

No. 23-900

IN THE
Supreme Court of the United States

DEWBERRY GROUP, INC.,
Petitioner,

v.

DEWBERRY ENGINEERS INC.,
Respondent.

On Writ of Certiorari to the
United States Court of Appeals
for the Fourth Circuit

**BRIEF OF *AMICUS CURIAE* AMERICAN
INTELLECTUAL PROPERTY LAW ASSOCIATION
IN SUPPORT OF NEITHER PARTY**

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**STATEMENT OF INTEREST
OF *AMICUS CURIAE***

The American Intellectual Property Law Association (AIPLA) is a national bar association representing the interests of approximately 7,000 members engaged in private and corporate practice, government service, and academia. AIPLA's members represent a diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property.¹ AIPLA's mission includes providing courts with objective analyses to promote an intellectual property system that stimulates and rewards invention, creativity, and investment while accommodating the public's interest in healthy competition, reasonable costs, and basic fairness. AIPLA has no stake in any of the parties to this litigation or in the result of the case. AIPLA's only interest is in seeking correct and consistent interpretation of the law as it relates to intellectual property issues.

¹ Pursuant to Rule 37.6, no counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of the brief. No person or entity other than the amicus curiae, its members, or its counsel, made a monetary contribution intended to fund its preparation or submission

SUMMARY OF ARGUMENT

This case involves balancing the longstanding principle of corporate separateness with the concern recognized by the Fourth Circuit of avoiding “handing potential trademark infringers the blueprint for using corporate formalities to insulate their infringement from financial consequences.” *See* Pet. App. 45a. In assessing a trademark owner’s recovery in the form of disgorgement of profits from an infringer, the Lanham Act gives a district court discretion to adjust the amount assessed if “the amount of the recovery based on profits is either inadequate or excessive.” 15 U.S.C. § 1117(a).

Section 1117(a) does not, however, give a court discretion simply to treat profits earned by unnamed third-party entities as profits earned by a party defendant in assessing the amount of recovery; instead, the statute on its face contemplates disgorgement only of “*defendant’s* profits.” *Id.* (emphasis added). Although circumstances may justify a court’s consideration of profits received by entities related to the infringer in adjusting the amount of recovery under § 1117(a), the Fourth Circuit’s decision fails to analyze the limits on such discretion under § 1117(a). In particular, § 1117(a) provides that recovery shall be “subject to principles of equity,” but also that the amount of recovery “shall constitute compensation rather than a penalty.” The Fourth Circuit’s affirmance addresses neither requirement.

Further, the inclusion in an accounting of the profits of non-party entities under common ownership with Petitioner without any finding of liability against the non-party entities risks undermining principles of corporate separateness. The principle that a corporation is not *per se* liable for the acts of its subsidiaries or other related entities is “deeply ‘ingrained in our economic and legal systems.” *United States v. Bestfoods*, 524 U.S. 51, 61, 118 S. Ct. 1876, 1884, 141 L. Ed. 2d 43 (1998). Nothing in the Lanham Act suggests any exception to this principle for trademark infringement. Indeed, nothing in the Fourth Circuit’s affirmance suggests that the discretion given to district courts under 15 U.S.C. § 1117(a) creates an exception to traditional principles of corporate separateness. Moreover, the Fourth Circuit’s affirmance provides little guidance on how courts should exercise their discretion under that statute, leaving them and the public uncertain as to how the law may be applied.

Respondent did not seek to pierce the corporate veil and did not join the third parties co-owned with Petitioner as defendants. The Fourth Circuit therefore had no opportunity to consider other paths to recovery of profits earned by the related entities. 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). Accordingly, AIPLA urges this Court to reverse and remand the matter to the Fourth Circuit.

BACKGROUND

The district court relied on its discretion under 15 U.S.C. § 1117(a) to include profits received by the third-party “Ownership Entities” in the judgment against Petitioner. The Fourth Circuit held that this was consistent with § 1117(a)’s provision that the court may adjust the amount to “enter judgment for such sum as the court shall find to be just.” As the Fourth Circuit explained, “[r]ather than pierce the corporate veil, the court considered the revenues of entities under common ownership with Petitioner in calculating Petitioner’s true financial gain from its infringing activities that necessarily involved those affiliates.” Pet. App. 43a.

