

Summer 6-1-2011

## Counter-Restitution for Monetary Remedies in Equity

George P. Roach

Follow this and additional works at: <https://scholarlycommons.law.wlu.edu/wlulr>



Part of the [Legal Remedies Commons](#)

---

### Recommended Citation

George P. Roach, *Counter-Restitution for Monetary Remedies in Equity*, 68 Wash. & Lee L. Rev. 1271 (2011), <https://scholarlycommons.law.wlu.edu/wlulr/vol68/iss3/17>

This Article is brought to you for free and open access by the Washington and Lee Law Review at Washington & Lee University School of Law Scholarly Commons. It has been accepted for inclusion in Washington and Lee Law Review by an authorized editor of Washington & Lee University School of Law Scholarly Commons. For more information, please contact [lawref@wlu.edu](mailto:lawref@wlu.edu).

# Counter-Restitution for Monetary Remedies in Equity

George P. Roach\*

## *Abstract*

*Equitable remedies are growing in importance as the remedies of choice for intellectual property and federal agency claims. The measure of monetary remedies in equity is founded in trust law, which provides that even a disloyal trustee is entitled to indemnity for expenses that benefit the trust. Based on this principle and case law on measuring intellectual property remedies, a defendant to a claim for a monetary remedy in equity has the opportunity to prove that the unjust enrichment established by the plaintiff should be reduced for unrelated revenues or beneficial expenses. Opponents of this right justify revenue disgorgement by the prejudicial nature of the defendant's actions; an inexplicable distinction between "restitution" and "disgorgement"; and the disputed authority of a court in equity to exact punitive remedies. The right to prove counter-restitution represents the traditional law in equity and when federal agencies seek gross disgorgement, they exceed the limited jurisdiction that the United States Supreme Court allows for their ancillary claims to injunctive relief.*

## *Table of Contents*

I. Introduction .....	1272
II. Anti-Netting Doctrine as a Genetic Marker for Monetary Remedies in Equity .....	1275
III. Monetary Remedies in Nineteenth Century IP Case Opinions .....	1279
IV. Semantics .....	1280

---

\* George P. Roach practices damages law and provides consulting on litigation damages and valuation in Dallas. He is a Senior Adviser to the litigation consulting firm of Freeman & Mills, Inc. in Los Angeles. His background includes an M.B.A. (Harvard), J.D. (Univ. of Texas) and an A.B. in economics (Univ. of Calif.). See [www.litigation-consultant.com](http://www.litigation-consultant.com) or contact [gproach@sbcglobal.net](mailto:gproach@sbcglobal.net).

A. Profit vs. Advantage.....	1281
V. Quasi-Trustee.....	1286
VI. Counter-Restitution.....	1291
VII. Disgorgement by Default.....	1297
VIII. Gross Disgorgement Cases.....	1302
A. Fraud.....	1304
B. Outlaws.....	1307
IX. FTC Claims for Gross Disgorgement.....	1309
X. Conclusion.....	1331

### I. Introduction

Within the North Texas legal community, the tale of one litigator's speech to a statewide American Medical Association convention is often repeated with the understatement that makes Texas famous. Purportedly, the lawyer's keynote speech began by reminding the audience that in the eighteenth century, lawyers were drafting the Declaration of Independence and United States Constitution while doctors were still applying leeches or otherwise bleeding their patients. On reflection, one wonders if a doctor might now return the favor at an American Bar Association convention and ask how well American lawyers have kept pace with the progress that medicine has achieved in the last 200 years.

Monetary remedies in equity offer substantial promise for current and future corporate litigation. Various known as restitution, unjust enrichment or disgorgement, they are measured similarly for intentional or conscious unjust acts, as they are all based on an accounting in equity. They are conceptually simple, largely based on ex post data (as opposed to ex ante projections) and can reduce the discovery burden on the plaintiff. Monetary remedies in equity sometimes offer a "charming" result<sup>1</sup> or more complete relief<sup>2</sup> for claims such as the misappropriation of intangible

---

1. See Andrew Kull, *Restitution's Outlaws*, 78 CHI.-KENT L. REV. 17, 32 (2003) (stating that "as retributive justice it has an unmistakable charm").

2. See 1 JOSEPH STORY, COMMENTARIES ON EQUITY JURISPRUDENCE, AS ADMINISTERED IN ENGLAND AND AMERICA § 437 (Jairus W. Perry ed., 12th ed. 1877) ("We have gone over the principal grounds upon which Courts of Equity grant relief in matters of accident, mistake and fraud."). Story further stated, "The relief . . . is more complete, adequate, and perfect, inasmuch as it adapts itself to the special circumstances of each

property because many states still do not recognize a claim for conversion of intangible property.<sup>3</sup> For some causes in action, equitable remedies may therefore provide the only real choice relating to intangible assets, like domain names,<sup>4</sup> negative information (i.e., information on unsuccessful or failed experiments),<sup>5</sup> computer files,<sup>6</sup> confidential information,<sup>7</sup> and such exotics as DNA patterns or virtual assets.<sup>8</sup> Apparently, remedies in equity also offer advantages to Congress, which has shown a marked preference for enacting vague references to injunctive relief and other equitable remedies to support or enforce federal agency mandates.<sup>9</sup>

With such a view of the future, it seems contradictory to emphasize the need to improve our understanding of the historical development of existing monetary remedies in equity. Even though counter-restitution is an essential element of these remedies, its origins and links to trust and agency law are either forgotten or overlooked. This Article will show that the plaintiff's counter-restitution,<sup>10</sup> offsetting credit for revenue apportionment and the defendant's beneficial expenses, is an essential consideration to

---

particular case; adjusting all cross equities; and bringing all the parties in interest before the court so as to prevent multiplicity of suits and interminable litigation." *Id.*

3. *See, e.g.,* Emke v. Compana, L.L.C., 2007 U.S. Dist. LEXIS 70826, at \*9 (N.D. Tex. 2007) (stating that, in Texas, the law precludes any conversion claim unless it concerns physical property).

4. *See* Kremen v. Cohen, 337 F.3d 1024, 1029–30 (9th Cir. 2003) (ruling that an internet domain name is intangible property that could serve as the basis for a conversion claim); Kremen v. Cohen, 325 F.3d 1035, 1037–39 (9th Cir. 2003) (asking the California Supreme Court whether an internet domain name is property that can be converted under California tort law).

5. *See* Bourns, Inc. v. Raychem Corp., 331 F.3d 704, 709–10 (9th Cir. 2003) (providing an example of an unjust enrichment case concerning negative information).

6. *See* Computer Fraud and Abuse Act, 18 U.S.C. § 1030(g) (2006) ("Any person who suffers damage or loss by reason of a violation of this section may maintain a civil action against the violator to obtain compensatory damages and injunctive relief or other equitable relief").

7. *See* Carpenter v. United States, 484 U.S. 19, 27–28 (1987) (characterizing breach of the common law duty to protect employer's confidential information as unjust enrichment).

8. Virtual assets are prizes, distinctions, or assets found in on-line games or artificial environments. *See generally* Andrea Vanina Arias, *Life, Liberty, and the Pursuit of Swords and Armor: Regulating the Theft of Virtual Goods*, 57 EMORY L.J. 1301 (2008).

9. *See* RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 4 cmt. c (2011) (stating that one of the questions courts must answer is whether a particular remedy is available under a statute authorizing "equitable relief").

10. While counter-restitution is also a significant issue in relation to in-kind rescission and specific restitution, these facets of the topic are not addressed directly in the Article.

measure the defendant's unjust enrichment.<sup>11</sup> The Restatement (First) of Restitution<sup>12</sup> (First Restatement) and Restatement (Third) of Restitution & Unjust Enrichment<sup>13</sup> (Third Restatement) address the issue of counter-restitution by name as a part of its discussion of rescission and by substance in other sections, but neither Restatement clearly states that the defendant in equity has a right to try to prove that the unjust enrichment to the defendant evidenced by the plaintiff should be adjusted. This Article presents sufficient support from existing case law to recognize that existing practice justifies such a right with limited exceptions and conditions.

The Restatements' rationale and standards for measuring counter-restitution are unclear and at times contradictory. United States Supreme Court opinions handed down in the development of patent and copyright law in the nineteenth century show that counter-restitution should be considered from the construct of deeming the defendant a "quasi-trustee." Similarly, the quasi-trustee standard applied trust law's indemnity standard to measure counter-restitution.<sup>14</sup> This Article will show that, while the Restatements do not generally ignore the influence of trust or agency law on the law of restitution, they generally appear reluctant to apply the indemnity standard in the analysis and measure of unjust enrichment and counter-restitution. The indemnity standard of evaluating trustee expenses by their benefit to the trust (even for unauthorized expenses) is not applied widely in the First Restatement or Third Restatement.

---

11. The issue of establishing apportionment is sufficiently important to warrant consideration, but it will not be included in this analysis. *See* *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 399 (1940) ("The purpose is to provide just compensation for the wrong, not to impose a penalty by giving to the copyright proprietor profits which are not attributable to the infringement."); *Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 615–16 (1912) (stating the general proposition that "the plaintiff must prove its case and carry the burden imposed by law upon every person seeking to recover money or property from another"); *Garretson v. Clark*, 111 U.S. 120, 121 (1884) (stating that the plaintiff did not produce sufficient evidence of damages suffered, and the Court awarded only nominal damages); RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 42 cmt. b (2011) ("There is no unjust enrichment (and no claim by the rule of § 42) unless the defendant has obtained a benefit in violation of the claimant's right to exclude others from the interests in question."). *See generally* Caprice L. Roberts, *The Case for Restitution and Unjust Enrichment Remedies in Patent Law*, 14 LEWIS & CLARK L. REV. 653 (2010).

12. *See* RESTATEMENT (FIRST) OF RESTITUTION (1937).

13. *See* RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT (2011).

14. *See* *Root v. Lake Shore & M.S. Ry. Co.*, 105 U.S. 189, 148 (1881) (stating that court of equity will administer relief by awarding compensation computed and measured by the same rule that courts of equity apply to the case of a trustee who has wrongfully used the trust property for his own advantage).

The last section of the Article analyzes gross disgorgement remedies (monetary remedies without allowance for counter-restitution) awarded in federal agency case law, especially claims by the Federal Trade Commission (FTC) and Food and Drug Administration (FDA), that will offer a challenge for the general applicability and relevance of the Restatements. The Supreme Court has now repeatedly held that remedies in equity must be limited to traditional remedies and designated the Restatements authoritative guides for distinguishing traditional remedies in equity.<sup>15</sup> Seemingly, many of the agency opinions conflict with the Restatements and the Supreme Court with impunity. The awards to the FTC and the FDA of gross disgorgement do not resemble traditional monetary remedies in equity in other areas of the law or even for other federal agencies. The Supreme Court and the U.S. Court of Appeals for the Second Circuit established that no federal court has the jurisdiction to make such awards.<sup>16</sup>

## *II. Anti-Netting Doctrine as a Genetic Marker for Monetary Remedies in Equity*

The anti-netting doctrine, which is used to measure unjust enrichment, has three characteristics that highlight some key points in this Article. First, it reveals the breadth of corporate or business litigation influenced by monetary remedies in equity.<sup>17</sup> Second, it is generally applied without any acknowledgement of its origin or rationale.<sup>18</sup> Third, it exemplifies the influence of trust law on the law of restitution and shows how remedies in

---

15. See, e.g., *Great-West Life & Annuity Ins. Co. v. Knudson*, 534 U.S. 204, 217 (2002) ("Rarely will there be need for any more 'antiquarian inquiry' . . . than consulting, as we have done, standard current works such as *Dobbs*, *Palmer*, *Corbin*, and the Restatements, which make the answer clear.").

16. See *Sereboff v. Mid Atl. Med. Servs., Inc.*, 547 U.S. 356, 362 (2006) (stating that not all relief under restitution is permitted in equity); *Grupo Mexicano de Desarrollo, S.A. v. Alliance Bond Fund, Inc.*, 527 U.S. 308, 318 (1999) (discussing the powers of federal courts under the Judiciary Act's grant of jurisdiction over "all . . . suits in equity"); *Sec. Exch. Comm'n v. Cavanagh*, 445 F.3d 105, 117–20 (2d Cir. 2006) (discussing whether disgorgement as a remedy survives *Grupo* as a remedy available at chancery in 1789).

17. See George P. Roach, *Counting the Beans: Unjust Enrichment and the Defendant's Overhead*, 16 TEX. INTELL. PROP. L.J. 483, 523–26 (2008) (discussing the anti-netting doctrine).

18. *Id.*

equity can be measured more appropriately once the rationale is determined.<sup>19</sup>

It is otherwise unknown in the measure of corporate damages for a plaintiff to be allowed to choose which results to include in the remedy. Under the anti-netting doctrine, separate infringements that produce negative results need not be accumulated with the profits of the infringer in the measure of the defendant's unjust enrichment. The interpretation of this anti-netting rule can have a large impact on a monetary award, especially in cases relating to trading operations for stocks and commodities. In a case from the Carter Administration, the difference in unjust enrichment between applying the rule or not resulted in a difference of more than \$500 million in claims made to enforce the pricing differential between old oil and new oil.<sup>20</sup>

This obscure doctrine has been applied in opinions relating to fiduciary claims,<sup>21</sup> patents,<sup>22</sup> copyrights,<sup>23</sup> trademarks,<sup>24</sup> trade secrets,<sup>25</sup> and federal agency claims.<sup>26</sup> The doctrine, therefore, manifests the commonality of measuring unjust enrichment across a wide range of substantive law. Technically, the plaintiff is entitled to deem each infringing unit of production as a separate transaction.<sup>27</sup> The doctrine has been applied to

---

19. *Id.*

20. *United States v. Sutton*, 795 F.2d 1040, 1062–63 (Temp. Emer. Ct. App. 1986).

21. *See King v. Talbot*, 40 N.Y. 76, 91 (1869).

22. *See Crosby Steam-Gage & Valve Co. v. Consol. Safety Valve Co.*, 141 U.S. 441, 457 (1891).

23. *See Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 54–55 (2d Cir. 1939), *aff'd*, 309 U.S. 390 (1940).

24. *See, e.g., Black & Decker (U.S.) Inc. v. Pro-Tech Power Inc.*, 26 F. Supp. 2d 834, 856 (E.D. Va. 1998) ("Given that the calculations of damages rests on equitable considerations, the Court will not allow Pro-Tech to offset the profits it made in 1995, 1995 [sic], 1997, and 1998 by its losses in 1993 and 1996.").

25. *See Adolph Gottscho, Inc. v. Am. Mktg. Corp.*, 139 A.2d 281, 286 (N.J. 1958).

26. *See Secs. & Exch. Comm'n v. Commonwealth Chem. Secs., Inc.*, 574 F.2d 90, 102 (2d Cir. 1978).

27. *See Duplate Corp. v. Triplex Safety Glass Co.*, 298 U.S. 448, 458 (1936), *superseded by statute*, Act of Aug. 1, 1946, Pub. L. No. 79-587, 60 Stat. 778 ("The owner of the patent, in holding the infringers to an accounting, is not confined to all or nothing. There may be an acceptance of transactions resulting in a gain with a rejection of transactions resulting in a loss.").

segregate the defendant's losses as distinguished by year,<sup>28</sup> individual retail outlet,<sup>29</sup> and separate or experimental product lines.<sup>30</sup>

Most explanations for this doctrine fail to explain why the plaintiff should be allowed such discretion: "The owner of the patent, in holding the infringers to an accounting, is not confined to all or nothing. There may be an acceptance of transactions resulting in a gain with a rejection of transactions resulting in a loss."<sup>31</sup> Even though the courts have repeatedly restricted a defendant's ability to offset the loss of one independent infringement with the profit of a separate infringement, none have cited any fundamental rationale other than the fact that the plaintiff and defendant are not partners.<sup>32</sup>

Only one such case actually cited Section 213 of the Restatement of Trusts,<sup>33</sup> which offers the missing explanation: The doctrine comes from claims against an agent for unauthorized investments.<sup>34</sup> The principal is entitled to the greater of the principle invested or the investment's market value for each individual investment, not for the group of investments as a whole.<sup>35</sup> An authority on trust law, Professor Charles Rounds explains the doctrine as follows:

---

28. See *supra* note 24 and accompanying text (discussing profits and losses on an annual basis).

29. *Sheldon*, 106 F.2d at 54–55; *Burger King Corp. v. Mason*, 855 F.2d 779, 781–82 (11th Cir. 1988).

