

Insights: Alert

Guarding the Guardrails: The Supreme Court Places Limits on the Equitable Remedy of an Accounting of Profits Under Section 35 of the Lanham Act in *Dewberry Group v. Dewberry Engineers Inc.*

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I. Introduction

A prevailing plaintiff under the Lanham Act may be entitled to several forms of monetary relief, among them an accounting of the defendant's profits under Section 35 of the Act.¹ The prospect of a disgorgement of ill-gained profits has undoubtedly served as a powerful deterrent to would-be trademark infringers. Achieving the Act's goals in authorizing the remedy has required granting district courts a high degree of flexibility in implementing accountings. Nevertheless, the Supreme Court's February 26, 2025, ruling in *Dewberry Group v. Dewberry Engineers Inc.*² clearly signals that the remedy's equitable nature does not leave it entirely unconstrained by guardrails. In particular, the Court concluded that the prevailing plaintiff in that case was not entitled to an accounting equal to the profits of certain commonly-owned affiliates of the single named defendant in light of the plaintiff's failure either to designate the affiliates as additional defendants or to establish that it was appropriate to pierce the corporate veil between the named defendant and the affiliates. In doing so, however, the Court left open the continued possibility of a significant accounting on remand.

II. Accountings of Profits Under Section 35 of the Lanham Act

For purposes of the issue reaching the Supreme Court in *Dewberry*, Section 35(a) of the Lanham Act provides in relevant part that, upon a showing of trademark infringement or unfair competition,

the plaintiff shall be entitled, . . . subject to the principles of equity, to recover . . . defendant's profits The court shall assess such profits . . . or cause the same to be assessed under its direction. . . . If the court shall find that the amount of the 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.³

Outside the counterfeiting context, in which Section 35(b) mandates the trebling of the defendant's profits in the absence of extenuating circumstances,⁴ a trial court determining the proper quantum of an accounting enjoys wide discretion. Thus, for example, courts exercising that discretion in the context of accountings of defendants' profits may properly employ equitable adjustments to adjust for poor recordkeeping by defendants.⁵ An

equitable adjustment to an accounting under Section 35(a) also may be appropriate to reflect what would have been the plaintiff's profit margin had it sold the same number of goods as those sold by the defendant under its infringing mark.⁶ So too can a trial court augment an accounting to reimburse a prevailing plaintiff for the intangible benefits enjoyed by a defendant found liable for violating the Act.⁷ As the outcome in *Dewberry* demonstrates, however, that discretion has its limits.

III. The *Dewberry* Litigation

The Supreme Court's opinion in *Dewberry* arose from a finding of trademark infringement as a matter of law against a single defendant by a North Carolina federal district court. Consistent with its past authority, the Fourth Circuit affirmed the imposition of an accounting as a monetary remedy by applying a six-factor test, which considered: "(1) whether the defendant had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in making the misconduct unprofitable, and (6) whether it is a case of palming off."⁸ There was no dispute that the defendant's infringement had not resulted in diverted sales and that the defendant had not passed off its services as those of the plaintiff. At the same time, however, the defendant had ignored "several 'red flags' cautioning against its conduct," namely, its admission in earlier negotiations between the parties of the confusing similarity of the marks at issue, the plaintiff's demand letters, and the USPTO's rejection of an application to register one of the defendant's marks based on a perceived likelihood of confusion with one of the plaintiff's marks.⁹ In addition to those factors, the court considered the damage allegedly caused to the plaintiff's brand equity by the defendant's infringement,¹⁰ something that might ordinarily come into play in calculating the plaintiff's actual damages.

At that point, things got complicated. Before the district court and on appeal, the defendant argued it did not provide services under its infringing marks to other parties for a profit. Instead, it allegedly produced infringing branding for its affiliates, who in turn generated profits using that branding on their lease, loan, and other promotional materials; indeed, the defendant's tax returns showed it operated at a loss. Both the defendant and its affiliates were ultimately owned by the same individual owner, one John Dewberry, who, like the defendant's affiliates, was not himself a named defendant in the case. Thus, as the Supreme Court explained of the defendant's finances, "the [defendant] has operated at a loss for decades; it survives only through occasional cash infusions from John Dewberry himself. Meanwhile, the [defendant's] affiliates—which, recall, he also owns—have racked up tens of millions of dollars in profit."¹¹