The Fourth Circuit relied on the Fifth Circuit’s holding in *Am. Rice, Inc. v. Producers Rice Mill, Inc.*, 518 F.3d 321, 340 (5th Cir. 2008). That decision held that “the tax treatment of a corporate entity’s infringing behavior is not a barrier to profit disgorgement.” Pet. App. 44a. In *Am. Rice*, the Fifth Circuit explained that a pass-through entity’s profits due to infringement are “profits for purposes of the Lanham Act, regardless of how such profits are passed on or how they are taxed.” *Am. Rice*, 518 F.3d at 340. However, the defendant, a cooperative owned by member farmers, earned the profits directly and passed them on to its members. Thus, the Fifth Circuit did not include in the judgment profits that the defendant never received. Here, by contrast, Petitioner did not directly receive the revenues from its infringing activity. Pet. App. 44a. The Ownership Entities received the revenues. *Id.* The Fourth

Circuit conceded that Petitioner “did not receive the revenues from its infringing behavior directly,” but held that the Petitioner “still benefited from its infringing relationship with its affiliates” by operating “as a corporate shared-services entity under common, exclusive ownership with its affiliates.” Pet. App. 45a.

As the district court explained, Petitioner employed the individuals who engaged in infringing acts while all revenues from that infringement were attributed to separate entities under common ownership with Petitioner. Pet. App. 83a. Petitioner’s “real estate business is structured so that it and its employees promoted, managed, and operated all of the properties owned by the Ownership Entities, and did so using the Infringing Marks. . . . And, even though the Ownership Entities do not and cannot perform the work and services necessary to generate revenues (but for limited exceptions at the hotel), all revenues generated through Dewberry Group, Inc.’s services show up exclusively on the Ownership Entities’ books.” *Id.*

The Fourth Circuit concluded that “[t]he district court here ‘weigh[ed] the equities of the dispute and exercise[d] its discretion’ to hold Dewberry Group to account for the revenues generated in part from infringing materials used by its affiliates under common ownership.” Pet. App. 45a. Accordingly, the Fourth Circuit affirmed the judgment so as not to allow an infringer to escape liability because a separate entity received all the profits from the infringement.

ARGUMENT

I.

A. **The Fourth Circuit’s Affirmance Failed to Recognize the Lanham Act’s Limits on the Court’s Discretion Under 15 U.S.C. § 1117(a)**

Whether in litigation under the Lanham Act or in other areas of the law, an accounting of profits is an equitable, and therefore inherently flexible, remedy. That flexibility is apparent in Section 35(a) of the Act, 15 U.S.C. § 1117(a), which provides that “[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.” 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. *See, e.g., Louis Vuitton Malletier v. Apex Creative Int’l Corp.*, 687 F. Supp. 2d 347, 357 (S.D.N.Y. 2010). An equitable adjustment to an accounting under § 1117(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. *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). So, too, is it within a trial

court's discretion to augment an accounting to reimburse a prevailing plaintiff for the intangible benefits enjoyed by a defendant found liable for violating the Act. *See, e.g., Merck Eprova AG v. Gnosis S.p.A.*, 760 F.3d 247, 263 (2d Cir. 2014).

Nevertheless, this Court has held that, as used in § 1117(a), the phrase “principles of equity” “suggests fundamental rules that apply more systematically across claims and practice areas” and provides “transsubstantive guidance on broad and fundamental questions about matters like parties, modes of proof, defenses, and remedies.” *Romag Fasteners, Inc v. Fossil, Inc.*, 590 U.S. 212, 217, 140 S. Ct. 1492, 1496, 206 L. Ed. 2d 672 (2020). As this Court has recognized, although there is no question “that equity is flexible,” that “flexibility is confined within the broad boundaries of traditional equitable relief.” *Grupo Mexicano de Desarrollo S.A. v. All. Bond Fund, Inc.*, 527 U.S. 308, 322, 119 S. Ct. 1961, 1969, 144 L. Ed. 2d 319 (1999).

The Fourth Circuit did not consider those boundaries and the limits they place on a court's discretion to ignore corporate formalities. Instead, in affirming the district court's inclusion of profits earned by the “Ownership Entities” in the judgment against Petitioner, the Fourth Circuit reasoned that the district court “weigh[ed] the equities of the dispute and exercise[d] its discretion’ to hold Dewberry Group to account for the revenues generated in part from infringing materials used by its affiliates under common ownership.” Pet. App. 45a. However, the Fourth Circuit did not address

whether the district court's use of its discretion to include profits received by the Ownership Entities was consistent with traditional principles of equity. Thus, the Fourth Circuit's affirmance leaves uncertainty as to whether traditional principles of equity limit the district court's discretion under 15 U.S.C. § 1117(a).

