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Supreme Court Clarifies Scope of Disgorgement Awards in Trademark Cases

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On February 26, 2025, the U.S. Supreme Court unanimously held in *Dewberry Group, Inc. v. Dewberry Engineers Inc.* that (subject to exceptions) an award of a defendant's profits under the Lanham Act must be limited to only those "profits properly ascribable to the defendant itself." As discussed below, the *Dewberry* decision is simultaneously clear in the narrow holding it reaches but leaves much undecided.

Dewberry involves a dispute between two unrelated real estate companies. The plaintiff, Dewberry Engineers Inc. ("Dewberry Engineers"), provides real estate development services for commercial entities in connection with its DEWBERRY mark. The sole named defendant, Dewberry Group, Inc. ("Dewberry Group"), is a commercial real estate company owned by John Dewberry that provides services solely to 30 separately incorporated companies also owned by Mr. Dewberry. The enterprise is structured so the affiliate companies own commercial property and collect rents while Dewberry Group provides the affiliates with necessary financial, legal and marketing services in exchange for a fee. According to tax returns, Dewberry Group has operated at a loss for decades while the affiliates have generated tens of millions of dollars in profits.

Dewberry Engineers previously sued Dewberry Group for infringing its DEWBERRY mark and settled the case. Ten years later, Dewberry Group reneged on the settlement, and Dewberry Engineers filed the present lawsuit. The district court found Dewberry Group liable for willful infringement and entered a disgorgement award that lumped together all of the profits from the individual affiliates on the grounds that treating all of the affiliates and Dewberry Group as a single entity would reflect the "economic reality" and was necessary to avoid allowing the "entire Dewberry Group enterprise" from evading the consequences of its willful infringement. Notably, the affiliates were not named as defendants, and there was no claim made to pierce the corporate veil between them and Dewberry Group. The U.S. Court of Appeals for the Fourth Circuit

affirmed on similar "economic reality" grounds to those expressed by the district court.

In a unanimous opinion drafted by Justice Elena Kagan, the Supreme Court vacated and remanded. The Court based its holding on the statutory language stating that a plaintiff who prevails on certain Lanham Act claims (trademark infringement, false designation of origin, false advertising, willful dilution and cybersquatting) is entitled to "recover [the] ***defendant's*** profits" (emphasis added). According to the Court, "defendant" refers to "the party against whom relief or recovery is sought in an action or suit." It was thus inappropriate for the lower courts to allow an award disgorging the profits of other entities not named as defendants in the suit. The Court also said its holding is bolstered by principles of corporate law, which generally require recognizing separately formed corporations as separate legal entities with distinct rights and obligations. It is thus clear that a court disgorging profits under the Lanham Act must generally base its calculation of the amount of the defendant's profits on only those profits appropriately attributable to the defendant. But the analysis does not end there.

The Court expressly declined to decide several issues that could have a significant impact on the monetary award. ***First***, the Court declined to consider whether a court may award a nonparty affiliate's profits under the Lanham Act clause allowing a court to deviate from the defendant's actual profits and award as disgorgement "such sum as the court shall find to be just." According to the Supreme Court, that issue was not before it because the lower courts did not base their holdings on that provision. ***Second***, the Court declined to opine on when, irrespective of the "just-sum" provision, courts may look behind a defendant's tax or accounting records to consider the "true economic realities" of a transaction in identifying the defendant's "true financial gain." ***Third***, the Court declined to reach whether corporate veil piercing is an available option on remand.

The Court thus gave a clear answer to a narrow question while leaving much broader questions unanswered. What are the takeaways to consider?

1. Parties addressing Lanham Act disgorgement claims may want to consider which entities at least nominally earn profits and assess their litigation strategies accordingly;
2. Expect decisions in the coming years to define the contours of the "just-sum" provision of the Lanham Act, including whether and when it may be used to justify an award of profits earned by nonparties (such as corporate affiliates);
3. Expect decisions in the coming years to define the contours of whether and when the "true economic realities" of a transaction allow a court to treat profits at least

nominally earned by a nonparty as the defendant's true financial gain; and

4. Corporate veil-piercing theories remain available in appropriate cases.

Author

Lauren Schweitzer

Partner / Los Angeles – Downtown

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