dewberry Engineers Inc. and defendant Dewberry Group, Inc. and first clashed in 2006 over the parties' use of the DEWBERRY mark in connection with real estate development services. That dispute settled and defendant agreed to restrict use of its mark, including to not use DEWBERRY in the state of Virginia. However, defendant later purchased a hotel in Charlottesville, Virginia, and created a number of sub-brands (operated by its corporate affiliates) incorporating DEWBERRY. As part of its advertising efforts, defendant also distributed marketing materials bearing the mark to its affiliates. Objecting to this renewed use of the mark, the plaintiff brought suit in 2020 in the Eastern District of Virginia.

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The District Court later ruled that the defendant had willfully engaged in trademark infringement and awarded the plaintiff \$46.6 million in damages, which the Fourth Circuit upheld on appeal. Notably, the court referred to the bulk of the award as “disgorgement,” but this term commonly refers to the payment of profits gained from a *defendant’s* infringing activities—which, according to the defendant’s tax returns, was \$0. Instead, the court ordered defendant’s *affiliates* to foot the bill, treating the defendant and its affiliates “as a single corporate entity for the purpose of calculating revenues and profits.” The court primarily based its decision on the companies’ common ownership, in addition to the profits of defendant’s infringing activities appearing “on [its] affiliates’ balance sheets.” Furthermore, in the Fourth Circuit’s judgment, the Lanham Act presumably permitted such an award by allowing courts the discretion to adjust damage awards if it finds “the amount of the recovery based on profits [] inadequate.” 15 U.S.C. § 1117(a).

The defendant unsurprisingly petitioned the Supreme Court to review the decision, arguing that the Fourth Circuit permitted the plaintiff to improperly pierce the corporate veil, and the Court granted the petition in June 2024. A number of intellectual property lawyer groups such as the The International Trademark Association and American Intellectual Property Law Association have similarly objected to the ruling, filing amici briefs in support of neither party but urging the justices to reverse the appellate court’s ruling.

The Supreme Court is scheduled to hear oral arguments on the case on December 11, 2024. Although the question as presented by both plaintiff and defendant center squarely on the Lanham Act and trademark infringement, the Court’s decision in the case has the potential to significantly affect the scope of profits disgorgement, and, accordingly, corporate considerations when structuring businesses.