The defendant's attempt to escape an accounting by emphasizing its losses during the period of infringement—as opposed to the profits enjoyed by its affiliates—failed to impress the Fourth Circuit, which focused on John Dewberry's ownership of the defendant and its affiliates. Although the plaintiff apparently had made no effort to pierce the corporate veil between the defendant and its affiliates, that court held that the equitable nature of the accounting remedy obviated the need for such a nicety. "Rather than pierce the corporate veil," it explained, "the [district] court considered the revenues of entities under common ownership with [the plaintiff] in calculating [the defendant's] true financial gain from its infringing activities that necessarily involved those affiliates."¹² Specifically:

A district court's grant of profit disgorgement is "subject to the principles of equity," and is ultimately a matter of the court's discretion. The district court here "weigh[ed] the equities of the dispute and exercise[d] its discretion" to hold [the defendant] to account for the revenues generated in part from

infringing materials used by its affiliates under common ownership. Admonishing courts for using their discretion in this fashion risks handing potential trademark infringers the blueprint for using corporate formalities to insulate their infringement from financial consequences. That, of course, runs counter to Congress's fundamental desire to give trademark registrants under the Lanham Act "the greatest protection that can be given them."¹³

The Fourth Circuit then reviewed the actual quantum of the accounting ordered by the district court. Apparently—but perhaps understandably—not anticipating the disgorgement of profits from its non-party affiliates, the defendant had not introduced evidence or testimony of those companies' deductible costs. That led the district court to discount the affiliates' revenues (as calculated by an expert witness retained by the plaintiff) by twenty percent "to account for pre-existing leases and revenues that theoretically might not have had any relation to the infringing activities."¹⁴ The defendant objected to that discount as speculative, but the court of appeals rejected that criticism by holding that "[a]ny arbitrariness . . . can be traced back to [the defendant's] litigation strategy to deny any connection between its affiliates' revenues and its infringing marks."¹⁵ As far it was concerned, "[the defendant] offered *no* calculations for costs, nor did it provide calculations reflecting the distinction between infringing and non-infringing revenues. It was [the defendant's] burden to provide this evidence, and we will not now fault the district court for the approximations it was forced to make."¹⁶

The ultimate result was an accounting of \$42,975,725.60 enforceable against the single named defendant but *not* against the affiliates of the defendant that had actually enjoyed those profits.¹⁷ Possibly motivated by either the quantum of that accounting or the district court's methodology in reaching it, the Supreme Court subsequently granted a petition for writ of certiorari to the Fourth Circuit. The single question presented by that petition and the alternative question proffered by the plaintiff demonstrate the deep divide between the parties' understanding of the relief affirmed by the Fourth Circuit. According to the defendant, the appropriate question was "[w]hether an award of the 'defendant's profits' under [Section 35(a) of] the Lanham Act, can include an order for the defendant to disgorge the distinct profits of legally separate non-party corporate affiliates."¹⁸ According to the plaintiff, however, the Court properly should consider "[w]hether a district court's discretion under the Lanham Act permits using the financial statements of 'non-arms' length' affiliates to adjust a disgorgement award against a trademark infringer, and only that infringer, when the infringer has claimed \$0 in profits."¹⁹

The Court sided with the defendant in a unanimous opinion vacating the Fourth Circuit's order and remanding the action.²⁰ It noted that Section 35(a) authorized accountings of the profits of a "defendant," which the Court defined as "the party against whom relief or recovery is sought in an action or suit."²¹ Applying that definition to the case before it, the Court held that "[t]he plaintiff] chose not to add the [defendant's] affiliates as defendants. Accordingly, the affiliates' profits are not the (statutorily disgorgable) 'defendant's profits' as ordinarily understood."²² Because the plaintiff additionally had never attempted to pierce the corporate veil between the defendant and its affiliates, that meant "the 'defendant's profits' are the *defendant's* profits, not its plus its affiliates'."²³

The Court next addressed the plaintiff's argument that Section 35(a)'s equitable grant of flexibility — "[i]f the court shall find that the amount of the 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"²⁴—authorized the district court's consideration of the affiliates' profits when arriving

at a “just sum” once it had determined the defendant's actual profits. The flaw in that argument, the Court held, was that “[t]he District Court did not rely on the just-sum provision, or suggest that it was departing up from [the defendant's] reported profits to reflect the company's true gain”;²⁵ moreover, the same was true of the Fourth Circuit's affirmance, which had also inappropriately ignored the distinction between the defendant and its separately incorporated affiliates. “By treating those entities as one and the same,” the Court concluded, “the courts below approved an award including *non*-defendants' profits—and thus went further than the Lanham Act permits.”²⁶ Significantly, however, the Court preemptively ruled out neither an application of the plaintiff's proposed “just sum” methodology nor corporate veil-piercing on remand.²⁷