30. *Jones Apparel Grp., Inc. v. Steinman*, 466 F. Supp. 560, 563 (E.D. Pa. 1979).

31. *Duplicate Corp.*, 298 U.S. at 458; see also *Burger King Corp.*, 855 F.2d at 781 ("An accounting for profits has been determined by this Court to further the congressional purpose by making infringement unprofitable, and is justified because it deprives the defendant of unjust enrichment and provides a deterrent to similar activity in the future."); RESTATEMENT (THIRD) OF UNFAIR COMPETITION: THE LAW OF TRADEMARKS § 37 cmt. d (1995) (discussing recoverable profits).

32. See, e.g., *Crosby Steam Gage & Valve Co. v. Consol. Safety Valve Co.*, 141 U.S. 441, 451 (1891); *Duplicate Corp.*, 298 U.S. at 458. But see *Sutton*, 795 F.2d at 1062; *Burger King Corp.*, 855 F.2d at 781–82 (stating that holdover franchisee could not set off losses from some restaurants against profits from others, but was permitted to offset one year's losses against another year's gains from the same restaurant); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 37 cmt. d. (1995) (discussing recoverable profits).

33. *Secs. & Exch. Comm'n v. Commonwealth Chem. Secs., Inc.*, 574 F.2d 90, 102 (2d Cir. 1978).

34. See RESTATEMENT (THIRD) OF TRUSTS § 213 (1992) ("A trustee who is liable for a loss caused by a breach of trust may not reduce the amount of the liability by deducting the amount of a profit that accrued through another and distinct breach of trust . . .").

35. See *King v. Talbot*, 40 N.Y. 76, 91 (1869) ("The rule is perfectly well settled, that a *cestui que trust* is at liberty to elect to approve an unauthorized investment, and enjoy its profits, or to reject it at his option . . .").



If the breaches of trust, however, are not separate and distinct, the trustee is accountable only for the net gain or chargeable only with the net loss resulting therefrom. Without the anti-netting rule, a trustee under certain circumstances might be inclined to commit multiple breaches of trust: "For example, the trustee whose misconduct has caused a loss may take improper risks in pursuit of extra profits if those profits may serve to eliminate or reduce the amount of expected surcharge."<sup>36</sup>

Given this clarification (i.e., that courts in equity want to discourage trustees from risking the principal's assets to erase the trustee's losses), the doctrine may have less applicability than initially indicated by the observation that the plaintiff and defendant are not partners. The doctrine may be less applicable to cases in which the separate infringements occur simultaneously and therefore do not lend themselves to sequential risk. The Third Restatement states the rule correctly and offers supporting citations without referring to Section 213 of the Restatement of Trusts.<sup>37</sup>

Despite the common heritage of monetary remedies in fiduciary, intellectual property (IP) and federal agency law, little attention is given to such commonality in measurement. Some mention is made of the compatibility of measuring remedies in IP, but little between securities and IP claims.<sup>38</sup> At a minimum, a greater acknowledgement of commonality would improve our understanding of the underlying rationale.

---

36. Charles E. Rounds, Jr., *Relief for IP Rights Infringement is Primarily Equitable: How American Legal Education Is Short-Changing the 21st Century Corporate Litigator*, 26 SANTA CLARA COMPUTER & HIGH TECH. L.J. 313, 350 (2010) (quoting RESTATEMENT (THIRD) OF TRUSTS § 213 (1990)).

37. See RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51 cmt. j (2011) ("Profits and losses on the wrongdoer's investments will be treated separately so long as the transaction may be distinguished, so the threshold questions—is this one transaction or a series of separate transactions?—is likely to be 'outcome determinative.'"); RESTATEMENT (FIRST) OF RESTITUTION: FOLLOWING PROPERTY INTO ITS PRODUCT § 202 cmt. i (1937) (addressing successive transactions); GEORGE GLEASON BOGERT & GEORGE TAYLOR BOGERT, THE LAW OF TRUSTS AND TRUSTEES § 865 (rev. 2d ed. 1995) (discussing the use of equitable liens on the trust res or its substitute, which is the product of the trustee's wrongful conduct); 5 AUSTIN WAKEMAN SCOTT, THE LAW OF TRUSTS § 508 (William Franklin Fratcher ed., 4th ed. 1989) (stating that, with respect to conscious wrongdoers, beneficiaries can enforce an equitable lien upon the trust res or its substitute to secure their claim against the trustee for damages arising from a breach of trust).

38. See *Secs. & Exch. Comm'n v. Thomas James Assocs.*, 738 F. Supp. 88, 95 (W.D.N.Y. 1990) ("Even where Congress has expressly provided a disgorgement remedy in a statutory context, as in the area of trademark infringement, it has provided that a violator is entitled to set off all proven costs or deductions against the profits accruing from his violation.").

*III. Monetary Remedies in Nineteenth Century IP Case Opinions*

Congress passed several significant statutes in the nineteenth century regarding patents, copyrights and design patents, but none specified how the defendant's unjust enrichment should be measured. Congress enacted statutory jurisdiction for injunctive relief<sup>39</sup> and relied on the traditional operation of an accounting in equity to measure monetary remedies.<sup>40</sup> In the twentieth century, Congress passed additional statutes that provided further clarification, but they did not alter the actual measure of revenues and expenses.<sup>41</sup> The few statutory provisions that peripherally addressed measurement issues largely codified the existing practice in the nineteenth century. However, Congress overruled the common law in 1946<sup>42</sup> by withdrawing unjust enrichment as a remedy for violations of utility patents, and Congress reversed *Garretson v. Clark*<sup>43</sup> as that opinion related to design patents.<sup>44</sup> Therefore, the measure of unjust enrichment for claims regarding patents, copyrights, trademarks, and trade secrets is derived almost exclusively from traditional principles for accounting in equity.<sup>45</sup>

---

39. See *Root v. Lake Shore & M.S. Ry. Co.*, 105 U.S. 189, 193 (1881) ("[The Patent Act of July 4, 1836] does not enlarge or alter the powers of the court over the subject matter of the bill or the cause of action. It only extends its jurisdiction to parties not before falling within it.") (citations omitted); see also *Stevens v. Gladding*, 58 U.S. 447, 454 (1854) ("[L]ooking to the act of congress applicable to this subject-matter, it appears that the rights claimed by this bill are expressly conferred by way of forfeiture.").

40. See *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 399 (1940) ("Prior to the Copyright Act of 1909 . . . there had been no statutory provision for the recovery of profits, but that recovery had been allowed in equity both in copyright and patent cases as appropriate equitable relief incident to a decree for an injunction.") (citations omitted); I GEORGE E. PALMER, *THE LAW OF RESTITUTION* § 2.7, at 87–88 (1978) ("Decisions of the United States Supreme Court in the 19th century established that in a suit in equity for infringement of patent or copyright, the patent or copyright holder was entitled to recover the profits made through the infringement."). Palmer further stated, "Although the Court sometimes explained this as a method for measuring the plaintiff's damages, it was clear that the relief was based on unjust enrichment, as the Court later recognized. In the cases during this earlier period, recovery of profits could be obtained only in equity . . ." *Id.*

41. See generally Copyright Act of 1909, Pub. L. No. 60-349, 35 Stat. 1075 (1909) *superseded by statute*, Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976); Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976).

42. See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505 (1964).

43. See *Garretson v. Clark*, 111 U.S. 120, 121–23 (1884) (affirming the lower court's reward of nominal damages).

44. See *Nike Inc. v. WalMart Stores, Inc.*, 138 F.3d 1437, 1441 (Fed. Cir. 1998) (stating that Congress reported that "it now appears that the design patent laws provide no effectual money recovery for infringement").

45. See *Sammons v. Colonial Press, Inc.*, 126 F.2d 341, 346 (1st Cir. 1942) ("Accountability of an infringer for profits was enforced in equity, both in patent and

#### IV. Semantics

"The terminology of restitution is abstruse and confusing and is no matter for amateurs."<sup>46</sup>

There is broad agreement among many of the leading authors of articles on restitution that this discipline is not understood well by practitioners or jurists, as the number of "professionals" is very limited.<sup>47</sup> Professor Andrew Kull, the Reporter for the Third Restatement, suggests that part of the confusion may lie with some of the key terms.<sup>48</sup> "Restitution" may have been a poor choice for the First Restatement as it is commonly associated with compensating damages.<sup>49</sup> The authors of the First Restatement tried to introduce the term "restitution" with a revised meaning, but the term's flexibility led to substantial confusion.<sup>50</sup> By renaming the Third Restatement to include both restitution and unjust enrichment, the authors manifest their belief that the two terms are synonymous. Now the authors of the Third Restatement offer another synonym—disgorgement. It should be understood

copyright cases, on the same equitable principles, even before the patent and copyright laws specifically authorized this relief."); *see also* RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 42 (2011) (describing a restitution claim based on unauthorized interference with recognized forms of intellectual property).

46. 1 DAN DOBBS, *LAW OF REMEDIES, PRACTITIONER TREATISE SERIES* § 4.1(2), at 556 (2d ed. 1993).

47. *See* Colleen Murphy, *Misclassifying Monetary Restitution*, 55 S.M.U. L. REV. 1577, 1581 (2002) ("The general law of restitution is for many an obscure subject, perhaps explaining why so much confusion exists as to when monetary remedies are properly characterized as restitutionary."); *see also* Andrew Kull, *Rationalizing Restitution*, 83 CAL. L. REV. 1191, 1191–92 (1995) ("The linguistic confusion that bedevils the law of restitution—necessitating laborious definitions before anyone can understand what you are talking about—affords an early indication that the common name of this neglected body was significantly ill-chosen."); Douglas Laycock, *The Scope and Significance of Restitution*, 67 TEX. L. REV. 1277, 1277 (1989) ("Despite its importance, restitution is a relatively neglected and underdeveloped part of the law."); Doug Rendleman, *Common Law Restitution in the Mississippi Tobacco Settlement: Did the Smoke Get in Their Eyes?*, 33 GA. L. REV. 847, 892 (1999) ("Restitution is becoming a lost art . . .").

48. *See* Kull, *supra* note 47, at 1195 (discussing the "persistent uncertainty" associated with the law of restitution).

49. *See* RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 1 cmt. e(2) (2011) ("It is a natural use of the language to speak of requiring a criminal to 'make restitution'; the problem is that the liability imposed in such cases is not based primarily on unjust enrichment, but on compensation for harm.").

50. *See* RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 4 cmt. c (2011) ("As posed today in American courts, the question whether restitution is legal or equitable is essentially artificial. . . . The likely explanation lies first in the protean character of the word 'restitution.' . . . Second is the attenuated association of ideas that runs from 'restitution' through 'unjust enrichment' to 'equity.'").

that by equating disgorgement to an accounting in equity,<sup>51</sup> the authors intend all three terms to be largely synonymous and measured as an accounting for defendants with wrongful intent. At present, there is substantial confusion in federal agency case law between the three terms, as unjust enrichment and restitution are sometimes distinguished from disgorgement, which is held to preclude counter-restitution as a matter of law.<sup>52</sup> For the purposes of this Article, the term "gross disgorgement" is intended to refer to the measure of unjust enrichment without offsets for counter-restitution as a matter of law. Similarly, the Article will refer to disgorgement by "default" to include cases in which the defendant is awarded no counter-restitution because she failed to establish sufficient evidence or the defendant's unjust acts were held as contempt.

#### A. Profit vs. Advantage

The distinction between the objectives of disgorging the defendant's profit or the defendant's advantage might seem slight but it has been magnified to justify two opposing views of measuring unjust enrichment or restitution. Advocates of the full-absorption approach to measuring restitution—principally, the First, Second, and Ninth Circuits<sup>53</sup>—assert that because the goal is to measure the defendant's profits, such a measure should deduct allocated overhead and other fixed costs from the defendant's revenues to conform with the normal accounting definition of profit.

---

51. See *Secs. & Exch. Comm'n v. Cavanagh*, 445 F.3d 105, 116 n.24 (2d Cir. 2006) ("The history of the use of 'disgorgement' to mean the giving up of wrongly-gotten assets is uncertain. Although the Oxford English Dictionary traces such use to 1837 . . . in 1974 it 'appeared to be a term of modern vintage' in legal contexts to one federal court." (citations omitted)); RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51 cmt. a (2011) (stating that restitution measured by the defendant's wrongful gain is frequently called "disgorgement," or an "accounting," or an "accounting for profits").

52. See *infra* Section IX (discussing both Federal Trade Commission and Food and Drug Administration claims for gross disgorgement).

53. See *Hamill Am., Inc. v. GFI, Inc.*, 193 F.3d 92, 106 (2d Cir. 1999) ("[W]e have assumed that general overhead expenses were deductible and reviewed only the sufficiency of the nexus between the expense and the infringing product and/or adequacy of the adduced formula for allocating overhead costs to the production of the infringing product."); *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 515 (9th Cir. 1985) ("A portion of an infringer's overhead properly may be deducted from gross revenues to arrive at profits, at least where the infringement was not willful, conscious, or deliberate."); *Sammons v. Colonial Press, Inc.*, 126 F.2d 341, 348 (1st Cir. 1942) ("[T]he cases seem to assume, without much discussion, that the infringer is entitled to a deduction of that portion of the overhead expense properly allocable to the particular job.").

Supporters of the incremental income approach—principally, the Fifth, Seventh, and Eleventh Circuits<sup>54</sup>—advocate excluding fixed costs in the measure of counter-restitution to ensure that the defendant is denied any incentive to pursue her unjust actions.<sup>55</sup>

The 1872 Supreme Court opinion in *Mowry v. Whitney*<sup>56</sup> focused less on the defendant's literal profits and more broadly on the defendant's fruits of the advantage gained:

The question to be determined in this case is, what advantage did the defendant derive from using the complainant's invention over what he had in using other processes then open to the public and adequate to enable him to obtain an equally beneficial result. The fruits of that advantage are his profits. . . . That advantage is the measure of profits.<sup>57</sup>

This phrase has been widely repeated and cited.<sup>58</sup> The Supreme Court highlighted the same concept in 1940.<sup>59</sup> The focus on the defendant's

54. See *Abbott Labs. v. Unlimited Beverages, Inc.*, 218 F.3d 1238, 1242 (11th Cir. 2000) (stating that a court can award the defendant's profits to the plaintiff under the Lanham Act, 15 U.S.C. § 1117(a)); *Taylor v. Meirick*, 712 F.2d 1112, 1120 (7th Cir. 1983) ("By preventing infringers from obtaining any net profit it makes any would-be infringer negotiate directly with the owner of a copyright that he wants to use, rather than bypass the market by stealing the copyright and forcing the owner to seek compensation from the courts for his loss."); *Maltina Corp. v. Cawy Bottling Co. Inc.*, 613 F.2d 582, 585 (5th Cir. 1980) ("[W]e find the district court properly ordered [the defendant] to account the plaintiffs for the profits it earned from its willful infringement. This accounting serves two purposes: [R]emedying unjust enrichment and deterring future infringement.").

55. Financial incentives are deemed significant if the defendant's activities are allowed to absorb fixed costs. For a detailed discussion of the case law that supports the full absorption or incremental cost approaches, see Roach, *supra* note 17.

56. See *Mowry v. Whitney*, 81 U.S. 620, 648–53 (1871) (holding that the charge of the infringement against the defendant is sustained, but the defendant is not liable to the plaintiff for interest on profits).

57. *Id.* at 651.