15 U.S.C. § 1117(a) provides another limit on a court's discretion to adjust the amount of recovery: it states that any recovery shall be compensation and not a penalty. However, the Fourth Circuit's affirmance also failed to analyze whether the district court's use of its discretion complied with the requirement that the recovery not constitute a penalty. Accordingly, this aspect of the affirmance also leaves uncertainty as to the boundaries of a district court's discretion.

B. Established Traditional Methods of Holding a Related Entity Accountable Avoid the Risk of Undermining Corporate Separateness

The Fourth Circuit's affirmance of the district court's use of its discretion to include profits received by the Ownership Entities in the judgment against Petitioner risks undermining long-standing principles of corporate separateness. As this Court has recognized, the general principle of corporate separateness, that a parent corporation is not liable for the acts of its subsidiaries, is "deeply 'ingrained in our economic and legal systems.'" *Bestfoods*, 524 U.S.

at 61. “[I]t is hornbook law that “the exercise of the ‘control’ which stock ownership gives to the stockholders ... will not create liability beyond the assets of the subsidiary.” *Id.*

Nothing in the Fourth Circuit’s opinion suggests that 15 U.S.C. § 1117(a) authorizes holding a related corporation liable for acts of a separate entity, and no reasonable interpretation of the statute supports that. As recognized in *Bestfoods, id.* at 62, where a statute is silent on the issue, it cannot reasonably be interpreted as holding a parent corporation liable for acts of its subsidiaries because “such reticence while contemplating an important and controversial change in existing law is unlikely.” Nonetheless, the Fourth Circuit’s holding effectively imposes liability on entities related to Petitioner without any separate finding of acts of infringement committed by those entities.

In *Edmondson v. Velvet Lifestyles, LLC*, 43 F.4th 1153 (11th Cir. 2022), the Eleventh Circuit considered a common scenario where a trademark owner sought to impose liability on an individual and an entity solely based on their roles in managing a corporation found liable for trademark infringement, illustrating the important role of principles of corporate separateness under the Lanham Act. In *Edmondson*, the district court had awarded damages for trademark infringement against an entity and an individual. The only evidence of infringement against those defendants, however, was deposition testimony indicating that the entity was a managing member and the individual a manager for another

defendant that had committed acts of infringement. *Id.* at 163. The Eleventh Circuit correctly recognized that liability under the Lanham Act requires more and set aside the judgment.

By contrast, here the district court did not enter judgment against the Ownership Entities related to Petitioner. However, including the Ownership Entities' profits in the amount of the judgment against Petitioner without any showing of liability against the Ownership Entities blurs corporate boundaries. Based on the district court's findings that the Ownership Entities were shell holding companies for real estate without employees, and that Petitioner performed all of the services for those entities, the Ownership Entities could only have committed acts of infringement through Petitioner's employees. This entanglement may justify the district court's use of its discretion in adjusting the recovery, but, because it undermines corporate separateness, other paths to holding the Ownership Entities liable are preferable.

C. Remand Is Appropriate

1. Remand May Allow The Trademark Owner To Make The Showing Required To Pierce The Corporate Veil

AIPLA takes no position on the ultimate issue of whether Respondent in this case is entitled to recover the profits of Petitioner's non-party affiliates. However, given the conflict and uncertainty of the Fourth Circuit's decision as discussed above, remand

to allow for the application of traditional principles of liability, separate from § 1117(a), is appropriate.

Indeed, as a well-established principle of corporate law, piercing the corporate veil provides a better alternative to prevent a party from improperly using corporate formalities to fraudulently avoid liability than relying on a court's discretion under § 1117(a). The Fourth Circuit never considered whether Respondent could have met the requirements for piercing the corporate veil because the district court expressly stated that Respondent did not allege veil piercing. Nonetheless, requiring Respondent to meet the strict requirements to pierce the veil before including profits of related entities in the judgment would have been consistent with well-established principles and avoided the risk of creating uncertainty as to corporate separateness under the Lanham Act. "The corporate veil may be pierced and the shareholder held liable for the corporation's conduct when, *inter alia*, the corporate form would otherwise be misused to accomplish certain wrongful purposes, most notably fraud, on the shareholder's behalf." *Bestfoods*, 524 U.S. at 52. "The doctrine of piercing the corporate veil, however, is the rare exception, applied in the case of fraud or certain other exceptional circumstances." *Dole Food Co. v. Patrickson*, 538 U.S. 468, 475, 123 S. Ct. 1655, 1661, 155 L. Ed. 2d 643 (2003).

