

Strategic Perspectives

Preview of IP cases on docket for October 2024 Supreme Court term

Court to consider whether Lanham Act's disgorgement remedy can reach profits of nonparty affiliates

By [Thomas Long, J.D.](#)

The only IP case that the Supreme Court has taken on so far for the October 2024 term is *Dewberry Group, Inc. v. Dewberry Engineers, Inc.*, [No. 23-900](#), which involves a long-running trademark dispute between two real estate development companies over the term “Dewberry.” The accused infringer in this case is not seeking Supreme Court review of whether it is liable for intentionally infringing the marks at issue; rather, it only disputes the appropriateness of a disgorgement order imposed upon it. Specifically, the petitioner objects to the lower courts’ requiring it to hand over profits earned by an affiliated company that was not a defendant in the underlying infringement litigation. The Court’s decision in this case could have important implications regarding the scope of the Lanham Act’s disgorgement of profits remedy, and could influence the way corporate families organize themselves.

This article examines the background of the case, as well as arguments on the merits and recommendations of amici. In addition, a number of noteworthy pending petitions for *certiorari* are outlined.

Trademark dispute. In 2006, respondent Dewberry Engineers, Inc., sued petitioner Dewberry Group, Inc., for allegedly

infringing its registered mark DEWBERRY, and Dewberry Group counterclaims for common-law infringement. The parties reached a settlement in 2007 and entered into an agreement permitting Dewberry Group to use its then-existing name DEWBERRY CAPITAL, but not the word DEWBERRY alone. This resolved the dispute for several years; however, the conflict was revived in 2019, when Dewberry Group began using the brand DEWBERRY GROUP and established several sub-brands, such as DEWBERRY LIVING and DEWBERRY OFFICE.

Subsequent litigation; disgorgement award. Dewberry Engineers sued Dewberry Group for breach of contract and trademark infringement. A Virginia federal district court [entered](#) summary judgment in favor of Dewberry Engineers on both claims. The district court subsequently [awarded](#) Dewberry Engineers approximately \$43 million of Dewberry Group’s profits purportedly stemming from the infringement—which had been deemed “intentional”—and [entered](#) a permanent injunction. The court included profits of Dewberry Group’s affiliated entities, which had not been named as defendants. In fact, the evidence showed that Dewberry Group itself had garnered zero profits

connected to its infringement. The district court determined that Dewberry Group had provided its infringing services to the affiliate companies under common ownership, and that the revenues associated with the infringement appeared on the affiliates’ balance sheets. Therefore, the district court treated Dewberry Group and its affiliates as a single entity. The district court also determined that tax information provided by Dewberry Group did not reflect the “economic reality” of its relationship with its affiliates. The court did reduce the requested disgorgement award of about \$53.7 million by 20 percent to reflect revenues unrelated to infringement, as well as costs.

Fourth Circuit’s decision. Dewberry Group appealed to the U.S. Court of Appeals for the Fourth Circuit, which [affirmed](#) the district court’s disgorgement award, finding no abuse of discretion. “Dewberry Group admits that it operates as a corporate shared-services entity under common, exclusive ownership with its affiliates,” the Fourth Circuit noted. “So, while Dewberry Group did not receive the revenues from its infringing behavior directly, it still *benefited* from its infringing activity with its affiliates” (emphasis by court). In the Fourth Circuit’s view, the district

court's disgorgement order properly took into account the principles of equity. A dissenting judge asserted that it was not proper to disgorge profits from Dewberry Group's nonparty affiliates.

Petition for *certiorari*. Dewberry Group filed a [petition](#) asking the U.S. Supreme Court to review the case. The question presented in Dewberry Group's petition is: "Whether an award of the 'defendant's profits' under the Lanham Act, 15 U.S.C. § 1117(a), can include an order for the defendant to disgorge the distinct profits of legally separate non-party corporate affiliates." Dewberry Group requested an order reversing the judgment of the Fourth Circuit, and, subsequently, a decision that no profits are to be disgorged. The Court granted *certiorari* on June 24, 2024.

