

SCOTUS Holds Affiliate Profits Not Available Under One Lanham Act Provision, But Leaves Door Open for Other Theories

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The United States Supreme Court issued a unanimous decision in *Dewberry Group, Inc. v. Dewberry Engineers Inc.*, vacating a nearly \$43 million profits award and remanding the case for further consideration. The Court concluded that the Lanham Act’s provision allowing plaintiffs to “recover [a] defendant’s profits” did not permit the lower courts to include profits generated by Dewberry Group’s affiliate entities that were not parties to the case. Under the plain statutory language, those profits are limited to named defendants. The Court declined to consider, but did not rule out, alternate theories supporting the award, including the Lanham Act’s “just-sum” provision and corporate veil-piercing, leaving the door open to those theories on remand.

Rather unsurprisingly, the roots of this case stem from the parties’ use of the name DEWBERRY. The parties reached a settlement in 2007 governing use of the name in the

real estate sector, but things took a turn in 2017 after Dewberry Group rebranded in a way that Dewberry Engineers contends violated the agreement and infringed its rights in various DEWBERRY-formative marks. Dewberry Engineers sued and ultimately prevailed. While calculating damages, Dewberry Group argued that no disgorgement of profits was appropriate because it operated at a loss for decades. Dewberry Engineers, on the other hand, argued successfully that the profits generated by Dewberry Group's affiliated entities should form the basis of a profits award since the entities were all owned by the same person and serviced one another. For example, Dewberry Group provides various financial accounting, human resources, and legal services to its affiliated sister entities, which in turn leased commercial property to commercial tenants for a profit. The district court totaled the profits from all of these affiliated entities, producing an award of nearly \$43 million. The Fourth Circuit agreed and affirmed the district court's award.

In defending the award before the Supreme Court, Dewberry Engineers effectively abandoned the theory that the award could be supported by the Lanham Act's profits provision and instead contended the award was proper under the Lanham Act's just-sum provision (which permits a court to adjust a recovery if found to be inadequate or excessive) and corporate veil-piercing theories.

As foreshadowed by the tenor of oral arguments, the Court easily concluded that profits under the Lanham Act are limited solely to those generated by named defendants in a case and that "affiliates' profits are not . . . statutorily disgorgable." Because Dewberry Group's affiliates were not named defendants, Dewberry Engineers could not access those affiliates' profits under the Lanham Act's profits provision. The Court also declined to consider Dewberry Engineers' alternate arguments based on the Lanham Act's "just-sum" provision and corporate veil-piercing theories because they were not raised or considered below, sending the case back for further consideration on these points.

The Lanham Act's just-sum provision permits courts to "enter judgment for such sum as the court shall find to be just. . . [i]f the court shall find that the amount of the recovery based on profits is either inadequate or excessive." 15 U.S.C §1117(a). Dewberry Engineers contended the district court properly followed a two-step process to support the award under this theory: first, the court assessed the adequacy of the award and then, second, considered relevant evidence in order to adjust the award. The Court disagreed, concluding that the district court never relied on the just-sum provision or engaged in any two-step process. Rather, the district court simply calculated the defendant's profits by including profits attributed to affiliate entities.

The Court's opinion closes with a detailed discussion of what it does not decide, leaving much for the lower courts to consider on remand. First, it expresses no view on the applicability of the just-sum provision; it merely concludes that it was not properly invoked. Second, the Court does not take any view on the Government's amicus position regarding when courts can "look behind a defendant's tax or accounting records" to identify "true financial gain." Finally, the Court has no opinion whether corporate veil-

piercing theories may be considered on remand.

In her concurring opinion, Justice Sotomayor writes separately to “underscore that principles of corporate separateness do not blind courts to economic realities.” She provided examples in which a defendant’s profits under the Lanham Act could properly include revenues assigned to an affiliate or diverted through anticipatory assignment schemes to an affiliate, or indirect compensation from the infringing activities of affiliates. She also notes that, on remand, the courts below “may explore that important issue and consider reopening the record if appropriate,” perhaps nudging the courts to delve into these issues.

So, with one theory for damages eliminated, this nearly 20-year legal battle trudges on with many questions left unanswered. The TMCA will continue to track the case as it winds its way back through the courts.