58. See, e.g., *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 400 (1940) ("The profits, therefore, which [the defendant] must account for, are . . . the fruits of the advantage which he derived from the use of that invention . . ."); *Coupe v. Royer*, 155 U.S. 565, 583 (1895); *Keystone Mfg. Co. v. Adams*, 151 U.S. 139, 147 (1894); *Sessions v. Romadka*, 145 U.S. 29, 45 (1892); *Root v. Lake Shore & M.S. Ry. Co.*, 105 U.S. 189, 197–98 (1881); *Mfg. Co. v. Cowing*, 105 U.S. 253, 255 (1881); *Littlefield v. Perry*, 88 U.S. 205, 228 (1874); *Swan Carburetor Co. v. Nash Motors Co.*, 133 F.2d 562, 565 (4th Cir. 1943); *Horvath v. McCord Radiator & Mfg. Co.*, 100 F.2d 326, 330 (6th Cir. 1938); *Dunkley Co. v. Cent. Cal. Canneries*, 7 F.2d 972, 975 (9th Cir. 1925); *Van Kannel Revolving Door Co. v. Uhrich*, 297 F. 363, 368 (8th Cir. 1924); *Phila. Rubber Works Co. v. U.S. Rubber Reclaiming Works*, 277 F. 171, 176 (2d Cir. 1921); *Cambria Iron Co. v. Carnegie Steel Co.*, 224 F. 947, 949 (3d Cir. 1915); *Wales v. Waterbury Mfg. Co.*, 101 F. 126, 129 (2d Cir. 1900); *Bus. Trends Analysts, Inc. v. Freedomia Group, Inc.*, 700 F. Supp. 1213, 1238 (S.D.N.Y. 1988), *aff'd in part, rev'd in part*, 887 F.2d 399 (2d Cir. 1989); *Van Brunt v. La*

advantage, as distinguished from profit, evolved from two influences. First, there exists case law for claims against a trustee that addressed enrichment as "the fruit of the advantage" before the Supreme Court used the phrase in 1872.<sup>60</sup> It seems unlikely that Justice Strong's opinion in *Mowry* borrowed the term from a Delaware fraud case<sup>61</sup> or a Mississippi fiduciary case;<sup>62</sup> it seems more likely that the three cases borrowed the term from a common source presently unknown.

The second influence is from claims for negative enrichment, recognized by American courts as distinguished from British courts, which do not recognize such claims even today.<sup>63</sup> The Supreme Court faced a series of cases addressing liability for patent infringement against a defendant whose operations were unprofitable. The Court held that the defendant is enriched if the plaintiff can show that the defendant's losses would have been greater without the infringement, reflecting the "but-for" standard of causation and apportionment. The fruit of the advantage was

---

Crosse Plow Co., 208 F. 281, 287 (W.D. Wis. 1913), *aff'd*, 220 F. 626 (7th Cir. 1915).

59. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 400 (1940); *see also Carter Prods., Inc. v. Colgate-Palmolive Co.*, 214 F. Supp. 383, 408 (D. Md. 1963) (discussing the comparison between "advantages" and "profits"); *Gotham Silk Hosiery Co. v. Artcraft Silk Hosiery Mills, Inc.*, 33 F. Supp. 344, 345–46 (D. Del. 1940) ("In settling an accounting between a patentee and an infringer of the patent, the question is: [N]ot what profits the latter has made in his business, or from his manner of conducting it, but what advantage has he derived from his use of the patented invention?" (citing *Ill. Cent. R.R. Co. v. Turrill (In re Cawood Patent)*, 94 U.S. 695, 696 (1877), *aff'd*, 110 U.S. 301 (1884))).

60. *See Miller v. Baynard*, 7 Del. 559, 567–68 (Del. Err. & App. 1863) ("[I]s it right to permit [the defendant], either at law or equity, to avail himself of the fruits of an advantage obtained by artifice or deception?"); *Winn v. Dillon*, 27 Miss. 494, 497 (Miss. Err. & App. 1854) ("[T]he well-established principles of equity prevent a party from reaping the fruits of such an advantage, and declare that the property so acquired must be held in trust for the benefit of the party justly entitled to it.").

61. *Miller*, 7 Del. at 567–68.

62. *Winn*, 27 Miss. at 497.

63. The British definition of unjust enrichment has not included the notion of "negative unjust enrichment." Consider the case of *Celanese Int'l Corp. v. BP Chems. Ltd.*, [1999] RPC 203 (Ch. D. 1998), relating to the infringement of a patent on acetic acid. Two operations of the defendant infringed the plaintiff's patent. *Id.* at 203. The judge held that unjust enrichment could only be awarded from the profitable operation despite the fact that both incurred savings as a result of the infringement. *Id.* at 204; *see also Attorney Gen. v. Blake*, [2001] 1 AC (HL(E)) 284 (discussing whether an account for profits can be given as a remedy for breach of contract); JAMES EDELMAN, GAIN-BASED DAMAGES: CONTRACT TORT, EQUITY AND INTELLECTUAL PROPERTY 74–76 (2002) (discussing disgorgement damages when no profit is made, but expense is saved).

defined as an improvement in the defendant's profits or savings, not the profits themselves.<sup>64</sup>

Courts and legislators share the goal of denying any economic incentive to infringe.<sup>65</sup> For example, Congress explicitly stated that the goal of the Lanham Act is to deny that incentive.<sup>66</sup> Supporters of the incremental cost approach assert that targeting the disgorgement of advantage denies all incentives, including absorption of overhead.<sup>67</sup>

Advocates of the full absorption approach focus instead on disgorging "profit," which they measure in a literal accounting sense.<sup>68</sup> Their approach argues that fixed overhead must be deducted from operating income to

64. See *Ill. Cent. R.R. Co. v. Turrill (In re Cawood Patent)*, 94 U.S. 695, 710 (1877), *aff'd*, 110 U.S. 301 (1884) ("In settling an account between a patentee and an infringer of the patent, the question is, not what profits the latter has made in his business, or from his manner of conducting it, but what advantage has he derived from his use of the patented invention."); see also *Mfg. Co. v. Cowing*, 105 U.S. 253, 255 (1882) ("The question to be determined . . . is, what advantage did the defendant derive from using the complainant's invention over what he had in using other processes then open to the public, and adequate to enable him to obtain an equally beneficial result. The fruits of the advantage are his profits."); *DOBBS*, *supra* note 46, § 4.5(2), at 632 n.6 ("If the defendant has realized savings or will more likely than not realize savings . . . those savings can form the basis for figuring restitution. The savings measure is not a market measure. To save an expense is to increase a profit or surplus. . . . [T]his is a consequential restitution measure.").

65. See *Providence Rubber Co. v. Goodyear*, 76 U.S. 788, 804 (1870), *superseded by statute*, Act of Aug. 1, 1946, Pub. L. No. 79-587, 60 Stat. 778, *as recognized in* *Am. Med. Sys. v. Med. Eng'g Corp.*, 6 F.3d 1523 (Fed. Cir. 1993) ("The controlling consideration is that he shall not profit by his wrong. A more favorable rule would offer a premium to dishonesty and invite to aggression."); *Dean v. Mason*, 61 U.S. 198, 203 (1858) ("The rule in such a case is, the amount of profits received by the unlawful use of the machines, as this, in general, is the damage done to the owner of the patent."); *Maier Brewing Co. v. Fleischmann Distilling Corp.*, 390 F.2d 117, 121 (9th Cir. 1968) (stating that a restrictive approach to accounting of profits does not meet the goals of the Lanham Act); *Teaching Co. v. Unapix Entm't, Inc.*, 87 F. Supp. 2d 567, 589 (E.D. Va. 2000) (discussing whether accounting of the profits of a trademark infringer is proper); *Dad's Root Beer Co. v. Doc's Beverages, Inc.*, 94 F. Supp. 121, 122 (S.D.N.Y. 1950), *aff'd*, 193 F. Supp. 77 (2d Cir. 1951) (applying New York law).

66. See *Maier Brewing Co.*, 390 F.2d at 122 (stating that to accomplish the goals of the Lanham Act, courts must make "acts of trade-mark infringement, or at the very least acts of deliberate trade-mark piracy, unprofitable").

67. See RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51 cmt. e (2011) ("The object of the disgorgement remedy—to eliminate the possibility of profit from conscious wrongdoing—is one of the cornerstones of the law of restitution and unjust enrichment.").

68. See *id.* § 42 cmt. i ("By contrast, the result of excluding a deduction that is relevant to the calculation of net profits—and for which the defendant will not otherwise be reimbursed—is that the accounting for profits is made to encompass a punitive element.").

conform to normal accounting practice.<sup>69</sup> Critics of full absorption, including the author of this Article, respond that there is no basis for interjecting modern accounting practices into a traditional remedy.<sup>70</sup> The term "profit" was in general use well before the development of generally accepted accounting principles.<sup>71</sup> Second, measuring profit for disgorgement has always been distinct from normal management accounting, as it makes adjustments for the services of the defendant, infringing expenses, and public policy concerns. Third, the term "advantage" implies the marginal benefit profit in excess of the defendant's "but-for" position.<sup>72</sup>

The Third Restatement fully reflects the split in federal circuits over the two approaches: The full absorption approach is supported in Section 42 and the incremental cost approach in Section 51.<sup>73</sup> The rationale of Section 51 focuses on denying the incentive to infringe:

By contrast, the defendant will not be allowed to deduct expenses (such as ordinary overhead) that would have been incurred in any event, if the result would be that defendant's wrongful activities—by defraying a portion of overall expenses—yield an increased profit from defendant's operations as a whole.<sup>74</sup>

Section 42 concludes that the disgorgement of the defendant's income without a credit for allocated overhead would be punitive and must be avoided.<sup>75</sup> To an outsider of the Third Restatement, the contradiction in principles may be further confused by the range of terms used to describe the object of the measurement process. The Third Restatement speaks of

---

69. See *id.* § 51 cmt. e (providing how profits are accounted and discussing the question of attribution).

70. See, e.g., Roach, *supra* note 17, at 587, 590 (criticizing the full-absorption approach and supporting the incremental cost approach, and stating that the full-absorption approach appears inconsistent with the primary purpose of the Third Restatement).

71. See, e.g., *Mark* 8:36 (King James) ("For what shall it profit a man, if he shall gain the whole world, and lose his own soul?"); WILLIAM SHAKESPEARE, *THE TAMING OF THE SHREW*, act 1, sc. 1 ("No profit grows where is no pleasure ta'en: In brief, sir, study what you most affect.").

72. See *supra* notes 63–64 and accompanying text (discussing the "but-for" doctrine).

73. See RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 42 cmt. d (2011) (discussing damages and profits); *id.* § 51 cmt. e (citing uses of the "incremental change method").

74. *Id.* § 51 cmt. h.

75. Compare *id.* § 51 cmt. e (providing a good example of the incremental approach), with *id.* § 42 (providing a good example of the full absorption approach).



disgorging profit, net profit, gain, net gain, benefit, etc.<sup>76</sup> In Section IX, the Article will show that federal agencies tend to exploit the ongoing confusion over the distinctions between restitution, unjust enrichment, disgorgement and terms that vary in meaning by claiming legal remedies as remedies in equity.

### V. *Quasi-Trustee*

Understanding the contributions of trust law to measuring unjust enrichment in equity is important not only to provide a grounding in the foundations of the remedy but also to appreciate the boundaries to the measure. In a 1924 opinion on patent remedies, Judge Geiger, a federal district judge in Wisconsin, suggested that the standard for awarding indemnity to a trustee in default should be the minimum standard for measuring counter-restitution for willful defendants' unjust enrichment.<sup>77</sup> Assuming that a patent infringer's liability is analogous to that of a trustee in default, he concluded that such a defendant should be treated no worse.<sup>78</sup>

The Third Restatement acknowledges a connection between the law of trusts and the law of restitution and unjust enrichment.<sup>79</sup> In particular, the Third Restatement affirms Judge Geiger's assumption that measuring unjust enrichment for the misappropriation of intellectual property should be measured no more severely than for a trustee in default: "Thus in the context of intellectual property, the notion of treating the infringer as a trustee under a duty to account has been codified in the remedial provisions of the Copyright Act . . . ."<sup>80</sup>

The Supreme Court has held that while a defendant to a claim ancillary to injunctive relief is not, in fact, a trustee to the plaintiff, the measure of the defendant's unjust enrichment greatly resembles that for a trustee in default.<sup>81</sup> The Court analyzed this similarity as it related to the issue of

---

76. See, e.g., *id.* § 42 (addressing how to account for profits, gains, and benefits); *id.* § 51 (instructing how to determine net profit).

77. See *Christensen v. Nat'l Brake & Elec. Co.*, 10 F.2d 856, 861–62 (E.D. Wis. 1924) (discussing the characterization of an infringer as a trustee *ex maleficio*).

78. See *id.* at 862 ("[I]t would be anomalous to withhold from an infringer, merely because his liability is said to be analogous to that of a trustee *ex maleficio*, credits for disbursements which . . . would have been unhesitatingly given him because the law demands that he incur them as a matter of duty.").

79. See RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 1 (2011).

80. *Id.* § 51 cmt. i.

81. See *Root v. Lake Shore & M.S. Ry. Co.*, 105 U.S. 189, 214 (1881).

jurisdiction for a patent claim.<sup>82</sup> The specific issue concerned whether a patent owner could seek monetary relief in equity after the patent expired.<sup>83</sup> The Court held that while the defendant's position was similar to that of a defendant trustee, there was no fiduciary relationship.<sup>84</sup> In the absence of a legitimate claim for injunctive relief, the owner of an expired patent had no jurisdiction in equity. However, the Court held in a different case that the plaintiff's remedy should be measured as if the defendant were a self-dealing trustee.<sup>85</sup> This principle has been frequently repeated by key opinions in the nineteenth and twentieth centuries, including *Sheldon*.<sup>86</sup>

---

82. *See id.* ("The patentee, succeeding in establishing his right, is entitled to an account of the profits realized by the infringer, and that the rule for ascertaining the amount of such profits is that of treating the infringer as though he were a trustee for the patentee, in respect to profits.").

83. *Id.*

84. *See id.* ("[I]t is nowhere said that the patentee's right to an account is based upon the idea that there is a fiduciary relation created between him and the wrong-doer by the fact of infringement.").

85. *See id.*; *see also* *Tilghman v. Proctor*, 125 U.S. 136, 148 (1888), *superseded by* statute, Act of Aug. 1, 1946, Pub. L. No. 79587, 60 Stat. 778, *as recognized in* *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983) (stating that courts should award relief as "measured by the same rule that courts of equity apply to the case of a trustee who has wrongfully used the trust property for his own advantage").

86. *See Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 399 (1940) (stating that prior to a statutory provision, recovering profits had been allowed in equity as appropriate relief "incident to a decree for an injunction"); *L.P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co.*, 277 U.S. 97, 100 (1928) (stating that the defendant does not have to account for materials and labor, but "it does not follow that [the defendant] should be allowed what he paid for the chance to what he knew that he had no right to do"); *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251, 259 (1916) (requiring, through equity, that a trademark infringer account for and yield gains to the true owner by analogy to a trustee's liability for profits acquired by wrongful use of trust property); *Packet Co. v. Sickles*, 86 U.S. 611, 617-18 (1873) ("It is that of converting the infringer into a trustee for the patentee as regards the profits thus made, and the adjustment of these profits is subject to all the equitable considerations which are necessary to do complete justice between the parties . . ."); *Georgia Pacific Corp. v. U.S. Plywood Corp.*, 243 F. Supp. 500, 517 (S.D.N.Y. 1965) ("[A] compensation computed and measured by the same rule that courts of equity apply to the case of a trustee who has wrongfully used the trust property for his own advantage."); *Dad's Root Beer Co. v. Doc's Beverages, Inc.*, 94 F. Supp. 121, 122 (S.D.N.Y. 1950), *aff'd*, 193 F.2d 77 (2d Cir. 1951) (stating the rule governing federal trademark infringement law); *Triplex Safety Glass Co. v. Pittsburgh Plate Glass Co.*, 38 F. Supp. 639, 642 (D. Del. 1941) ("The patent infringer is not a trustee and the trust analogy is merely used as a measure of compensation."); *see also* *Joel Eichengrun, Remedying the Remedy of Accounting*, 60 IND. L.J. 463, 484 (1985) ("[T]he reference to constructive trust may be read as suggesting an analogy; just as the court will declare a wrongdoer to be a fictitious, 'constructive' trustee so, too, the court will impose the obligation to account on a wrongdoer when it is appropriate . . .").