Petitioner's brief on the merits. Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), provides that the plaintiff may recover the "defendant's profits" for disgorgement of profits. In affirming the district court's decision to reach affiliated companies' profits in the award, the Fourth Circuit noted that doing otherwise would permit infringers to "insulate" their infringement from legal recourse, contrary to the wishes of Congress. Dewberry Group argued in its petition for review that if such a "loophole" exists, it was up to Congress to fix the problem, rather than the courts.

Dewberry Group, in its [Brief for Petitioner](#), contends that the Lanham Act does not permit courts to order disgorgement from nonparty companies affiliated with the defendant, absent a veil-piercing. The brief points out that the disgorgement provision refers to the "defendant's profits." The Lanham Act does not define "defendant," making the term's ordinary meaning applicable—the person against whom an action is brought—the brief contends. Another entity's profits therefore would not be the "defendant's profits." Reaching

a nonparty company's profits would be to, in effect, add that company to the case as a party. Dewberry Group also argues that there is a strong presumption that federal statutes respect corporate separateness, deriving from the Supreme Court case of *United States v. Bestfoods*, 524 U.S. 51 (1998). The brief also notes that Dewberry Engineers never attempted to pierce the corporate veil.

According to Dewberry Group, the Fourth Circuit erroneously relied on two other statutory passages in issuing its disgorgement order. First, the appellate court cited language in Section 35(a) stating that monetary remedies are "subject to the principles of equity," taking the position that this provision gave the court authority to disregard corporate separateness. The petitioner's brief says that Dewberry Engineers has abandoned that rationale and instead relied on language in Section 35(a) that permits a court that finds a profits award "excessive" or "inadequate" to award a "just" sum. Dewberry Group contends that neither of these statutory statements constitute a "direct" statement that courts may disregard corporate separateness, as required by *Bestfoods*. Moreover, Dewberry Group contends, the reference to "principles of equity" reinforces the proposition that corporate separateness is to be respected.

Dewberry Group urges the Court to conclude that the disgorgement order in this case violated principles of equity. The brief points out that "equity traditionally limited disgorgement to the profits 'actually received by the defendant,'" quoting *Coupe v. Royer*, 155 U.S. 565, 583 (1895). "When a defendant's net profits were zero, equity did not allow disgorgement of property that another received," the brief states. Moreover, Dewberry Group argues, requiring a defendant to disgorge profits that accrued to its affiliate would

improperly transform an equitable remedy into a penalty. Accordingly, the brief argues, the order requiring Dewberry Group "to disgorge nearly \$43 million in profits it never saw that were earned by others" amount to an instrument for punishment, which is inappropriate under longstanding principles of equity. "Moreover," the brief argues, "requiring petitioner to disgorge over \$40 million in profits it never received cannot be 'just.'"

"Because the Lanham Act does not displace the presumption of corporate separateness, the focus properly remains on petitioner's profits, not on its affiliates' profits," the brief concludes. "And the undisputed evidence showed that petitioner had zero profits during the relevant period. When, as here, there is no legal basis to order disgorgement, this Court should reverse the judgment as to the profits award."

Amicus briefs. Several amicus curiae briefs have been filed by industry associations, as well as by the United States.

U.S. government's brief. In its [brief](#), the government, supporting neither party, takes the position that "petitioner's failure to treat particular funds as its own profits for accounting and tax purposes did not preclude the district court from including that money in a Lanham Act profits award." However, the lower courts erred in treating Dewberry Group and its affiliated companies as a single corporate entity when calculating the revenues and profits generated by Dewberry Group's trademark infringement. "This Court should vacate the court of appeals' judgment and remand for further proceedings under the correct legal standards," the government recommends. The brief further explains, "In determining the amount of the 'defendant's profits' in this case ... the courts below should have measured petitioner's financial gain (as distinguished from its nonparty affiliates'

gain) from the infringing acts.” However, the district court “did not distinguish between the profits that petitioner had generated and the profits its affiliates had produced.” In addition, the Fourth Circuit provided no rationale, according to the government’s brief, “for treating *all* of the nearly \$43 million that the affiliated companies had received under the district court’s calculation as the profits of petitioner” (emphasis by court).

