

U.S. Supreme Court Case May Have Significant Implications for the Doctrine of “Corporate Separateness”

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In this article, the authors discuss a case pending before the U.S. Supreme Court that could have broad implications for the doctrine of “corporate separateness” - the idea that corporations generally will not be liable for the acts or obligations of their affiliates - even beyond the field of trademark law, as a number of other statutes also have remedial schemes that, like the Lanham Act, confer upon the courts broad “equitable discretion” to fashion appropriate remedies.

The principle of “corporate separateness” - the idea that corporations are separate juridical entities and that stock ownership generally “will not create liability beyond the assets of the [corporation]” - is “deeply ‘ingrained in our economic and legal systems.’”¹ Now, the U.S. Supreme Court is poised to weigh in on the boundaries and potential flexibility of this bedrock principle of law. Indeed, in *Dewberry Group, Inc. v. Dewberry Engineers Inc.*,² the high court will review whether a corporate defendant may be held liable to pay trademark infringement damages based on profits attributable to infringing activity that were earned not by the defendant itself but only by its nonparty corporate affiliates. Commercial actors - and particularly businesses whose operations are conducted through holding companies or affiliated entities - will thus want to pay close attention to the Supreme Court’s

upcoming ruling in *Dewberry*, which could have significant implications well beyond the landscape of intellectual property law.

BACKGROUND FACTS

The *Dewberry* case involves a long-running trademark dispute between two commercial real estate companies - petitioner Dewberry Group Inc. (DGI) and respondent Dewberry Engineers Inc. (DEI). DGI, which was founded by former professional football player John Dewberry, did not own or lease any commercial properties itself. Rather, it supported around 30 affiliated operating companies through the provision of certain services, including accounting, human resources and selected legal services. DGI’s affiliates - which were under Mr. Dewberry’s common ownership but were established and maintained as legally distinct entities that possessed their

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own bank accounts and accounting records and filed their own, separate tax returns - owned and leased commercial property to tenants and received all revenues from such leasing activities. Indeed, DGI's revenues consisted solely of contractual fees that it received from its affiliates in exchange for the services it provided to them.

DEI, another company engaged in the provision of real estate development services, asserted that DGI's use of the "Dewberry" mark - for which DEI owned a federal trademark registration - infringed DEI's rights, leading to a settlement between the parties, pursuant to which DGI (then known as Dewberry Capital Corp.) agreed to refrain from using the "Dewberry" mark, and to instead use the mark "DCC" in connection with services it provided in Virginia. After rebranding itself as Dewberry Group Inc., however, DGI produced marketing materials featuring the "Dewberry Group" mark, which, in turn, were used by DGI's affiliates to market commercial properties to tenants. DEI therefore sued DGI for trademark infringement under the Lanham Act.

THE DISTRICT COURT'S DECISION

By order entered August 11, 2021, the U.S. District Court for the Eastern District of Virginia granted summary judgment in favor of DEI.³ And following a three-day bench trial, the court issued an order requiring DGI to disgorge nearly \$43 million in profits.⁴ As the court acknowledged, however, DEI presented no evidence that DGI itself - as opposed to its affiliates, which had not been named as defendants and were not parties to the case - had earned any profits from the infringement. In fact, the proof submitted at trial - including DGI's tax returns - showed that DGI had actu-

ally suffered losses during the years in question.⁵ Nevertheless, the court reasoned that an award directing DGI to disgorge \$43 million was appropriate and justified given the "economic reality of how [DGI's] business actually operate[d]."⁶

Among other things, the district court noted that: DGI and its corporate affiliates were all commonly owned by Dewberry, who had "contributed at least \$23 million to cover [DGI's] massive losses"; "but-for the revenue generated by [its affiliates], [DGI] as a single-tax entity would not exist"; DGI's affiliates, which were "managed and serviced by [DGI]," earned approximately \$43 million in profits attributable to revenue from commercial leases that had been promoted, managed and operated using the infringing marks; and DGI's business had effectively been "structured so that [DGI] and its employees promoted, managed and operated all of the properties owned by [the affiliates]."⁷ The court thus reasoned that it was appropriate for DGI and its affiliates to be "treated as a single corporate entity when calculating the revenues and profits generated by [DGI's] use of the Infringing Marks."⁸