While the claim of a trustee in default for compensation for services is problematic, the claim for indemnity for reasonable expenses by that same trustee is more assured. Section 244 of the Restatement (Second) of Trusts provides that the trustee's indemnity survives a breach of trust,<sup>87</sup> even if the expense was not properly incurred,<sup>88</sup> if those expenses benefit the trust. Otherwise the estate would be unjustly enriched. Similarly, Section 177 of the First Restatement makes it clear that counter-restitution is required regardless of whether the defendant committed fraud or the plaintiff made a mistake.<sup>89</sup>

Professor Rounds explains the trustee's right to indemnity even when the trustee is in default:

It is black letter law that if a trustee incurs an expense incident to an unauthorized self dealing transaction, and in so doing confers upon the trust estate a benefit, the trustee is ordinarily entitled to indemnity to the extent of the benefit of the value conferred. He who seeks equity must do equity. The Restatement (Third) of Trusts is generally in accord. Under the Uniform Trust Code, a trustee is entitled to be reimbursed out of the trust property, with interest as appropriate, expenses that were not properly incurred in the administration of the trust to the extent necessary to prevent unjust enrichment of the trust.<sup>90</sup>

---

87. See RESTATEMENT (SECOND) OF TRUSTS: INDEMNITY OF TRUSTEE FOR EXPENSES § 244 cmt. e (1959) ("If the trustee has properly incurred an expense for which he would be entitled to indemnity but has also incurred a liability for a breach of trust . . . the amount of his liability can be set off against the amount to which he would otherwise be entitled as indemnity . . ."); *id.* § 244 cmt. c ("To the extent to which the trustee is entitled to indemnity, he has a security interest in the trust property. He will not be compelled to transfer the trust property to the beneficiary . . . until he is paid or secured for the amount of expenses properly incurred . . .").

88. See *id.* § 245(2) ("Although an expense is not properly incurred in the administration of the trust, the trustee is entitled to indemnity out of the trust estate for such expense to the extent that he has thereby conferred a benefit upon the trust estate, unless under the circumstances it is inequitable . . .").

89. See RESTATEMENT (FIRST) OF RESTITUTION: CONSTRUCTIVE TRUSTS AND ANALOGOUS EQUITABLE REMEDIES § 177 cmt. c (1937) ("The rule stated in this Section is applicable where the owner of property transfers it to another, being induced by fraud, duress, undue influence or mistake, and the transferee discharges a mortgage upon the property, or pays taxes thereon (see § 158, Comment b).").

90. Rounds, *supra* note 36, at 348–49 (2010) (citing RESTATEMENT (SECOND) OF TRUSTS § 245 cmts. c–d (1959)); see also 3 AUSTIN WAKEMAN SCOTT ET AL., SCOTT AND ASCHER ON TRUSTS § 18.1.2.6, at 1294–95 (5th ed. 2006) (discussing when a trustee improperly incurs an expense on behalf of the trust); *id.* § 22.2.1, at 1634–35 (discussing when a trustee is entitled to indemnity for expenses improperly incurred); JOHN MOWBRAY ET AL., LEWIN ON TRUSTS ¶ 21-25, at 539–40 (17th ed. 2000) (discussing "indemnity in respect of unauthorized transactions").

Rounds cautions, however, that under the Uniform Trust Code,<sup>91</sup> the denial or delay of a trustee's indemnity can be justified by a court after balancing five equitable factors, including the benefit to the plaintiff.<sup>92</sup>

The Restatement (Second) of Agency<sup>93</sup> takes a mixed view. Comment c of Section 403 provides that a disloyal agent who profits improperly may not deduct the amount of any expenses incurred in acquiring the profit.<sup>94</sup> The case opinions that have addressed this obscure provision are divided. Cases that cited the provision favorably denied some, but not all of the disloyal agent's expenses.<sup>95</sup> A subsequent case that rejected the provision, however, supported its opposition by citing a U.S. Court of Appeals for the District of Columbia opinion.<sup>96</sup> Neither the D.C. Circuit opinion nor a separate opinion from the U.S. Court of Appeals for the Fourth Circuit specifically addresses the Restatement provision, but both cases affirm counter-restitution for a disloyal agent.<sup>97</sup> The D.C. Circuit opinion related

91. See UNIFORM TRUST CODE § 709 (2006) (providing the five appropriate grounds for delay or denial of reimbursement for expenses which benefited the trust).

92. See Rounds, *supra* note 36, at 349 n.246 (discussing the Uniform Trust Code). Section 709 of the Uniform Trust Code provides:

Appropriate grounds . . . [for delay or even denying reimbursement for expenses which benefited the trust] . . . include: (1) [W]hether the trustee acted in bad faith in incurring the expense; (2) whether the trustee knew that the expense was inappropriate; (3) whether the trustee reasonably believed the expense was necessary for the preservation of the trust estate; (4) whether the expense has resulted in a benefit; and (5) whether indemnity can be allowed without defeating or impairing the purposes of the trust.

Uniform Trust Code § 709 (2006).

93. See *generally* RESTATEMENT (SECOND) OF AGENCY (1958).

94. See RESTATEMENT (SECOND) OF AGENCY: LIABILITIES § 403 cmt. c (1958) ("An agent who receives a bribe or otherwise profits improperly cannot, in an action by the principal to recover it or its value, deduct the amount of expenses to which he has been put in acquiring it.")

95. See *Raymond Farmers Elevator Co. v. Am. Surety Co.*, 290 N.W. 231, 235 (Minn. 1940) (agreeing with Restatement of Agency in disallowing truck operating costs but allowing the cost of grain in grain sale revenue).

96. See *Burg v. Miniature Precision Components, Inc.*, 330 N.W.2d 192, 199 (Wis. 1983) ("The court of appeals thoroughly analyzed this issue and in a well-reasoned opinion concluded that . . . it would be unfair to the agent and provide a windfall to the principal to deprive the agent of his or her gross receipts without permitting a deduction for legitimate business expenses.")

97. See *Jay v. Gen. Realities Co.*, 49 A.2d 752, 755 (D.C. 1946) ("But we think that save in exceptional cases such a rule is too harsh . . . . This is the reasoning of a number of cases which declare that the net rather than the gross profit realized by an agent should be the measure of recovery." (citing *Anderson Cotton Mills v. Royal Mfg. Co.*, 20 S.E.2d 818 (N.C. 1942))); see also *Willis v. Van Woy*, 20 So. 2d 690, 692 (Fla. 1945) (stating that the value of services should be ascertained and that amount credited against the agent's secret

to the secret profit of a real estate agent and the Fourth Circuit opinion to a federal government employee who made a profit smuggling goods into India under cover of his position at Association for Indians Development (AID).<sup>98</sup>

Inexplicably, Section 403 of the Restatement of Agency was recently cited by the Third Restatement without mention of Section 439, which contradicts Section 403.<sup>99</sup>

Indemnity is allowed, even though in the transaction the agent committed a breach of trust. Thus where an agent, who is authorized to buy property, makes a secret profit, the principal must indemnify the agent for his proper expenditures, although entitled to any improper profit made by the agent.<sup>100</sup>

Using the analogy of quasi-trustee inevitably leads to the conclusion that the defendant in an unjust enrichment case has a right to prove counter-restitution just as much as the defaulting trustee is entitled to indemnity. Furthermore, the standard for trustee indemnity, examining the benefit to the plaintiff, can provide a broader foundation for reviewing proposed counter-restitution. Professor Charles Rounds agrees:

---

profit which has been awarded as damages to the plaintiff); *Schwarting v. Artel*, 40 Cal. App. 2d 433, 441 (Cal. Dist. Ct. App. 1940) ("[W]here an agent has secretly profited . . . to the end that equity be done to all parties, he is entitled to be reimbursed for any portion of the purchase money advanced by him and for all expense necessarily incurred by him in protecting and conserving the property of his principal."); *Sawyer v. Issenhuth*, 141 N.W. 378, 380 (S.D. 1913) ("Defendant and his wife . . . held the legal title to said real estate in trust for plaintiff, and when defendant later sold the same plaintiff was entitled to the net proceeds or profits of such sale over and above what she had already received from defendant."); *Judevine v. Hardwick*, 49 Vt. 180, 182 (Vt. 1876) (stating that an agent must account to his principal for whatever profits he makes); *Dutton v. Willner*, 52 N.Y. 312, 319 (N.Y. 1873) (ordering the arrant agent to pay the proceeds of the life insurance policy to the principal's estate but the agent was credited for premium payments).

98. See *United States v. Wight*, 839 F.2d 193, 197 (4th Cir. 1987) ("In determining the amount of wrongful profits that a principal may recover from an agent, the trial court must deduct the agent's expenses." (citing *Jay v. Gen. Realities Co.*, 49 A.2d 752, 755 (D.C. 1946))).

99. RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51 (2011) (stating that Illustration 21 is based on Section 403, cmt. c).

100. RESTATEMENT (SECOND) OF AGENCY: CONTRACTUAL AND RESTITUTIONAL DUTIES AND LIABILITIES § 439 cmt. a (citing *Schwarting v. Artel*, 105 P.2d 380 (1940)); see also SCOTT, *supra* note 37, § 243 ("Although the trustee is denied compensation because of breaches of trust committed by him, he is not denied indemnity for expenses properly incurred by him; but his liability for loss resulting from a breach of trust may be set off against his claim to indemnity.").

Whether it is the case of the trustee of an express trust who has engaged in unauthorized self-dealing or the proprietary remedial constructive trustee of someone else's IP rights, this equitable right of indemnity is grounded in Equity's contribution to the law of unjust enrichment, specifically the equitable right of counter-restitution. The court in equity is loath to fashion a remedy that leaves either party unjustly enriched.<sup>101</sup>

### VI. Counter-Restitution

"If you are fraudulently induced to buy a cake you may return it and get back your price; but you cannot both eat your cake and return your cake."<sup>102</sup>

This Article advocates recognition of a rule of counter-restitution that requires the court to provide a defendant the opportunity to prove that the amount of unjust enrichment initially established by the plaintiff should be reduced or "set-off" on account of apportionment or reasonable expenses necessary to maintain the plaintiff's asset or generate the revenues that benefitted the plaintiff.

Few observers would deny the importance of counter-restitution, because it manifests the court in equity's commitment to fairness and justice for both parties. When a court in equity weighs a remedy, it strives to leave neither party unjustly enriched. George Palmer explains this key feature in relation to rescission claims:

The requirement that a party who obtains restitution must return or otherwise account for benefits received in an exchange transaction does not rest on a principle of mechanics: that since the transaction is being rescinded it necessarily follows that there must be a reexchange of benefits transferred on each side. Instead, the true basis of the requirement is to prevent the unjust enrichment of the plaintiff, who is himself seeking restitution based on the defendant's unjust enrichment.<sup>103</sup>

---

101. Rounds, *supra* note 36, at 349.

102. CHARLES MITCHELL & PAUL MITCHELL, LANDMARK CASES IN THE LAW OF RESTITUTION 143 (2006) (quoting *Clarke v. Dickson* (1858) EB & E 148, 152–54; 120 ER 463, 465–66).

103. See PALMER, *supra* note 40, § 3.12, at 303; see also *Packet Co. v. Sickles*, 86 U.S. 611, 617–18 (1873) ("It is that of converting the infringer into a trustee for the patentee as regards the profits thus made; and the adjustment of these profits is subject to all the equitable considerations which are necessary to do complete justice between the parties . . .").

At times the principle of "total equity" is also supported by (1) the maxim that to get equity you must do equity;<sup>104</sup> (2) the belief that to deny counter-restitution can result in the unjust enrichment of the plaintiff;<sup>105</sup> and (3) the belief that to deny counter-restitution would punish the defendant, a result repugnant to courts in equity.<sup>106</sup>

The key issues, exacerbated by the surge in litigation by federal agencies, are whether all defendants are entitled to the opportunity to prove appropriate counter-restitution, and whether this opportunity is regularly withheld, as a matter of law, from predefined subgroups or a certain type of individual defendant because of the nature of their unjust acts.

The process of measuring unjust enrichment is often described as a two-step process<sup>107</sup>: (1) for the plaintiff to shift the burden of proof by identifying the relevant assets or revenues in defendant's possession that relate to the unjust act; and (2) for the defendant to prove adjustments for counter-restitution.<sup>108</sup> "Just as the trustee must substantiate any claims for indemnity, the defendant in a claim for unjust enrichment in equity has the burden of proving all offsets for counter-restitution."<sup>109</sup> In practice, the

104. See *Stanley v. Gadsby*, 35 U.S. 521, 522 (1836) (holding that to be entitled to injunctive relief against a usurious creditor, the debtor must offer to pay interest and principal); *Cardiac Thoracic v. Bond*, 840 S.W.2d 188, 193 (Ark. 1992) ("The equitable objective of a return to the status quo as the result of a rescission is consistent with the equitable maxim 'he who seeks equity must do equity.'").

105. See DAN DOBBS, *HANDBOOK ON THE LAW OF REMEDIES* § 4.3, at 254–55 (1973) (stating that rescission is normally accompanied by restitution on both sides, which "restores the pre-existing state of affairs"). The Restatement of Restitution is in full accord: "Where the right to restitution is dependent upon restoration by the person seeking restitution, he cannot enforce a constructive trust without making restoration." *RESTATEMENT (FIRST) OF RESTITUTION: GENERAL PRINCIPLES* § 177 (1937).

106. See *Tilghman v. Proctor*, 125 U.S. 136, 145 (1888) *superseded by statute*, Act of Aug. 1, 1946, Pub. L. No. 79587, 60 Stat. 778, *as recognized in* *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983) ("[I]t is inconsistent with the ordinary principles and practice of courts of chancery . . . to permit the wrongdoer . . . to undertake to punish him by obliging him to pay more than a fair compensation to the person wronged."); see also *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 400 (1940) (stating that the infringer must only account for the "fruits of the advantage" which he derived from the infringement); *Christensen v. National Brake & Electric Co.*, 10 F.2d 856, 862 (E.D. Wis. 1926) (noting that equity is loath to fashion a remedy that is "punitive").

107. See *Fed. Trade Comm'n v. Verity Int'l, Ltd.*, 443 F.3d 48, 69 (2d Cir. 2006).

108. See *RESTATEMENT (SECOND) OF TRUSTS* § 172 cmt. b (1959) (stating the trustee's duty to render accounts); *id.* at § 179 (discussing the duty to keep trust property separate from the trustee's own property); *Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 619 (1912) (stating that the plaintiff was entitled only "to recover such part of the commingled profits as was attributable to the use of [the plaintiff's] invention").

109. Roach, *supra* note 17, at 516–17; *RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT* § 42 (2011) ("This means that the defendant bears the burden of

court has awarded the defendant's revenues in only about 60% of the cases in which the defendant defaulted on this burden.<sup>110</sup> Alternatively, the court may estimate those expenses. The Federal and Second Circuits have held that the court has an obligation to estimate those expenses when the defendant has not introduced adequate evidence.<sup>111</sup>

Of course, if the defendant fails her burden of proof and the court awards the defendant's revenues, then the revenues are awarded by default and not as a matter of law.<sup>112</sup> It is unfortunate that in this area of the law, some opinions, in citing precedents that supposedly support gross disgorgement at law, fail to distinguish opinions that hold for gross disgorgement at law from disgorgement by default. Thus some holdings for disgorgement at law are supported by opinions that only awarded gross disgorgement as a result of the defendant's failure to evidence any non-infringing expenses or a finding of contempt.<sup>113</sup>

---

establishing appropriate deductions from gross revenues to calculate net profits, and the parallel burden of establishing the portion of such profits that is derived from elements other than the defendant's wrongdoing.").

110. See George P. Roach, *A Default Rule of Omnipotence: Implied Jurisdiction and Exaggerated Remedies in Equity for Federal Agencies*, 12 FORDHAM J. CORP. & FIN. L. 1, 61 (2007) ("Out of approximately 116 opinions, the court held the defendant in default and ordered her to disgorge her revenues in seventy-three opinions. In the remaining forty-three opinions, the court acknowledged the default rule but approved an alternative estimate or rule of thumb to establish the defendant's benefit . . ."). See, e.g., *Stenograph L.L.C. v. Bossard Assocs., Inc.*, 144 F.3d 96, 103 (D.C. Cir. 1998) (choosing to not disturb the judgment that reflects revenues in part); *Am. Honda Motor Co. v. Two Wheel Corp.*, 918 F.2d 1060, 1064 (2d Cir. 1990) (stating that awarding of gross revenues is "clearly excessive"); *Blackman v. Hustler Magazine, Inc.*, 800 F.2d 1160, 1163 (D.C. Cir. 1986) (concluding that the plaintiff carried its burden in establishing revenues earned by the defendant for the infringement, and that the defendant failed to establish expenses).