AIPLA’s brief. The American Intellectual Property Law Association (AIPLA) also supported neither party in its [amicus brief](#). AIPLA’s brief, like Dewberry Group’s merits brief, argues that Section 35(a), by referring to “defendant’s profits,” does not permit a court to treat profits earned by nonparty entities as profits earned by the defendant. AIPLA also invokes Section 35(a)’s language that the amount of recovery “shall constitute compensation rather than a penalty.” The brief additionally includes similar arguments to those made by Dewberry Group about corporate separateness and the lack of veil-piercing. “Applying well-established law concerning corporate veil-piercing and contributory infringement may reach a just remedy without conflicting with principles of corporate separateness, or creating the uncertainty as to the scope of a court’s discretion under 15 U.S.C. § 1117(a),” AIPLA concludes. “Accordingly, AIPLA urges this Court to reverse and remand the matter to the Fourth Circuit.”

INTA’s brief. The [amicus brief](#) submitted by the International Trademark Association (INTA), likewise supporting neither party, also argues that the plain language of the Lanham Act’s disgorgement provision indicates that only the named defendant shall be liable, unless the plaintiff engages in corporate veil-piercing, or adds as a defendant the affiliated company it wishes to target. “The Fourth Circuit’s decision has the potential to open the floodgates

for plaintiffs to rely on third-parties’ revenues and profits as a pretense to embark on fishing expeditions, conduct overly burdensome discovery, and use the threat of disgorgement as leverage,” INTA argues. “INTA urges the Court to clarify that the profits of a defendant’s affiliates may not be considered under the Lanham Act’s disgorgement remedy where there has been no veil piercing and where the affiliated entities are not parties to the lawsuit.”

Washington Legal Foundation’s brief. The Washington Legal Foundation (WLF) submitted a [brief](#) in support of petitioner Dewberry Group. According to WLF, the Fourth Circuit’s decision “veers far from acceptable legal principles” and amounts to the court’s decision to act as a “superlegislature.” Raising similar arguments to the other amici regarding the principles of equity, WLF urges the Court to reverse and remand the Fourth Circuit’s decision.

Next steps. Dewberry Engineers has until October 23 to file its respondent’s brief on the merits. The case has not yet been scheduled for oral argument.

PENDING PETITIONS OF NOTE

Bellow are summarized a few pending petitions for *certiorari* that present interesting or prominent questions for potential Court review.

Copyright infringement—Internet file-sharing. In *Cox Communications, Inc. v. Sony Music Entertainment*, No. 24-171, Internet service provider Cox is asking the U.S. Supreme Court to weigh in on the requisite “knowledge” an ISP must have to be contributorily liable for its customers’ acts of direct copyright infringement. For several years, Cox has been embroiled in high-stakes litigation with a large group of major recording labels and music publishers, including Sony, Arista, EMI, Atlantic, Elektra, and UMG. The music industry plaintiffs

alleged that users of Cox’s broadband Internet service infringed the copyrights to thousands of songs illicit file-sharing. The music industry plaintiffs contended that Cox was secondarily liable for the users’ infringement. The key issue is whether Cox’s mere knowledge of the users’ infringement amounted to “materially contributing” to the infringement, or whether the plaintiffs would have to show that Cox somehow affirmatively fostered the infringement. Cox also challenges a determination that its contributory infringement was willful in nature.