IV. Conclusion

On one level, the outcome in *Dewberry* is consistent with repeated warnings from the Supreme Court in other contexts that tribunals departing from the Act's express text do so at their peril.²⁸ Because “in the Lanham Act, Congress meticulously detailed the remedies available . . . , other remedies should not readily be implied,”²⁹ too far a departure from that text may not survive appellate scrutiny. On another level, however, the Court's view of the flexible nature of the accounting remedy and of Section 35(a)'s text make clear that corporate formalities may not entirely immunize a defendant from the misdeeds of its affiliates even if the corporate veil is not pierced. *Dewberry*'s long-term significance therefore remains to be seen.

¹ 15 U.S.C. § 1117.

Accountings of profits also are available to prevailing plaintiffs under common-law infringement and unfair competition causes of action. See, e.g., *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 206 (1942) (addressing accounting remedy in common-law action); *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251, 260 (1916) (same).

² No. 23-900, 2025 WL 608108 (U.S. Feb. 26, 2025).

³ 15 U.S.C. 1117(a).

⁴ *Id.* § 1117(b).

⁵ See, e.g., *Louis Vuitton Malletier v. Apex Creative Int'l Corp.*, 687 F. Supp. 2d 347, 357 (S.D.N.Y. 2010).

⁶ See, e.g., *Source Perrier, S.A. v. Waters of Saratoga Springs, Inc.*, 217 U.S.P.Q. 617, 621 (S.D.N.Y. 1982); *Mid-S. Bldg. Supply of Md., Inc. v. Guardian Door & Window, Inc.*, 847 A.2d 463, 484–85 (Md. Ct. App. 2004).

⁷ See, e.g., *Merck Eprova AG v. Gnosis S.p.A.*, 760 F.3d 247, 263 (2d Cir. 2014).

⁸ *Dewberry Eng'rs Inc. v. Dewberry Grp.*, 77 F.4th 265, 289 (4th Cir. 2023) (quoting *Synergistic Int'l, LLC v. Korman*, 470 F.3d 162, 175 (4th Cir. 2006)), *vacated and remanded on other grounds*, No. 23-900, 2025 WL 608108 (U.S. Feb. 26, 2025).

⁹ *Id.* (quoting *Dewberry Eng'rs, Inc. v. Dewberry Grp.*, No. 1:20-cv-00610, 2022 WL 1439826, at *8 (E.D. Va. Mar. 2, 2022), *aff'd*, 77 F.4th 265 (4th Cir. 2023)).

¹⁰ *Id.* at 290.

¹¹ *Id.* at *2.

¹² 77 F.4th at 292.

¹³ *Id.* at 293 (first and second alterations in original) (first quoting 15 U.S.C. § 1117(a) (2018); then quoting *Synergistic Int'l*, 470 F.3d at 176; and then quoting *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 193 (1985)).

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.* at 291.

¹⁸ Petition for Certiorari at (i), *Dewberry Grp. v. Dewberry Eng'rs*, No. 23-900, 2025 WL 608108 (U.S. Feb. 26, 2025) (No. 23-900) (U.S. Jan. 16, 2024).

¹⁹ Brief in Opposition to Petition for Certiorari at (i), *Dewberry Grp. v. Dewberry Eng'rs*, No. 23-900, 2025 WL 608108 (U.S. Feb. 26, 2025) (No. 23-900) (U.S. May 8, 2024).

²⁰ Justice Sotomayor concurred in a separate opinion. See 2025 WL 608108, at *5–6 (Sotomayor, J., concurring).

²¹ 2025 WL 608108, at *3 (quoting *Defendant*, Black's Law Dictionary 541 (3d ed. 1933)).

²² *Id.*

²³ *Id.*

²⁴ 15 U.S.C. § 1117(a).

²⁵ 2025 WL 608108, at *4.

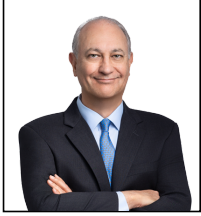
²⁶ *Id.*

²⁷ *Id.*

²⁸ See, e.g., *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995) (reversing cancellation of registration on extrastatutory ground); *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189 (1985) (reversing recognition of extrastatutory exception to incontestability).

²⁹ *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714, 719 (1967) (affirming Ninth Circuit's rejection of extrastatutory remedy).

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