111. See *Murphy Door Bed Co. v. Interior Sleep Sys., Inc.*, 874 F.2d 95, 103 (2d Cir. 1989) ("Even if Zarcone does not offer evidence of his costs (as he has not heretofore), the court should estimate them based on the evidence before it."); see also *Dayva Int'l v. Award Prods. Corp.*, 1998 U.S. App. LEXIS 4386, at \*10-11 (Fed. Cir. 1998) ("Thus, a trial court only has an independent duty to apportion profits, even where the defendant fails to present evidence, if it is clear from the record that not all the profits claimed are attributable to the infringement."); *H-D Mich. Inc. v. Bikers Dream, Inc.*, 1998 U.S. Dist. LEXIS 17259, at \*22 (C.D. Cal. 1998) ("South County argues that, in the absence of evidence proving its costs, the trier of fact has a duty to estimate expenses. . . . [T]he Court may estimate costs when the Defendant has provided some basis on which costs may be determined.").

112. See Roach, *supra* note 110, at 61 (discussing what occurs when the defendant fails to satisfy its burden of proof).

113. Compare *Fed. Trade Comm'n v. Bronson Partners, LLC*, 674 F. Supp. 2d 373, 384 (D. Conn. 2009) (providing a formula for calculating redress for consumer injury (citing *F.T.C. v. Kuykendall*, 371 F.3d 745, 767 (10th Cir. 2004)), with *Fed. Trade Comm'n v. Kuykendall*, 371 F.3d 745, 766 (10th Cir. 2004) ("Accordingly, when the FTC has proven a pattern or practice of contemptuous conduct at the liability stage by clear and convincing



For example, consider the Ninth Circuit's opinion in *Securities & Exchange Commission v. JT Wallenbrock & Associates*.<sup>114</sup> That opinion justified the exclusion of any credit for expenses with a quote from *Securities & Exchange Commission v. Blavin*.<sup>115</sup> Yet the Michigan district court and the Sixth Circuit in *Blavin* did not consider the issue of any offsetting expenses.<sup>116</sup> Therefore, the Ninth Circuit erroneously justifies gross disgorgement by citing a case awarding disgorgement by default.

The position of the Third Restatement on the right to prove counter-restitution is both mixed and unclear. A brief summary of the dispersed discussion of counter-restitution would show the following: counter-restitution is required in most cases and is required as to specific expenses in selected groups of cases;<sup>117</sup> denying counter-restitution is punitive;<sup>118</sup> and certain groups of cases do not warrant counter-restitution, including but not limited to intentional fraud,<sup>119</sup> conversion of personal property, and trespass to minerals.<sup>120</sup> Even as explained in the various sections and in the context of existing case law, these principles conflict. If a fraud-feasor is denied counter-restitution as a matter of law, that defendant is being assessed a

evidence, a presumption arises that allows the district court to use all revenue attributable to the contemptuous conduct . . . as a baseline for assessing sanctions.").

114. *See* Secs. & Exch. Comm'n v. JT Wallenbrock & Assocs., 440 F.3d 1109, 1117 (9th Cir. 2006) (holding that the district court did not err in assessing the entire \$253.2 million of disgorgement against the defendants or in imposing joint and several liability).

115. *See id.* at 1115; *see also* Secs. & Exch. Comm'n v. Blavin, 760 F.2d 706, 714 (6th Cir. 1985) (holding that the district court properly granted summary judgment, its disgorgement order, and its disgorgement distribution plan).

116. *See generally* Blavin, 760 F.2d 706; Secs. & Exch. Comm'n v. Blavin, 557 F. Supp. 1304 (E.D. Mich. 1983); *see also* Secs. & Exch. Comm'n v. Great Lakes Equities Co., 775 F. Supp. 211, 214 n.20 (E.D. Mich. 1991) ("*Blavin* does not explicitly hold that no deductions may be taken for expenses; the issue of expenses is never directly addressed.").

117. *See* RESTATEMENT (FIRST) OF RESTITUTION § 158 cmt. b (1937) ("[I]n the absence of extraordinary circumstances requiring the imposition of a penalty, if a person by fraud obtains title to land subject to a mortgage and pays the mortgage, he is entitled to compensation for such payment upon being required to surrender the land."); *see also id.* § 177 cmt. c (stating that the defendant need not surrender property to the plaintiff without reimbursement for the payment of liens and taxes).

118. *See* RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51 cmt. h (2011) ("Denial of an otherwise appropriate deduction, by making the defendant liable in excess of net gains, results in a punitive sanction that the law of restitution normally attempts to avoid.").

119. *See id.* § 13 cmt. c (stating that this Restatement does not describe the substantive law of misrepresentation and therefore does not govern matters such as fraud).

120. *See infra* Part VIII (providing an analysis of gross disgorgement awarded for conversion of personal property, trespass to minerals and intentional fraud, which should be considered exceptions to the first three principles).

punitive remedy. Comment e(3) of Section 51 notwithstanding,<sup>121</sup> punitive remedies in equity are not just "to be avoided" but are outside of the jurisdiction of a court in equity.<sup>122</sup> Section 177, Comment c of the First Restatement also contradicts Sections 13 and 54 of the Third Restatement, as the fraud-feasor does not have to make specific restitution of real property unless the plaintiff provides counter-restitution for taxes, mortgage payments, and other expenses.<sup>123</sup>

---

121. See *infra* note 160 and accompanying text (stating that restitution attempts to avoid any punitive remedies).

122. See *Mertens v. Hewitt Assocs.*, 508 U.S. 248, 270 (1993) ("As this Court has long recognized, courts of equity would not . . . enforce penalties or award punitive damages. . . . [T]his limitation on equitable relief applied in the trust context as well, where plaintiffs could recover compensatory monetary relief for a breach of trust, but not punitive or exemplary damages."); *Tull v. United States*, 481 U.S. 412, 422 (1987) ("A civil penalty was a type of remedy at common law that could only be enforced in courts of law. Remedies intended to punish culpable individuals, as opposed to those intended simply to extract compensation or restore the status quo, were issued by courts of law, not . . . equity." (citing *Curtis v. Loether*, 415 U.S. 189, 197 (1974); *Ross v. Bernhard*, 396 U.S. 531, 536 (1970))); *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 405 (1940) ("[W]e perceive no ground for saying that in awarding profits to the copyright proprietor as a means of compensation, the court may make an award of profits which have been shown not to be due to the infringement."); *Secs. & Exch. Comm'n v. Cavanagh*, 445 F.3d 105, 116 n.25 (2d Cir. 2006) ("Because the remedy is remedial rather than punitive, the court may not order disgorgement above this amount." (citing *Secs. & Exch. Comm'n v. Tex. Gulf Sulphur Co.*, 446 F.2d 1301, 1308 (2d Cir. 1971))); *In re Estate of Corriea*, 719 A.2d 1234, 1239 (D.C. 1998) (stating that disgorgement is meant to provide just compensation and not impose a penalty, much like a constructive trust); *Commodity Futures Trading Comm'n v. Am. Metals Exch. Corp.*, 991 F.2d 71, 77 n.10 (3d Cir. 1993) (distinguishing "profits" from "proceeds"); *id.* at 78 ("The hardship of investor losses should not, however, be used as an excuse to impose a remedy under circumstances in which the scope of relief falls outside that remedy's recognized parameters."); *Secs. & Exch. Comm'n v. First City Fin. Corp., Ltd.*, 890 F.2d 1215, 1230 (D.C. Cir. 1989) ("Disgorgement is an equitable remedy designed to deprive a wrongdoer of his unjust enrichment and to deter others from violating securities laws."); *Coastal Oil & Gas Corp. v. Fed. Energy Regulatory Comm'n*, 782 F.2d 1249, 1253 (5th Cir. 1986) (stating that the penalty imposed is not authorized by law because it constitutes a "penalty"); see also RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 42 cmt. i (2011) ("There are instances of wrongdoing in which the law of restitution imposes [a punitive element of damages].").

123. See RESTATEMENT (FIRST) OF RESTITUTION: GENERAL PRINCIPLES § 177 (1937); ("The owner cannot compel the transferee to surrender the property to him without reimbursing him for such expenditures."); see also *Sanguinetti v. Strecker*, 577 P.2d 404, 410 (Nev. 1978) ("[E]ven a fraudulent grantee is entitled to reimbursement of 'necessary expenditures in preserving the property.'" (quoting *Morris v. Hanssen*, 78 S.W.2d 87, 95 (Mo. 1934))); *Farnum v. Silvano*, 540 N.E.2d 202, 206 (Mass. App. Ct. 1989) (holding that the plaintiff's claim for fraud was entitled to rescission subject to reimbursing the defendant for taxes and repairs).

Applying trust law's benefit standard for trustee indemnity would offer a useful default rule for scrutinizing proposed counter-restitution. The combination of the benefit standard, public policy issues, and the exclusion of infringing expenses probably accounts for the majority of scrutiny of counter-restitution for IP claims. In Comment e of Section 51, the Third Restatement advocates three justifications: (1) the benefit standard; (2) the priority to avoid an unfair or punitive remedy; and (3) the doctrine of the officious claimant.<sup>124</sup> The last standard is asserted as a baseline standard for all counter-restitution for willful defendants subjected to a claim for unjust enrichment, perhaps echoing doctrine expressed in Section 3 of the Third Restatement.<sup>125</sup>

As an explanation for rejecting liability in some cases or for the rationale underlying the benefit standard, the officious claimant doctrine provides a rationale for the defendant to bear the burden of proof to show that her expenses or expenditures actually benefitted the plaintiff. However, the language in Sections 3 and 51 of the Third Restatement may be interpreted to say that counter-restitution should only be awarded as a matter of equitable discretion. As such, it would contradict the existing practice of IP claims and trust law for indemnity and others.

For example, a paradox continues in the Second Circuit between the Emergency Assistance Standard (EAS) and most IP claims. Under the EAS, the plaintiff who provides emergency assistance which proves of benefit to the defendant is only entitled to reimbursement for proven marginal operating costs.<sup>126</sup> Alternatively, in *Sheldon v. Metro-Goldwyn Pictures Corp.*,<sup>127</sup> it was established that Metro-Goldwyn Pictures (MGM) bargained with the plaintiff owner of a copyright in bad faith to license the script, and when negotiations broke down, MGM arranged to license another cheap script to cover up its misappropriation of the plaintiff's

---

124. See RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51 (2011) (discussing what questions must be asked and what factors must be considered to determine what profits of the defendant are attributable to the underlying wrong).

125. See *id.* § 3 (2011) (describing how a claimant can recover more than a provable loss so that the defendant may be stripped of a wrongful gain).

126. See *United States v. Consol. Edison Co. of N.Y.*, 580 F.2d 1122, 1127 (2d Cir. 1978); *Peninsular & Oriental Steam Navigation Co. v. Overseas Oil Carriers, Inc.*, 553 F.2d 830, 835 (2d Cir. 1977).

127. See *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 55 (2d Cir. 1939), *aff'd*, 309 U.S. 390 (1940) (holding that the borrowing was a deliberate plagiarism, defendants cannot be credited for any costs but what they paid for and the defendant's share of net profits is limited to one-fifth).

script.<sup>128</sup> Judge Hand, in an opinion that is cited frequently and approvingly in the Restatements, held that counter-restitution for MGM must include lavish salaries and bonuses for MGM's key executives as well as generous credit for overhead and other fixed expenses that are normally associated with the movie-making process but not specifically with the movie in question.<sup>129</sup> To reconcile these doctrines for measuring counter-restitution, one would be compelled to conclude that the Second Circuit endorsed the notion that it is better for the defendant to take than to give.

The rule proposed herein would envision gross disgorgement only for conversion of personal property and trespass to minerals. The next two sections will examine disgorgement by default to develop various conditions to the defendant's right to counter-restitution, and analyze existing cases for gross disgorgement to determine if there are additional types of defendants which deserve no opportunity to prove counter-restitution because of the unjust nature of their acts.

### VII. Disgorgement by Default

Counter-restitution and indemnity are conditioned on the defendant supporting his claim for offsets in such a way that any expenses or expenditures claimed must not be "infringing expenses" or otherwise violate the Court's interpretation of public policy limits.<sup>130</sup> Thus, the Supreme Court rejected the defendant's proposed counter-restitution in *Callaghan v. Myers*<sup>131</sup> because the defendant was seeking credit for the labor expense of copying the plaintiff's protected material.<sup>132</sup> Infringing expenses are frequently, but not necessarily, the services of the defendant.<sup>133</sup> The Supreme Court also rejected counter-restitution for the

---

128. *See id.* at 49 (providing background facts of the case).

129. *See id.* at 51–53 (addressing the defendant's objections).

130. *See* Roach, *supra* note 110, at 67–73 (2007) (providing a survey of rulings on infringing expenses in IP cases).

131. *See* *Callaghan v. Myers*, 128 U.S. 617, 667 (1888) (holding that the lower court decision was correct except with respect to the damages owed for one of the book volumes at issue).

132. *See id.* at 664 (1888) (rejecting counter-restitution for the salaries of the two owners as infringing expenses).

133. *See* *City of Elizabeth v. Am. Nicholson Pavement Co.*, 97 U.S. 126, 139 (1877) ("[T]he defendant will not be allowed to diminish the show of profits by putting in unconscionable claims for personal services or other inequitable deductions.") (citations omitted).

costs of rendering standing timber into lumber in *E.E. Wooden-Ware Co. v. United States*,<sup>134</sup> holding that it would be against public policy to otherwise encourage willful trespass on federal lands to gain timber for lumber.<sup>135</sup> Given the breadth of public policy issues, especially in a court of equity, the criterion cannot be fully defined and probably "swallows" the issue of infringing expenses.

Traditional case law has typically rejected the services of the defendant or her immediate associates as infringing, especially if those services have a causal connection to the underlying unjust acts.<sup>136</sup> The modern trend appears to be less focused on automatic rejection than reviewing the details to determine whether the defendant's services benefited the plaintiff and should therefore be considered for partial or even full credit. The trend is found in both IP cases<sup>137</sup> and fiduciary cases.<sup>138</sup> It is significant that the modern standard is frequently applied to the issuing of fees, if any, to lawyers that have committed disloyal acts. Counter-restitution for such a critical fiduciary agent should be the most difficult standard for compensation for the services of a willful defendant. The Texas Supreme Court favorably cited the Restatement (Third) of the Law Governing Lawyers to justify a flexible approach:

A lawyer engaging in clear and serious violation of duty to a client may be required to forfeit some or all of the lawyer's compensation for the matter. In determining whether and to what extent forfeiture is appropriate, relevant considerations include the gravity and timing of the violation, its willfulness, its effect on the value of the lawyer's work for

---

134. See *E.E. Wooden-Ware Co. v. United States*, 106 U.S. 432, 437 (1882) (holding that the lower court's valuation of damages was proper).

135. See *id.* at 434 (citing *Livingstone v. Raywards Coal Co.*, 5 App. Cas. 25 (1880)).

136. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 37 cmt. g (1995) ("The value of defendant's own labor . . . and salaries and wages paid to persons responsible for the tortious conduct, are not ordinarily deductible. Distributions of profits to partners or stockholders are also not ordinarily deductible.").

137. See, e.g., *Int'l Consulting Servs. v. Cheap Tickets, Inc.*, No. 2007 U.S. Dist. LEXIS 71689, at \*17-18 (E.D.N.Y. 2007) (determining that crediting the defendant for employee salaries was appropriate); see also *Hair Assocs., Inc. v. Nat'l Hair Replacement Servs.*, 987 F. Supp. 569, 595 (W.D. Mich. 1997) (determining what calculation of revenues and expenses is appropriate).