In December 2019, a jury found Cox liable for willful contributory and vicarious infringement of 10,017 songs and [awarded](#) \$1 billion in statutory damages. Cox appealed to the Fourth Circuit, which, on February 20, 2024, [reversed](#) the district court with respect to the music industry plaintiffs’ claim of vicarious infringement. However, the Fourth Circuit held that Cox had the requisite knowledge to be contributorily liable for its users’ direct infringement.

Cox filed a [petition for certiorari](#) with the Supreme Court on August 15, 2024, presenting two questions:

1. Did the Fourth Circuit err in holding that a service provider can be held liable for “materially contributing” to copyright infringement merely because it knew that people were using certain accounts to infringe and did not terminate access, without proof that the service provider affirmatively fostered infringement or otherwise intended to promote it?
2. Did the Fourth Circuit err in holding that mere knowledge of another’s direct infringement suffices to find willfulness under 17 U.S.C. § 504(c)?

The next day, the music industry parties filed their own petition for review,

taking issue with the Fourth Circuit's rejection of the liability finding on the vicarious copyright infringement claim. Styled as *Sony Music Entertainment v. Cox Communications, Inc.*, No. 24-181, this petition contends that the Fourth Circuit erred in demanding proof that the defendant profited directly from the acts of direct infringement in order to hold the defendant liable for vicarious infringement.

The question presented by the music industry parties is:

Whether the profit requirement of vicarious copyright infringement permits liability where the defendant expects commercial gain from the enterprise in which infringement occurs (as the First, Second, Third, Seventh, and Ninth Circuits have held), or whether the profit requirement of vicarious copyright infringement permits liability only where the defendant expects commercial gain from the act of infringement itself (as the Fourth Circuit has held).

The music industry parties have until October 16 to respond to Cox's petition; Cox has until October 21 to respond to the music industry parties' petition.

Patent-eligible subject matter. The Court once again has a chance to clarify its two-prong "*Alice*" test for subject-matter

eligibility under Section 101 of the Patent Act, 35 U.S.C. § 101. In *Eolas Technologies Inc. v. Amazon.com, Inc.*, No. 23-1384, tech firm Eolas seeks review of a Federal Circuit [decision](#) holding that Amazon, Google, and Walmart were not liable for infringing an Eolas patent related to distributive computing because, in the court's view, the patent claims were directed to the abstract idea of interacting with data elements on the Internet and did not embody a "technology-based solution" that would transform the patent's claims into an inventive concept.

The [petition for certiorari](#), filed May 1, 2024, presents three questions:

1. Whether claims drawn to solving specific problems restricting the usefulness of an existing computer-network technology recite patent-eligible subject matter under 35 U.S.C. § 101 and *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 573 U.S. 208 (2014).
2. Whether *Alice*'s two-step eligibility analysis under § 101 can properly subsume considerations of conventionality, functional claiming, and specificity of description—which traditionally fall under 35 U.S.C. §§ 102, 103, and 112.
3. Whether the claims of the '507 patent are eligible for patenting under § 101 and *Alice*.

Consideration of this petition is set for the Court's September 30 conference.

Patent remedies—import bans—"domestic industry." Media-streaming device and smart TV maker Roku, Inc., has asked the Supreme Court to review a Federal Circuit [decision](#) that affirmed a final determination of the International Trade Commission (ITC) finding that an exclusion order was warranted to bar some Roku products from entry into the United States based on a Roku's infringement of a patent owned by Universal Electronics, Inc. According to Roku, the ITC misinterpreted the "domestic industry" requirement in patent cases under Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337.

The questions presented by Roku's [petition](#) in *Roku, Inc. v. International Trade Commission*, No. 24-180, filed August 16, 2024, are:

1. Did the ITC exceed its Section 337 authority by finding the entirety of complainant's investments in unpatented, multi-purpose software to be "with respect to the articles protected by the patent?"
2. Did the ITC exceed its Section 337 authority by failing to consider whether the complainant's investments in unpatented, multi-purpose software were "substantial" "with respect to the articles protected by the patent?"

The petition has not yet been scheduled for conference.