By requiring Respondent to show evidence of fraud or other exceptional circumstances that would justify veil piercing, Respondent's recovery could have included profits from the Ownership Entities

based on already established principles of corporate law. Thus, remand may allow for an appropriate remedy without unnecessarily straining the reach of § 1117(a) of the Lanham Act.

2. Evolving Principles Of Contributory Infringement Could Expand Liability To The Ownership Entities

The difficulty of establishing liability for trademark infringement against a holding company with no employees validates the Fourth Circuit's concern about providing a roadmap for infringers to avoid liability. However, contributory infringement could also provide a basis to extend liability to the Ownership Entities or similar holding companies.

This Court has long recognized contributory infringement and held in *Inwood Lab's* that "liability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another." *Inwood Lab's, Inc. v. Ives Lab's, Inc.*, 456 U.S. 844, 853–54, 102 S. Ct. 2182, 2188, 72 L. Ed. 2d 606 (1982). If a party "intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement," the inducing party "is contributorially responsible for any harm done as a result of the deceit." *Id.*

Here, Respondent did not bring claims for contributory infringement against the Ownership Entities. Thus, the record is insufficient to determine

whether those entities could have been held contributorily liable. Further, in view of the limited decisions involving contributory trademark infringement, it is unclear whether an entity without employees could have the requisite intent to be liable for contributory trademark infringement. As the Second Circuit Court of Appeals has recognized, “[t]he limited case law leaves the law of contributory trademark infringement ill-defined.” *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 105 (2d Cir. 2010). Nonetheless, a decision providing further development of the law and requirements for holding an entity contributorially liable for trademark infringement would have provided stronger grounds for including the Ownership Entities’ profits in the judgment than relying on the district court’s discretion.

3. Remand For Compulsory Joinder May Also Provide An Appropriate Remedy

This case is not without analogous precedent. When the Ninth Circuit faced a similar issue involving related entities in a trademark case, the Ninth Circuit remanded for compulsory joinder of the related entities. In *U-Haul Int’l, Inc. v. Jartran, Inc.*, 793 F.2d 1034, 1039, 230 U.S.P.Q. 343 (9th Cir. 1986), the Ninth Circuit Court of Appeals considered the issue of whether a party could seek recovery of damages incurred by separate but affiliated entities. Rather than treating the affiliated entities as a single entity for calculating damages, the Ninth Circuit Court of Appeals applied Fed. R. Civ. P. 19 and

remanded the action to allow the opportunity for joinder of the affiliated non-party entities. *Id.* at *1040.

Fed. R. Civ. P. 19(a)(1) provides that,

A person who is subject to service of process and whose joinder will not deprive the court of subject-matter jurisdiction must be joined as a party if:

(A) in that person's absence, the court cannot accord complete relief among existing parties; or

(B) that person claims an interest relating to the subject of the action and is so situated that disposing of the action in the person's absence may:

(i) as a practical matter impair or impede the person's ability to protect the interest; or

(ii) leave an existing party subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations because of the interest.

The same situation could apply here, thus providing an opportunity for joinder of the Ownership Entities pursuant to Fed. R. Civ. P. 19. To the extent that the district court concluded that it could not accord complete relief without accounting for the profits of the Ownership Entities, those entities could have been joined in the lawsuit as the Ninth Circuit did in *U-Haul Int'l, Inc.*, 793 F.2d at 1040.

Thus, a variety of remedies, rooted in traditional corporate law and procedure, are available to trademark owners in enforcing their marks against multiple corporate entities. The Fourth Circuit's decision relied solely upon the reach of § 1117(a) instead. This was error.

CONCLUSION

For the foregoing reasons, AIPLA respectfully requests the Court to reverse and remand to the Fourth Circuit to determine whether the district court's use of its discretion complied with the requirements of 15 U.S.C. § 1117(a) that it be subject to principles of equity and compensation rather than a penalty or to remand to the district court to give Respondent the opportunity to hold the Ownership Entities accountable, consistent with principles of corporate law and procedure.

Dated, September 6, 2024 Respectfully submitted,

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