138. See, e.g., *City of Fort Worth v. Pippen*, 439 S.W.2d 660, 667 (Tex. 1969) (stating that fiduciaries in breach could present evidence of counter-restitution based on the benefit to the plaintiff city); see also *Boston Children's Heart Found., Inc. v. Nadal-Ginard*, 73 F.3d 429, 435 (1st Cir. 1996) (noting that a court can require a fiduciary to forfeit the right to retain or receive compensation for conduct in violation of his or her fiduciary duty, even absent a showing of actual injury to the principal).

the client, any other threatened or actual harm to the client, and the adequacy of other remedies.<sup>139</sup>

That opinion cites cases relating to the law of eighteen other states that support the policy against automatic forfeiture of all of the fees in question.<sup>140</sup>

There are also two overlapping groups of cases that hold that the willfulness of the defendant justifies the denial of allocated overhead as an offset to the defendant's disgorgement, although neither group would dispute the defendant's right to prove counter-restitution. First, there is the *Sheldon–Hamill* line of cases.<sup>141</sup> The Second Circuit was recently faced with a dilemma in *Hamill America, Inc. v. G.F.I.*,<sup>142</sup> an appeal of a district court's opinion that overhead should be denied in the measure of the monetary remedy in equity, an opinion that challenged the Second Circuit's opinion in *Sheldon*. As I explained in a prior article,<sup>143</sup> Judge Martin made a strong argument, compatible with the rationale of the Third Restatement's position in Section 51,<sup>144</sup> for reversing that portion of the *Sheldon* opinion.

The Second Circuit acknowledged Martin's argument but it remanded the case with a compromise:

Unlike the district court, we are not prepared to abandon the teachings of *Sheldon* in favor of a hard and fast rule denying all overhead deductions to willful infringers. But we share the district court's concern that willful infringers should not be permitted to subsidize the sale of legitimate goods with the sale of infringing goods by "passing part of its fixed cost on to the copyright holder." We also recognize that "a rule of liability which merely takes away profits from an infringement would offer little discouragement to infringers." We therefore conclude that *Sheldon's* two-step approach must be applied with particular rigor in the case of willful infringement.<sup>145</sup>

---

139. *Burrow v. Arce*, 997 S.W.2d 229, 241 (Tex. 1999) (quoting RESTATEMENT (THIRD) OF THE LAW GOVERNING LAWYERS § 49 cmt. a, b (Proposed Final Draft No. 1, 1996)).

140. *See id.* at 241 n.45.

141. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939), *aff'd*, 309 U.S. 390 (1940); *Hamil Am., Inc. v. SGS Studio, Inc.*, 1998 U.S. Dist. LEXIS 386, at \*3 (S.D.N.Y. 1998).

142. *See Hamill Am., Inc. v. G.F.I.*, 193 F.3d 92, 108–09 (2d Cir. 1999) (holding that the lower court erroneously barred the defendant from deducting expenses and reversing in part for a recalculation of damages).

143. *See Roach, supra* note 17, at 556–68 (discussing *Sheldon* and *Hamil*).

144. *See supra* notes 65–67 and accompanying text (discussing remedies that deny the incentive to infringe).

145. *Hamil*, 193 F.3d at 106–07 (citations omitted).

The gist of the compromise is simple: After applying "rigorous scrutiny" to the defendant's proposed counter-restitution, Judge Martin is authorized to reject the proposed expenses, but, in the meantime, the Second Circuit avoids having to overturn part of *Sheldon*. The difference between scrutiny and rigorous scrutiny, however, seems at best metaphysical unless it is just another form of equitable discretion. The Third Restatement, however, supports the *Hamill* opinion, inexplicably concluding that the Second Circuit "reviewed the extensive authorities permitting deductions from profits on account of allocable overhead."<sup>146</sup>

The second line of cases follows from a research error in *Sheldon*.<sup>147</sup> Comment b of Section 158 of the First Restatement provides that the willful or fraudulent defendant is entitled to reimbursement for the payment of taxes or satisfying other liens on the property.<sup>148</sup> Comment d of Section 158 states that such a defendant's expenditures for capital improvements are not entitled to reimbursement (presumably as an extension of the mistaken improvement doctrine).<sup>149</sup> Judge Hand juxtaposed capital improvements with expense and advised that trustee expenses could not be reimbursed.<sup>150</sup> Judge Hand's analysis was not even a fair statement in 1948 of the law relating to indemnity for disloyal trustees.<sup>151</sup>

146. RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 42 cmt. i (2011).

147. See *Sheldon*, 106 F.2d at 51 (stating that "a constructive trustee, who consciously misappropriates the property of another, is often refused allowance even of actual expenses"). Note that the Second Circuit's opinion was affirmed by the Supreme Court, but the Supreme Court expressed no opinion on specific issues relating to offsetting expenses, which were dismissed as questions of fact. See also *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 234 (1962) (distinguishing its set of facts from those in *Sheldon*).

148. See RESTATEMENT (FIRST) OF RESTITUTION: RULES GENERALLY APPLICABLE TO ACTIONS FOR RESTITUTION § 158 cmt. b (1937) ("[I]f a person by fraud obtains title to land subject to mortgage and pays the mortgage, he is entitled to compensation for such payment upon being required to surrender the land.").

149. See *id.* § 158 cmt. d (1937) ("The conscious wrongdoer is ordinarily not allowed compensation for an improvement or addition . . . . This is consistent with the rule of damages in [conversion] actions . . . in which case the . . . wrongdoer is required to pay for the full value of the chattel as improved by him before demand for its return.").

150. See *supra* note 129 and accompanying text (discussing Judge Hand's erroneous rationale *Sheldon*).

151. See *Ewen v. Peoria & E. Ry. Co.*, 78 F. Supp. 312, 326 (S.D.N.Y. 1948) (discussing what traffic expenses, if any, can be set off against the judgment); see also *Lewis v. Ingram*, 57 F.2d 463, 465 (10th Cir. 1932) ("An unfaithful trustee is not entitled to any compensation for his services. . . . It does not, however, follow that he forfeits moneys advanced by him to the trust fund." (citations omitted)).

Judge Hand's dicta had no impact on his opinion because he allowed practically all of the counter-restitution that MGM could devise. The dicta did cause some trouble for subsequent cases.<sup>152</sup> Where the First Restatement stated that capital improvements by willful defendants were not entitled to counter-restitution, the plaintiff in a Ninth Circuit case quoted the Second Circuit opinion in *Sheldon* for the proposition that "a court may automatically deny a willful infringer any deduction from profits of overhead expenses."<sup>153</sup> The U.S. Court of Appeals for the Ninth Circuit correctly rejected the plaintiff's claim by pointing out that the Second Circuit found the defendant in *Sheldon* to have acted willfully, but still allowed allocated overhead.<sup>154</sup> However the Ninth Circuit volunteered that "[a] portion of an infringer's overhead properly may be deducted from gross revenues to arrive at profits, at least where the infringement was not willful, conscious, or deliberate."<sup>155</sup> This dictum had little effect on the Ninth Circuit, but the U.S. Court of Appeals for the Eighth Circuit adopted the theory.<sup>156</sup>

While the common law remedy of an accounting in equity requires proof of willfulness to warrant the award of the defendant's unjust enrichment,<sup>157</sup> there is no legal doctrine to justify the notion that any

---

152. See *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 51 (2d Cir. 1939) (citing RESTATEMENT (FIRST) OF RESTITUTION § 158 cmt. d (1937)). For cases quoting the misstatement favorably, see *Warren v. Century Bankcorporation, Inc.*, 741 P.2d 846, 852 ("A constructive trustee who consciously misappropriates the property of another is often refused allowance even of his actual expenses.").

153. *Kamar Int'l, Inc. v. Russ Berrie & Co., Inc.*, 752 F.2d 1326, 1331 (9th Cir. 1984).

154. *Id.*

155. *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 515 (9th Cir. 1985) (citing *Kamar*, 752 F.2d at 1331).

156. See *Saxon v. Blann*, 968 F.2d 676, 681 (8th Cir. 1992) ("Overhead may not be deducted from gross revenues to arrive at profits when an infringement was deliberate or willful." (citing *Frank Music*, 772 F.2d at 515)); see also *Mfrs. Techs., Inc. v. Cams, Inc.*, 728 F. Supp. 75, 84 (D. Conn. 1989) (rejecting allocated portions of overhead due to the willfulness of the defendant's infringement, without referring to the opinions in the Second Circuit or Ninth Circuit); *Harper House, Inc. v. Thomas Nelson, Inc.*, 1987 U.S. Dist. LEXIS 14132, at \*25 (C.D. Cal. 1987) (holding that defendant's willfulness precluded the deduction of allocation overhead but that the defendant waived its right to appeal that ruling).

157. See PALMER, *supra* note 40, § 2.12, at 164 (stating that, for trademark infringement, "an innocent infringer usually is not held accountable for profits"); see also RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51 (2011) (distinguishing "wrongdoer" from "conscious wrongdoer"); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 37 (1995) (stating that one can be liable for net profits resulting from unlawful conduct if the actor engages in intentional conduct to confuse or deceive); *id.* § 45 (stating that an award of monetary relief depends on the "intent and knowledge of the actor and the nature and extent of any good faith reliance by the actor").



particular offset credit depends on the defendant's willfulness.<sup>158</sup> The Third Restatement provides the exception that only a defendant's conscious or willful actions warrant the remedy of profit disgorgement.<sup>159</sup> Furthermore, conditioning counter-restitution on the defendant's willfulness proves either too much or too little. Offsetting the defendant's revenues for fixed costs is either a reasonable or unreasonable measure of the defendant's advantage, depending on whether you subscribe to the full absorption or incremental cost approaches. Denying allocations of fixed costs only against willful defendants is overtly punitive and contradicts Section 42 of the Third Restatement.<sup>160</sup>

### VIII. Gross Disgorgement Cases

Property law interrupts the continuity of remedies in equity by providing for the equivalent of specific restitution for the conversion of personal property without counter-restitution for beneficial expenses. The First and Third Restatements provide for counter-restitution of beneficial expenses for real property, but counter-restitution for capital expenditures is controlled by the equitable considerations associated with mistaken improvements.<sup>161</sup> Neither of these doctrines apply to the misappropriation of intellectual property or other forms of intangible property because, even today, many jurisdictions hold that such intangibles cannot be converted.<sup>162</sup> At least one British authority asserts that accident plays a significant role in the distinct forms of restitution for differing types of property.<sup>163</sup>

---

158. See *ZZ Top v. Chrysler Corp.*, 70 F. Supp. 2d 1167, 1169 n.2 (W.D. Wash. 1999) (arguing that case law does not require or justify barring a defendant from putting on evidence regarding overhead costs and that such evidence must be admissible); *In re Indep. Serv. Orgs. Antitrust Litig.*, 23 F. Supp. 2d 1242, 1251 (D. Kan. 1998) ("The court finds that the deductibility of [the defendant's] fixed overhead costs does not depend on whether [the defendant's] infringement was willful or not.").

159. See RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 3 cmt. c (2011) ("When the defendant has acted in conscious disregard of the claimant's rights, the whole of any resulting gain is treated as unjust enrichment, even though the defendant's gain may exceed both (i) the measurable injury to the plaintiff, and (ii) the reasonable value of license authorizing the defendant's conduct.").

160. See RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 42 cmt. i (2011) (discussing punitive accounting).

161. See *id.* § 40 (discussing equitable remedies for trespass and conversion).

162. See *supra* note 3 and accompanying text (noting that most states do not recognize a conversion claim for intangible property).

163. See *Her Majesty's Attorney General v. Blake*, [2001] 1. A.C. 268 (H.L.). Lord Nicholls concluded that the difference in remedies for intellectual property and tangible

The gross disgorgement cases relating to trespass to precious minerals or resources is an amalgam of rationales, but generally hold that an intentional trespass to timber, coal, oil, gold and other scarce resources should be remedied by the disgorgement of revenues, generally without reimbursement for operating or development expenses.<sup>164</sup> Holdings vary as to what stage in the development/refinery process the minerals have to be valued and how much, if any, of the mining, development or refining costs can be passed on to the plaintiff; but it is not uncommon for the willful defendant to receive no counter-restitution for the principal exploration and development costs of bringing the minerals to the surface. Current case law is largely dictated by various state statutes, but the Third Restatement also acknowledges this doctrine as a generalization of the case law.<sup>165</sup> The origin of this widely-practiced exception to counter-restitution has varied rationales: denying counter-restitution as outside public policy;<sup>166</sup> awarding the financial equivalent of specific restitution, similar to converted personal property;<sup>167</sup> and even one set of cases in which the English judge admitted wanting to punish the defendant.<sup>168</sup>

---

property is a happenstance of history:

Considered as a matter of principle, it is difficult to see why equity required the wrongdoer to account for all his profits in these cases, whereas the common law's response was to require a wrongdoer merely to pay a reasonable fee for use of another's land or goods. In all these cases rights of property were infringed. This difference in remedial response appears to have arisen simply as an accident of history.

*Id.* at 280.

164. For the majority rule on conversion of personal property and trespass to minerals, see RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 40 (2011).

165. *Id.* See generally V. Woerner, *Right of Trespasser to Credit for Expenditures in Producing, As Against His Liability For Value of, Oil or Minerals*, 21 A.L.R.2d 380 (1952).

166. See E.E. Wooden-Ware Co. v. United States, 106 U.S. 432, 434 (1882) (denying restitution of logging expenses for timber converted in national forests).

167. See Ripy v. Less, 188 S.W. 1084, 1086 (Tex. Civ. App. 1909) (debating the appropriate time of conversion for timber, and stating that it depends on the circumstances of each case).

168. Modern English authorities state that the more appropriate precedent is actually *Martin v. Porter*, 151 Eng. Rep. 149 (Ex. Ct. 1839), and is regarded as a punitive measure. See also EDELMAN, *supra* note 63, at 138 (discussing *Martin*, an English case in which the court refused to give allowance for the work done in order to punish and deter willful trespasses).

*A. Fraud*

In contrast to Palmer<sup>169</sup> and Dobbs,<sup>170</sup> the Third Restatement maintains that defendants in willful fraud claims should be denied counter-restitution for direct costs. Comment h of Section 51 of the Third Restatement advises that "[t]he defendant will not be allowed a credit for the direct expenses of an attempt to defraud the claimant, even if these expenses produce some benefit to the claimant."<sup>171</sup> The Comment is an example of a disloyal real estate agent who makes a secret profit from the plaintiff, and the Illustration concludes that the agent should disgorge the profit without offsetting credit for the real estate commission or any reasonable expenses. While the Restatement's assertion may be true in some circumstances, it is not true in all circumstances, nor is it fully supported by the cases cited.<sup>172</sup> The cases cited in the Third Restatement support the doctrine that disloyal agents are subject to forfeiting their fees and to disgorging their secret profits; they do not necessarily deny substantiated, reasonable expenses incurred for the benefit of the plaintiff. Section 403 of the Restatement of Agency is also offered for support, but it has already been

---

169. See PALMER, *supra* note 40, § 3.11, at 294 ("When goods or services have been exchanged pursuant to contract, and the plaintiff seeks restitution of the value he transferred, it will generally be necessary for him to return or otherwise account for the value he received."). Palmer further stated, "This will be true whether his right to restitution is based on fraud, innocent misrepresentation, breach of contract, mistake or any other ground." *Id.*

170. See DOBBS, *supra* note 46, § 9.3(1), at 579–81 (stating that as a part of rescission or restitution from the defendant to the plaintiff, the plaintiff is required to make restitution to the defendant for assets or services received from the defendant); *id.* § 9.3(3), at 593 ("However, the plaintiff must account to the defendant only for actual benefits received when the transaction is avoided.").

171. RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51 cmt. h (2011).

172. The case of *Ward v. Taggart*, 336 P.2d 534 (Cal. 1959), involved a claim at law for which the court ordered the disgorgement of the agent's profit and fee, but denied the defendant's expenses on the basis that some expenses were unnecessary and the remaining expenses were unsubstantiated by the defendant. *Id.* at 539. The case of *Ellison v. Alley*, 842 S.W.2d 605 (Tenn. 1992), merely held that a disloyal real estate agent had to disgorge his fee. *Id.* at 706–08 ("We are in agreement with the finding of breach of fiduciary duty and the award to the plaintiff of the defendant's profits. But, on the narrow issue upon which this appeal was granted, we find that the defendants are not entitled to a commission on the sale of [property]."). In *Lestoque v. M.R. Mansfield Realty, Inc.*, 536 P.2d 1146 (Colo. App. 1975), a case for breach of fiduciary duty by a real estate agent, the court found liability only for breach of fiduciary duty and not for fraud. *Id.* at 1148–50 (denying the claim for fraud and awarding the agent's secret profit and commission to be disgorged, refusing to offset the agent's expenses because they were unnecessary for the underlying transaction).

shown that section has received little support and is over-ruled by the specificity of Section 439.<sup>173</sup>

Generally, the holding on counter-restitution in fraud cases depends on two issues: The extent of the defendant's fraudulent activities as a percent of the defendant's total activities, and whether the expenses relate to a transaction or an operating business. Any infringing expenses related to the actual fraud should be excluded on the grounds of public policy. The fraud-feasor's services are certainly in jeopardy, but even they have been credited to the defendant.

