

Insights

Corporate Veil Torn Apart? U.S. Supreme Court to Review Trademark Infringement Damages Case

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A federal district court awarded \$43 Million dollars in damages for trademark infringement in an infringement and contract dispute suit. The district court determined that profits of an affiliate could be disgorged as damages under the Lanham Act (the federal statute covering trademarks). The Fourth Circuit Court of Appeals affirmed the award,¹ and the U.S. Supreme Court has agreed to review. If affirmed, the corporate veil could effectively be torn apart for many theories of recovery.

The case involves a long-running trademark dispute between two companies in the real estate development industry, Dewberry Engineers Inc. ("Dewberry Engineers") and Dewberry Group, Inc. ("Dewberry Group"). The Supreme Court will consider whether an award of "defendant's profits" under the Lanham Act can include an order for the defendant to disgorge the distinct profits of legally separate, non-party corporate affiliates. The district court found that the "economic reality" was that the "Dewberry Group" affiliates had a close relationship and that Dewberry Engineers was entitled to disgorge the affiliates' profits under the Lanham Act² as an "exceptional case."

Language similar to the Lanham Act appears in many other statutes. If the U.S. Supreme Court upholds this decision, affiliates and related companies may be liable for damages in other cases besides trademark infringement without proving the elements typically required to pierce the 'corporate veil.'

The Dewberry Dispute

The dispute over the use of "Dewberry" originally began in 2006, when the companies confronted each other over the competing uses of the name. The confrontation resulted in a trademark infringement lawsuit that was settled in 2007 with a confidential settlement agreement. However, in 2017, Dewberry Group decided to undergo a rebranding effort which used "Dewberry" in ways Dewberry Engineers claimed violated the confidential settlement agreement.

In response, Dewberry Engineers filed suit in 2020 for breach of contract and trademark infringement. The district court entered summary judgment in favor of Dewberry Engineers on both claims and also granted an award of disgorged profits. The parties, however, further disagreed about which revenues should be included in the calculation of profits to be disgorged.

Dewberry Group presented evidence that it generated zero profits because the Dewberry Group tax entity showed losses on its tax returns, as it did not provide infringing services for a profit, but rather provided infringing branding to its affiliates who used it to generate profits. Dewberry Engineering provided evidence that Dewberry Group was structured so that it and its employees promoted, managed, and operated all of the properties owned by the affiliates, and did so using the infringing marks.

At a bench trial, the district court judge accepted Dewberry Engineers' position and considered Dewberry Group and its affiliates a single corporate entity for these purposes. The district court found that the tax information presented did not reflect the "economic reality" of Dewberry Group's relationship with its affiliates. The district court therefore considered Dewberry Group and its affiliates a single corporate entity and awarded Dewberry Engineers nearly \$43 million in disgorged profits.

The Fourth Circuit's Analysis

Dewberry Group appealed each of the district court orders, but the Fourth Circuit affirmed each of the orders, including the award of disgorged profits. The core dispute relating to the disgorged profits on appeal was the treatment of Dewberry Group and its affiliates as a single corporate entity for purposes of calculating the award.

In one of its arguments, Dewberry Group asserted that by calculating the award in this manner, the district court failed to recognize the corporate distinctions between it and its affiliates by piercing the corporate veil. The Fourth Circuit disagreed and found that the district court's calculation was appropriate, *even without piercing the corporate veil*, citing a Fifth Circuit decision relied on by the district court and the principles of equity.

The Fourth Circuit concluded that Dewberry Group benefited from its relationship with its affiliates even if it did not ever hold their profits so that disgorgement was appropriate. Further, the Fourth Circuit found that since, under the Lanham Act, a district court's award of profit disgorgement is subject to the principles of equity, the district court appropriately exercised its discretion by including the affiliates' revenue. Ultimately, the Fourth Circuit held that the district court did not abuse its discretion in its disgorgement calculations.

One judge on the Court of Appeals dissented from the majority's inclusion of the affiliates' revenues in the calculation. The dissent explained that the district court's inclusion of the affiliates' revenues in the calculation was improper because if the affiliates participated in infringing activity, they too would be subject to the Lanham Act—all Dewberry Engineers would have to do is sue them or pierce Dewberry Group's corporate veil, neither of which would violate notions of corporate separateness.

The Supreme Court's Review of Dewberry

Following the Fourth Circuit's affirmation of the district court's award, Dewberry Group filed a petition for a writ of certiorari to the Supreme Court of the United States, requesting that the Supreme Court consider whether an award under the Lanham Act can include the distinct profits of legally separate, non-party corporate affiliates. In an amicus brief, two Notre Dame law professors supported Dewberry Group's position that the principles of equity should not permit corporate separateness to be bypassed. The brief warned that if allowed to stand, corporate separateness could be bypassed by courts when determining equitable relief under other federal statutes, along with allowing federal agencies empowered to pursue equitable relief, such as the Securities and Exchange Commission, to do the same. After considering these filings, the Court granted Dewberry Group's petition, and is set

to consider the case in the upcoming term.

Observations and Take-Aways

If the Supreme Court upholds the Fourth Circuit's decision, it could have broad ramifications for recovery across many types of civil damages, not just recovery through the Lanham Act. If the decision is allowed to stand as the Fourth Circuit analyzed it, parties could be entitled to awards derived from revenues and other assets of corporate affiliates without having to pierce the corporate veil. Principles of equity could be justification enough for foregoing legal concepts of corporate separateness when determining awards.

If you have any questions regarding information within this alert, please contact Robert A. Greising, Daniel Tychonievich, or any member Krieg DeVault's Business Practice.

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¹Dewberry Engineers Inc. v. Dewberry Group, Inc., 77 F.4th 265 (2023).

²15 U.S.C. §1117(a).