Significantly, in reaching this decision, the court acknowledged that DEI had neither named any of DGI's affiliates as defendants nor alleged contributory infringement, nor had DEI alleged or proven any theory of "alter ego" liability.⁹ Nevertheless, the court opined that this was "of no moment," because the Lanham Act vests courts with discretion to fashion an appropriate award based on "equitable considerations."¹⁰

Specifically, 15 U.S.C.A. § 1117(a), the Lanham Act's remedial provision, permits a

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court to order the disgorgement of a defendant's illicit profits and expressly provides that “[i]f the court shall find that the amount of recovery based on profits is either inadequate or excessive, the court may, in its discretion, enter judgment for such sum as the court shall find to be just, according to the circumstances of the case.”¹¹ Concluding that “[DGI's] tax returns, standing alone, do not tell the whole economic story,”¹² the court reasoned that, under “principles of equity,” it was appropriate to require DGI to disgorge the infringement-related profits realized by DGI's corporate affiliates because “[t]o hold otherwise would not only ignore the economic reality of how [DGI's] business operate[d], but also undermine the equitable purposes of the Lanham Act's disgorgement remedy by enabling the entire Dewberry Group enterprise to evade the financial consequences of its willful, bad faith infringement.”¹³

THE FOURTH CIRCUIT'S OPINION

On appeal, the U.S. Court of Appeals for the Fourth Circuit affirmed the district court's decision, holding that the district court had not abused its discretion, either in finding disgorgement appropriate or in calculating the amount to be disgorged by DGI.¹⁴ Critically, the Fourth Circuit acknowledged that the district court had not “pierce[d] the corporate veil” between DGI and its affiliates but nevertheless had “treated [DGI] and its affiliates as a single corporate entity for the purpose of calculating revenues generated by [DGI's] use of infringing marks.”¹⁵ The court held, however, that the district court had not improperly failed to respect the corporate distinctions between DGI and its affiliates because, “while [DGI] did not receive the revenues from its infringing behavior directly,”

it “operate[d] as a corporate shared-services entity under common, exclusive ownership with its affiliates” and thus “still benefited from its infringing relationship with its affiliates[,]” which, “in turn, generate[d] profits” through the use of DGI's infringing conduct.¹⁶ Under these circumstances, the court reasoned, it was not an error for the district court, in the exercise of its “equitable discretion,” to “consider[] the revenues of entities under common ownership with [DGI] in calculating [DGI's] true financial gain from its infringing activities.”¹⁷ Indeed, to do otherwise, the Fourth Circuit opined, would risk “handing” bad actors a “blueprint for using corporate formalities to insulate their [misconduct] from financial consequences.”¹⁸

POTENTIAL SIGNIFICANCE OF THE SUPREME COURT'S IMMINENT DECISION

The doctrine of “corporate separateness” is fundamental to the way in which many businesses structure their operations. Indeed, in reliance on the historically “well-settled rule” that corporations are not liable for the acts or obligations of their affiliates unless the “corporate veil may be pierced,”¹⁹ companies often deliberately choose to create, and to operate through, holding companies and/or one or more affiliated - but carefully “siloe[d]” - corporate entities in order to mitigate risk and protect particular assets from the reach of potential judgment creditors. Any encroachment on the doctrine of corporate separateness could thus have significant implications for many commercial actors.