Transactional and other expenses incurred to induce the fraud are regularly excluded, and capital improvements can be excluded, as explained in Comment d of Section 158 of the First Restatement.<sup>174</sup> The remaining expenses are effectively grouped into incidental transaction expenses or the operating expenses and capital expenditures for maintaining real estate or a business. Incidental transaction expenses are somewhat vulnerable, but Illustration 21 in Section 51 of the Third Restatement overstates the practice by asserting that an unfaithful agent has no claim to beneficial, out-of-pocket expenses.<sup>175</sup> There is a substantial group of cases that allow incidental expenses as counter-restitution, both in real estate cases (as previously discussed in relation to Section 403 of the Restatement of Agency<sup>176</sup>) and most cases related to claims by the Securities and Exchange Commission (SEC) and the Commodity Futures Trade Commission (CFTC) described below.<sup>177</sup>

Dan Dobbs notes the distinction between transaction costs and expenses for business operations:

Rents received are treated as income produced by the property itself rather than income produced by the efforts of the defendant. That is, the transaction costs in renting out the property are ignored, and the defendant receives no credit for his efforts in securing a tenant. This corresponds with the general practice of courts in other kinds of cases

---

173. See *supra* notes 87–101 and accompanying text (discussing the infringing trustee's right to indemnity).

174. See RESTATEMENT (FIRST) OF RESTITUTION § 158 cmt. d (1937) (addressing how to compensate a willful wrongdoer for improvements and additions to the subject matter).

175. See RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51 illus. 21 (2011).

176. See *supra* notes 94–95 and accompanying text.

177. See *infra* notes 224–27 and accompanying text (discussing SEC and CFTC caselaw).

involving simple market transactions, as distinct from those involving operation of an ongoing business.<sup>178</sup>

Therefore, if the plaintiff seeks the defendant's business profits, counter-restitution is likely available for some, if not all, of the defendant's expenses or expenditures. On the other hand, if the plaintiff is seeking the defendant's profit or gain on the sale of a specific asset, it is unlikely but possible that a court will approve the offset of related expenses. The question remains, however, whether legitimate and substantiated business expenses must be denied for certain types of transactions.

The Third Restatement implicitly acknowledges the distinction between transaction and business operating expenses, as it evaluates counter-restitution for business operating expenses in three fraud illustrations according to the benefit principle for trustee indemnity. The fraud example in Illustration 22 in Section 51 and Illustrations 7 and 8 for breach of fiduciary duty in Section 43 relate to business operation resulting from fraud and constructive fraud, yet the Third Restatement expresses no reservations about operating expenses. The only issue appears to be whether the fraud-feasor warrants counter-restitution for his personal services.<sup>179</sup>

Illustration 22 in Section 51 of the Third Restatement is based on a Pennsylvania fraud case in which the court allowed offsetting credit for business operating expenses and salary compensation for the fraud-feasor. The Third Restatement attempts to distinguish the holding in that case from its rule against counter-restitution for fraud-feasors on the basis of avoiding an injustice, which is another term for equitable discretion.<sup>180</sup> Dobbs provides a more constrained and defined rationale by explaining that the

---

178. See DOBBS, *supra* note 46, § 9.3(4), at 601; see also Secs. & Exch. Comm'n v. JT Wallenbrock & Assocs., 440 F.3d 1109, 1114–15 (9th Cir. 2006) (stating that certain "necessary" business expenses, such as commissions, telephone charges, and underwriting expenses, are deductible regardless of the defendant's scheme); Secs. & Exch. Comm'n v. Thomas James Assocs., Inc., 738 F. Supp. 88, 95 (W.D.N.Y. 1990) (stating that even though markup costs and expenses should be deductible, securities law violators may not insulate certain profits from disgorgement, and "a court may consider as an offset the expenses incurred by defendant in garnering such unjust enrichment").

179. See RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51 illus. 22 (2011) (illustrating what happens when one party induces another party to sell a chain of retail stores at a grossly inadequate price by making fraudulent misrepresentations); *id.* § 43 illus. 7 (presenting a scenario in which an attorney competes against a former client and thereby breaches his fiduciary obligations); *id.* § 43 illus. 8 (describing a situation in which a geologist misappropriates his former employers' confidential information and thereby violating his fiduciary duty).

180. See *id.* § 51 cmt. h (referencing Brooks v. Conston, 72 A.2d 75 (Pa. 1950)).

holding is the result of the court's determination that the husband's services warranted compensation because he benefitted the value of the plaintiff's business.<sup>181</sup>

### B. Outlaws

To borrow Professor Kull's term, are there civil "outlaws" who should not be protected by a court in equity?<sup>182</sup> His article explains that courts regularly take negative action or fail to take action—such as to deny counter-restitution to certain outlaws, including plaintiffs with unclean hands.<sup>183</sup> While their authority is only persuasive, British authorities on the issue agree that "wicked" or willful defendants still should be eligible for counter-restitution,<sup>184</sup> except when it would violate public policy based on the nature of the counter-restitution.<sup>185</sup>

Frank Snapp is generally on everyone's list of potential outlaws, especially as a comparison to the British case on Blake.<sup>186</sup> Snapp breached his fiduciary duty to his employer, the Central Intelligence Agency (CIA), by publishing a book of "memoirs" about CIA operations during the Vietnam War and thereby revealing confidential CIA information—although not necessarily information that jeopardized national security.<sup>187</sup> The Supreme Court affirmed the district court's order for all of Snapp's book royalties to be deemed a constructive trust.<sup>188</sup> After the Supreme

---

181. See DOBBS, *supra* note 46, § 9.3(4), at 602 n.42 ("The defendant's efforts are properly ignored if they yielded no actual benefit to the plaintiff . . . . On the other hand, if the defendant provided services required by the transaction that is now avoided, the value of those services should be credited to the defendant." (citing PALMER, *supra* note 40, § 3.12, at 304)).

182. See Kull, *supra* note 1, at 30 (referring to claimants in restitution cases as outlaws due to their treatment by courts).

183. See *id.* at 31 ("[R]estitution . . . will sometimes treat the claimant's bad behavior as an affirmative defense.").

184. See ANDREW BURROWS, *THE LAW OF RESTITUTION* 176 (2d ed. 2005) ("Though the defendant has been fraudulent, he must not be robbed, nor must the plaintiff be unjustly enriched, as he would be if he both got back what he had parted with and kept what he had received in return." (citations omitted)).

185. See PETER BIRKS, *RESTITUTION—THE FUTURE* 128–32 (1992) (stating that even "wicked" defendants receive counter-restitution, except when the defendant's reimbursement would be against public policy).

186. See *generally* *United States v. Snapp*, 444 U.S. 507 (1980); *Her Majesty's Attorney General v. Blake*, [2001] 1 A.C. 268.

187. See *Snapp*, 444 U.S. at 508–09 (discussing the background facts of the case).

188. See *id.* at 768–69.

Court reversed the court of appeals decision and remanded the case, the district judge allowed counter-restitution only for Snapp's income taxes, which may have been required by the fact that the plaintiff was the same federal government that received his income taxes.<sup>189</sup> As with the motion practice for most constructive trusts, there is no published opinion on whether Snapp's reasonable expenses, if any, were rejected out of public policy or for other reasons. On the other hand, it is difficult to read the Snapp and Blake opinions without suspecting that the legal process in both their cases was "goal-seeking"—motivated by national security fears with respect to Snapp and by the desire to punish or spite in any way possible with respect to Blake.<sup>190</sup>

Equitable discretion is a necessary factor in a thorough analysis of measuring remedies in equity.<sup>191</sup> Few bodies of case opinions from courts in equity can avoid acknowledging equitable discretion as a source of unpredictability or a source of what physicists call Brownian motion.<sup>192</sup> Owing to the origins and goals of courts in equity, their discretion is more accepted on a policy level and given wider margin. The boundaries for equitable discretion are wide enough to include or 'swallow' the outlaw issue.<sup>193</sup>

In summary, gross disgorgement for conversion of personal property and trespass to minerals are confirmed exceptions to the proposed rule for counter-restitution. The remaining exceptions can be explained mostly by concerns about public policy and the vagaries of equitable discretion.

---

189. See FRANK SNEPP, *IRREPARABLE HARM: A FIRSTHAND ACCOUNT OF HOW ONE AGENT TOOK ON THE CIA IN AN EPIC BATTLE OVER SECRECY AND FREE SPEECH* 357 (1st ed. 1999) ("Four months after the Supreme Court had spoken, Sally Whitaker announced that I would be required to surrender all my royalties minus only federal income taxes within forty-five days.").

190. See DOBBS, *supra* note 46, § 4.1(3), at 565 (discussing procedures that give the plaintiff restitution by giving her title to, or a security interest in particular property, or giving her the rights formerly held by another person).

191. See generally Doug Rendleman, *The Trial Judge's Equitable Discretion Following eBay v. MercExchange*, 27 REV. LITIG. 63 (2007).

192. See generally ALBERT EINSTEIN, *INVESTIGATION ON THE THEORY OF BROWNIAN MOVEMENT* (1956).

193. See Rendleman, *supra* note 191, at 65 ("Courts make extravagant statements about their discretion in administering equitable substantive standards.").

*IX. FTC Claims for Gross Disgorgement*<sup>194</sup>

"‘Plaintiff,’ the tobacco companies protested, ‘apparently believes that the more confusing he makes the law of restitution and indemnity appear, the higher his likelihood of success.’"<sup>195</sup>

Federal agency claims in equity, especially those of the FTC and FDA, comprise a body of cases in which the courts regularly award gross disgorgement. Based on weak research that cites inapposite precedents, the misuse of key terms, and the sympathy of many courts that appear to be solicitous of the agency’s mandate, some district courts are awarding non-traditional remedies that are entirely outside the courts’ jurisdiction.<sup>196</sup> Equally important are many courts’ mistaken holdings that the remedy of consumer redress is a reasonable measure of an equity remedy.<sup>197</sup> As most of the opinions have been affirmed in some circuit courts, this situation may continue to grow without reversal by the Supreme Court or Congress.

Almost ninety years after *Root v. Railway Co.*,<sup>198</sup> the Supreme Court expanded the doctrine of implied jurisdiction to statutes for federal agencies. In *Porter v. Warner Holding Co.*,<sup>199</sup> the Supreme Court held that the full range of remedies in equity is implicit in Congress’s grant of injunctive relief to federal agencies.<sup>200</sup> Sixteen years later, the full range of remedies in equity was implied in statutes without specific provision for injunctive relief except when the remedy would be contrary to the intent of Congress.<sup>201</sup> The cases were of small note, but they were the foundation for

194. Any disagreement that this article might display with the FTC’s interpretation of the doctrine of remedies in equity or the FTC’s tactics in pursuing its duties is not intended to belittle the challenge that the FTC faces in undertaking its role as chief federal "prosecutor" for consumer fraud.

195. Rendleman, *supra* note 47, at 884 (quoting S.F.C. MILSOM, HISTORICAL FOUNDATIONS OF THE COMMON LAW 335 (2d ed. 1981)).

196. See Roach, *supra* note 17, at 543–56 (discussing federal agency claims).

197. See, e.g., Fed. Trade Comm’n v. Bronson Partners, LLC, 674 F. Supp. 2d 373, 380 (D. Conn. 2009) (measuring restitution by consumer redress).

198. See *Root v. Lake Shore & M.S. Ry. Co.*, 105 U.S. 189, 216 (1881) (holding that there are no grounds for the equitable relief sought and dismissing the complaint).

199. See *Porter v. Warner Holding Co.*, 328 U.S. 395, 402 (1946) (holding that the district court erred in declining to consider whether restitution was necessary or proper); see also *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944) (noting that the appropriate court may issue whatever order is proper to enforce compliance).

200. See *Porter*, 328 U.S. at 399–400 ("The traditional equity powers of a court remain unimpaired in a proceeding . . . so that an order of restitution can be made.").

201. See *Mitchell v. Robert De Mario Jewelry, Inc.*, 361 U.S. 288, 291–92 (1960) ("When Congress entrusts to an equity court the enforcement of prohibition contained in a



the Second Circuit opinion in *Securities & Exchange Commission v. Texas Gulf Sulphur Co.*,<sup>202</sup> which lead to implied jurisdiction in equity for federal agencies such as the SEC, CFTC, FTC, Department of Energy, Department of Labor, and FDA, among others, to seek monetary remedies in equity.<sup>203</sup> Except for some claims of the SEC after 2000,<sup>204</sup> the sole basis for the federal agencies to seek monetary remedies in equity was each agency's statutory jurisdiction to seek injunctive relief.

Recently, the Supreme Court confirmed that remedies for claims in equity are limited to the standards for remedies in equity that were practiced in England or the American colonies before 1789.<sup>205</sup> In 2006, the Second Circuit implemented the limitation on remedies in equity by initiating a "*Grupo* analysis" to determine if the proposed remedy in equity was in general practice prior to 1789.<sup>206</sup> The Supreme Court opinions of the nineteenth century may provide some reasonable approximations of those standards.

*Grupo Mexicano de Desarrollo v. Alliance Bond Fund, Inc.*<sup>207</sup> raised a minor issue that is sometimes raised in agency cases to attempt to expand

---

regulatory enactment, it must be taken to have acted cognizant of the historic power of equity to provide complete relief in the light of statutory purposes.").

202. *See* Secs. & Exch. Comm'n v. Texas Gulf Sulphur Co., 446 F.2d 1301, 1310 (2d Cir. 1971) (holding that the judgment is affirmed in part and reversed and remanded with respect to an order cancelling stock options).

203. *See id.* at 1307–08 (discussing whether restitution can be applied under equity powers by federal agencies).

204. As of 2000, there is statutory authority for awarding some SEC claims with "tier 3 civil penalties," which specifically allows for the disgorgement of the defendant's gross proceeds. Securities Act of 1933, 15 U.S.C. § 77t(d)(2)(C) (2006); Securities Exchange Act of 1934, 15 U.S.C. § 78u(d)(3)(B)(iii) (2006) .

205. *Grupo Mexicano de Desarrollo, S.A. v. Alliance Bond Fund, Inc.*, 527 U.S. 308, 318 (1999); *see also* *Rondeau v. Mosinee Paper Corp.*, 422 U.S. 49, 61 (1975) (stating that equity jurisdiction was a method for the Chancellor to establish equity as necessitated by each individual case). For a slightly different standard, *see Sereboff v. Mid Atl. Med. Servs., Inc.*, 547 U.S. 356, 362 (2006) ("[W]e examined cases and secondary legal materials to determine if the relief would have been equitable 'in the days of the divided bench.'" (citations omitted).

206. *See* Secs. & Exch. Comm'n v. Cavanagh, 445 F.3d 105, 120 (2d Cir. 2006) (providing a historical discussion of disgorgement); *see also* *Newby v. Enron Corp.*, 188 F. Supp. 2d 684, 702–03 (S.D. Tex. 2002), *consolidated by* 206 F.R.D. 427 (S.D. Tex. 2002), *aff'd*, 302 F.3d 295 (5th Cir. 2002) (discussing restitutionary remedies in the chancery courts of England).