It remains to be seen whether *Dewberry* marks a significant turning point in the application and observance of the corporate separateness doctrine, or whether the Supreme Court

will overturn - or perhaps clarify and limit the scope of - the lower courts' decisions in *Dewberry*. On the one hand, it is possible that the Supreme Court intends to confirm the breadth and flexibility of the courts' equitable powers, particularly in the face of statutory mandates like the one present in the Lanham Act, which give the courts wide berth in fashioning relief so as to prevent manifest injustice.

On the other hand, it is conceivable that the conservative-leaning high court agreed to hear the *Dewberry* case based on an inclination to overturn the lower courts' rulings and thereby reinforce the bedrock principle of corporate separateness.

Regardless of how the high court ultimately rules, the business community surely will want to pay close attention to the outcome of the *Dewberry* case - particularly since the decision could have implications far beyond trademark law. Indeed, like the Lanham Act, a variety of other statutes also include express remedial provisions that confer upon courts broad "equitable" discretion to fashion such remedies as they deem just according to the facts and circumstances of the case, including the Copyright Act,²⁰ the Patent Act,²¹ the Securities Exchange Act of 1934,²² the Federal Defend Trade Secrets Act²³ and the Employee Retirement Income Security Act.²⁴

NOTES:

¹U.S. v. Bestfoods, 524 U.S. 51, 61, 118 S. Ct. 1876, 141 L. Ed. 2d 43, 46 Env't. Rep. Cas. (BNA) 1673, 28 Env'tl. L. Rep. 21225, 157 A.L.R. Fed. 735 (1998).

²Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2021 WL 5217016, *1 (E.D. Va. 2021), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

³Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2021 WL 5217016, *1 (E.D. Va. 2021), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

⁴Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2022 WL 1439826, *1 (E.D. Va. 2022), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

⁵Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2022 WL 1439826, *9 (E.D. Va. 2022), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

⁶Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2022 WL 1439826, *9 (E.D. Va. 2022), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

⁷Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2022 WL 1439826, *9 (E.D. Va. 2022), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

⁸Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2022 WL 1439826, *10 (E.D. Va. 2022), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

⁹Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2022 WL 1439826, *10 (E.D. Va. 2022), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

¹⁰Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2022 WL 1439826, *10–11 (E.D. Va. 2022), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024) (noting that "profits disgorgement under the Lanham Act is a remedy sounding in equity, allowing the courts to adjust an award up or down as circumstances demand").

¹¹Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2022 WL 1439826, *11 (E.D. Va. 2022), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

¹²Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2022 WL 1439826, *10 (E.D. Va. 2022), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

¹³Dewberry Engineers, Inc. v. Dewberry Group, Inc., 2022 WL 1439826, *10, 13 (E.D. Va. 2022), aff'd, 77 F.4th 265 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

¹⁴Dewberry Engineers Inc. v. Dewberry Group, Inc., 77 F.4th 265, 293 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

¹⁵Dewberry Engineers Inc. v. Dewberry Group, Inc., 77 F.4th 265, 290–92 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

¹⁶Dewberry Engineers Inc. v. Dewberry Group, Inc., 77 F.4th 265, 290, 293 (4th Cir. 2023), cert. granted, 144

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S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

¹⁷Dewberry Engineers Inc. v. Dewberry Group, Inc., 77 F.4th 265, 292 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

¹⁸Dewberry Engineers Inc. v. Dewberry Group, Inc., 77 F.4th 265, 293 (4th Cir. 2023), cert. granted, 144 S. Ct. 2681, 219 L. Ed. 2d 1297 (2024).

¹⁹*U.S. v. Bestfoods*, 524 U.S. 51, 61–62, 118 S. Ct.

1876, 141 L. Ed. 2d 43, 46 Env't. Rep. Cas. (BNA) 1673, 28 Env'tl. L. Rep. 21225, 157 A.L.R. Fed. 735 (1998).

²⁰17 U.S.C.A. § 504(b).

²¹35 U.S.C.A. § 289.

²²15 U.S.C.A. § 78u(d)(5).

²³18 U.S.C.A. § 1836(b)(3)(B).

²⁴29 U.S.C.A. § 1109(a).