207. *See Grupo*, 527 U.S. at 335 (holding that the district court did not have authority to issue a preliminary injunction because such a remedy was historically unavailable from a court of equity).

the boundaries of an agency's monetary remedies in equity.<sup>208</sup> The litigants in *Grupo*, *Great-West Life & Annuity Insurance Co. v. Knudson*<sup>209</sup> and *Sereboff v. Mid Atlantic Medical Services, Inc.*<sup>210</sup> were companies or individuals, not government agencies.<sup>211</sup> Dicta in *Grupo* implies that the range of available remedies in equity is broader for government claims than private parties.<sup>212</sup> However, a comparison of the range of remedies provided in *Stevens v. Gladding*<sup>213</sup> for individual plaintiffs does not immediately appear to be different from that in *Mitchell v. Robert DeMario Jewelry, Inc.*,<sup>214</sup> nor does it seem sufficient to justify exempting federal agency claims from *Grupo*'s boundaries for remedies in equity.<sup>215</sup> To date, the Second Circuit opinion in *Securities & Exchange Commission v. Cavanagh*<sup>216</sup> manifests that circuit's belief that SEC claims are not exempt.<sup>217</sup>

---

208. *See id.* at 326 ("[C]ourts of equity will 'go much farther both to give and withhold relief in furtherance of the public interest than they are accustomed to go when only private interests are involved.") (quoting *United States v. First Nat'l City Bank*, 379 U.S. 378, 383 (1965); *Cavanagh*, 445 F.3d at 118 n.29 ("Because the challenged remedy awarded in this case was available to *private* equity in plaintiffs chancery in 1789, we need not, and do not, decide today what *additional* latitude a federal court might have in awarding equitable remedies . . .") (emphasis included); *Fed. Trade Comm'n v. Bronson Partners, LLC*, 2011 U.S. App. LEXIS 17203, at \*31 (2d Cir. 2011) ("[D]isgorgement is a distinctly public-regarding remedy, available only to government entities seeking to enforce explicit statutory provisions . . .").

209. *See* *Great-West Life & Annuity Ins. Co. v. Knudson*, 534 U.S. 204, 234 (2002) (holding that provision of the Employee Retirement Income Security Act authorizing plan participants and fiduciaries to bring civil actions to obtain "appropriate equitable relief" did not authorize employee benefit plan to bring action for specific performance of reimbursement provision of plan).

210. *See* *Sereboff v. Mid Atlantic Med. Servs.*, 547 U.S. 356, 368–69 (2006) (concluding that fiduciary was seeking equitable relief and could maintain action under Employee Retirement Income Security Act provision authorizing "appropriate equitable relief").

211. *See* *Sereboff*, 547 U.S. at 356; *Knudson*, 534 U.S. at 204; *Grupo*, 527 U.S. at 308.

212. *See* *Grupo*, 527 U.S. at 326 (stating that courts of equity will apply broader remedies when the public interest is at issue instead of private interests).

213. *See* *Stevens v. Gladding*, 58 U.S. 447, 454 (1855) (concluding that that the Act of 1819 did not extend equity powers of the courts to the adjudication of forfeitures and rejecting the prayer of relief).

214. *See* *Mitchell v. Robert DeMario Jewelry, Inc.*, 361 U.S. 288, 303 (1960) (concluding that the district court has jurisdiction to order an employer to reimburse employees, unlawfully discharged or otherwise discriminated against, for wages lost because of that discharge or discrimination).

215. *See* *Gladding*, 58 U.S. at 453–55; *Mitchell*, 361 U.S. at 299–301.

216. *Sec. Exch. Comm'n v. Cavanagh*, 445 F.3d 105, 121 (2d Cir. 2006) (concluding that district court had authority to impose equitable remedy of disgorgement); *see also* *Fed.*

This argument also overlooks the difference in jurisdiction between *Grupo* and most agency cases. The plaintiff's jurisdiction in *Grupo* was in equity, and the *Grupo* issue relates to latitude provided to the government for a claim in equity. Generally, federal agency claims enjoy only implied jurisdiction and seek remedies ancillary to injunctive relief. In *Tull v. United States*,<sup>218</sup> the Supreme Court implies that ancillary remedies should be less significant than the injunctive relief.<sup>219</sup> This implication would need to be reconciled with *Porter* and *Mitchell*, which both held that in the absence of expressed congressional intent, the plaintiff agency is entitled to the full range of remedies in equity in implied jurisdiction.<sup>220</sup> The issue was not addressed in *Cavanagh* and the resolution of this conflict is not as important as the implication that *Grupo's* dicta may not apply to federal agency cases based on implied jurisdiction.

A federal agency has implied statutory jurisdiction in equity whenever Congress passes a statute that authorizes injunctive relief. Ancillary to injunctive relief, the agency is free to seek monetary or other equitable remedies so long as the relevant statutes do not specifically preclude such remedies. Even if the agency jurisdiction is authorized by two separate statutes, one that provides for a group of remedies including some equitable remedies and one that provides only for injunctive relief, the agency has sufficient implied jurisdiction to seek the full range of equitable remedies (subject to the *Grupo* limitations) under the latter provision.

Especially in FTC and FDA cases, the agencies sometimes juxtapose terms for restitution/unjust enrichment/disgorgement/equitable remedy and profit/benefit/gain/receipts to great advantage for their policies. In prior articles, I have shown how opinions for the FTC justify gross disgorgement with precedents that discuss only profit disgorgement or

---

Trade Comm'n v. Bronson Partners, LLC, 2011 U.S. App. LEXIS 17203, at \*31 (2d Cir. 2011).

217. See *id.* at 117 ("[D]isgorgement has been used by the SEC and courts to prevent wrongdoers from unjustly enriching themselves through violations, which has the effect of deterring substantial fraud.").

218. See *Tull v. United States*, 481 U.S. 412, 427 (1987) (concluding the Clean Water Act does not guarantee jury trial to assess civil penalties under the Act).

219. See *id.* at 424 (stating that "a court in equity was empowered to provide monetary awards that were incidental to or intertwined with injunctive relief," but a court in equity cannot enforce civil penalties).

220. See *Mitchell v. Robert DeMario Jewelry, Inc.*, 361 U.S. 288, 290–93 (1960) (quoting *Porter v. Warner Holding Co.*, 328 U.S. 395, 397–98 (1946)).

disgorgement by default.<sup>221</sup> So far, evidence of prosecutorial aggressiveness<sup>222</sup> and even agency misconduct is rare,<sup>223</sup> but the agencies take great liberties with terminology and inapposite precedent.

Case opinions relating to claims by the more experienced agencies like the SEC<sup>224</sup> and the CFTC<sup>225</sup> are stabilizing in terms of counter-restitution. Neither agency seriously disputed that the cost for the underlying security or commodity contract must be offset if the security was not worthless and therefore never fully rejected counter-restitution. The Second Circuit's underlying commitment to apportionment and offset for the reasonable cost of the underlying security was clear in *Texas Gulf*

---

221. See, e.g., Roach, *supra* note 17, at 543–56 (discussing federal agency claims).

222. See Secs. & Exch. Comm'n v. McCaskey, 2002 U.S. Dist. LEXIS 4915, at \*24 n.10 (S.D.N.Y. 2002) ("The SEC often takes a broad view as to what constitutes illicit profits. . . . In contrast, the courts tend to take a more realistic approach as to what constitutes 'illegal' profits, and have accepted the propriety of netting gains and losses.").

223. See Fed. Trade Comm'n v. Freecom Commc'ns, Inc., 401 F.3d 1192, 1199 (10th Cir. 2005) ("The district court's separate judgment specifically stated the FTC's 'prosecution of this action has been undertaken in bad faith, vexatiously, wantonly and for oppressive reasons.'") (citations omitted).

224. See Secs. & Exch. Comm'n v. JT Wallenbrock & Assocs., 440 F.3d 1109, 1114 (9th Cir. 2006) (discussing the deduction of business and operating expenses); Secs. & Exch. Comm'n v. United Energy Partners, Inc., 88 F. App'x 744, 746 (5th Cir. 2004) (affirming the disgorgement amount awarded); Secs. & Exch. Comm'n v. Alliance Leasing Corp., 28 F. App'x 648, 652 (9th Cir. 2001) (stating that the SEC correctly calculated the disgorgement value); Secs. & Exch. Comm'n v. Commonwealth Chem. Sec., Inc., 574 F.2d 90, 102 (2d Cir. 1978) (discussing the computation of disgorgement); Secs. Exch. Comm'n v. Blatt, 583 F.2d 1325, 1335 (5th Cir. 1978) (stating the purpose of disgorgement is to deprive the wrongdoer of his ill-gotten gain"); Secs. & Exch. Comm'n v. U.S. Env'tl., Inc., 2003 U.S. Dist. LEXIS 12580, at \*75–76 (S.D.N.Y. 2003) (stating that a court can deduct direct transaction costs from illegal profits); Secs. & Exch. Comm'n v. Bocchino, 2002 U.S. Dist. LEXIS 22047, at \*6–7 (addressing the deduction of certain expenses from gross profits incurred while garnering the illegal profits); *McCaskey*, 2002 U.S. Dist. LEXIS at \*14 (S.D.N.Y. 2002) (stating brokerage commissions should be deducted); Secs. & Exch. Comm'n v. Rosenfeld, 2001 U.S. Dist. LEXIS 166, at \*6 (S.D.N.Y. 2001) (discussing the deduction of brokerage commissions); Secs. & Exch. Comm'n v. Hughes, 917 F. Supp. 1080, 1086–87 (D.N.J. 1996) (approving of the disgorgement amount ordered without a hearing); Secs. & Exch. Comm'n v. Dilip Shah, 1993 U.S. Dist. LEXIS 10347, at \*14 (S.D.N.Y. 1993) (discussing brokerage commissions).

225. See Commodities Futures Trading Comm'n v. Wilshire Inv. Mgmt. Corp., 531 F.3d 1339, 1345 (11th Cir. 2008) ("The equitable remedy of restitution does not take into consideration the plaintiff's losses, but only focuses on the defendant's unjust enrichment."); Commodities Futures Trading Comm'n v. Am. Metals Exch. Corp., 991 F.2d 71, 77 n.10 (3d Cir. 1993) (discussing the distinction between "profits" and "proceeds"); Commodities Futures Trading Comm'n v. Avco Fin. Corp., 1998 U.S. Dist. LEXIS 12996, at \*3–5 (S.D.N.Y. 1998) (dissecting all revenues and costs associated with the defendant's activity).

*Sulphur*, as was its concern to avoid awarding a punitive remedy.<sup>226</sup> Since *Texas Gulf Sulphur*, the SEC in particular has tried to resist additional counter-restitution for indirect or direct expenses with varying degrees of success, but it has begun to admit that some direct expenses can be included in counter-restitution.<sup>227</sup> Disputes in measuring monetary remedies in equity asserted by the SEC or the CFTC no longer dispute counter-restitution as a matter of law, only questions of fact about individual categories. As a result, this Article will principally focus on the claims of the FTC and the FDA.

Implied jurisdiction in equity has literally transformed FTC operations. Once the FTC realized the advantages of such litigation over the normal administrative law process, the FTC reduced its administrative law cases and redirected those resources into federal litigation for injunctive and other equitable remedies.<sup>228</sup> The advantages of federal litigation are substantial. Like the SEC and CFTC, the FTC has become an expert plaintiff or prosecutor in a litigation process that is foreign to many lawyers. The injunctive relief is not new, but the monetary remedies in equity are foreign to many defendants' lawyers and even jurists. The confusing vocabulary and obscure legal doctrine suggest a long learning curve and the opportunity for experienced "prosecutors" to "push" defense counsel and the bench.

The FTC has filed an average of eighty to ninety cases per year for the last ten years or more.<sup>229</sup> The range of annual total awards of unjust enrichment has ranged from \$300 million to \$900 million per year.<sup>230</sup> On the basis of a survey of cases from January 2007 to October 1, 2010, it was

---

226. See *Secs. Exch. Comm'n v. Texas Gulf Sulphur Co.*, 446 F.2d 1301, 1307-09 (2d Cir. 1971) (stating that the SEC can seek remedial relief other than an injunction so long as it is not a penalty assessment).

227. See *Secs. & Exch. Comm'n v. McCaskey*, No. 98-CV-6153, 2002 U.S. Dist. LEXIS 4915, at \*14 (S.D.N.Y. 2002) (confirming that courts can deduct from disgorgement direct transaction costs such as brokerage commissions).

228. See Fed. Trade Comm'n, Office of the Gen. Counsel, A Brief Overview of the Federal Trade Commission's Investigative and Law Enforcement Authority (2002), available at <http://www.ftc.gov/ogc/brfovrwv.shtm> ("The courts have uniformly accepted the Commission's construction of Section 13(b), with the result that most consumer protection enforcement is now conducted directly in court under Section 13(b), rather than by means of administrative adjudication.").

229. See, e.g., Roach, *supra* note 17, at 544 ("[F]ederal agencies have filed a growing number of claims for large amount of unjust enrichment. For example, in 2003, the FTC filed about 90 claims . . .").

230. See *id.* (stating that in 2003, the FTC won in award and in settlement approximately \$900 million).

determined that more than ten FTC lawyers had filed more than ten cases during that period, and that more than twenty had worked on more than five. Over that same time period, the average defense counsel has worked on less than two cases. The data in that period also suggest that the FTC practices venue shopping as it is a frequent filer in the Ninth and Eleventh Circuits. These two federal circuits account for about 55% of dollar awards. Few cases are filed in the Second or Fifth Circuits.<sup>231</sup>

While the award per case is an impressive \$4 million to \$10 million, the distribution of cases is skewed in terms of size. The top seven or eight cases generally account for more than 80% of the total annual amount. The annual average size of the remaining cases is generally less than \$1 million. Settled or stipulated verdicts are very common and the rate of injunctive relief appears high. From anecdotal notes in FTC reports it appears that defendants to FTC settlements and awards are often financially unable to fund the monetary award and must seek reductions from the FTC or bankruptcy protection.<sup>232</sup> Personal liability for the principals is frequently in dispute. The mass action aspects of FTC litigation discourage rescission or counter-restitution in kind. It would be reasonable to surmise that a defendant might readily settle for an injunction and a moderate monetary award rather than face the prospect of defending a claim for a large claim for gross disgorgement in a district court that has previously agreed to follow the FTC's aggressive theory of monetary damages in equity.<sup>233</sup>

*Federal Trade Commission v. Stefanchik*<sup>234</sup> is a somewhat extreme example of how a remedy is measured and defined for the FTC. John Stefanchik and his corporation, Beringer Corporation, originated the "Stefanchik Program," as explained in a book and supporting materials, which prescribed methods for novices to achieve substantial wealth by

---

231. This assertion is based on recent research conducted by author based on PACER data. For prior research on FTC venue shopping, see Roach, *supra* note 110, at 117.

232. See Federal Trade Commission Annual Report, April 2010, 55–63 (2010), available at <http://www.ftc.gov/os/2010/04/2010ChairmansReport.pdf> (summarizing order enforcement, bankruptcy collections, and supporting criminal prosecutions).

233. See *Fed. Trade Comm'n v. Freecom Commc'ns, Inc.*, 401 F.3d 1192, 1200 (10th Cir. 2005) ("According to the court, the FTC made 'exorbitant and unsupported settlement demands' based on false claims it could prove damages against Haroldsen in the amount of \$150 million through the testimony of hundreds of injured consumers prepared to testify as to defendants' deceptive acts and practices.").

234. See *Fed. Trade Comm'n v. Stefanchik*, 559 F.3d 924, 932 (9th Cir. 2009) (concluding that the district court did not err in holding defendants liable for the total amount of loss incurred by consumers).

buying and selling private mortgages.<sup>235</sup> Stefanchik and Beringer received a royalty of 15% to 22% of the revenues of an independent marketing agent, Atlas Marketing, Inc., which promoted and sold the book as well as marketed a sizable dollar amount of supporting services.<sup>236</sup> There is no indication in the Ninth Circuit opinion of any affiliation between Stefanchik and Atlas or Justin Ely, who owned Atlas. The FTC reached settlements with all defendants except Stefanchik and Beringer.

The district court entered a disgorgement order against Stefanchik in the amount of Atlas's revenues for the program.<sup>237</sup> The Ninth Circuit affirmed the remedy with the following explanation that is startling in both its breadth and depth of mischaracterizing remedies in equity:

We are unpersuaded by the defendants' assertion that they should not be liable for the full amount of Atlas' sales because Atlas paid them only a percentage as a royalty. Equity may require a defendant to restore his victims to the status quo where the loss suffered is greater than the defendant's unjust enrichment. Moreover, because the FTC Act is designed to protect consumers from economic injuries, courts have often awarded the full amount lost by consumers rather than limiting damages to a defendant's profits. Stefanchik and Beringer were the driving force behind the marketing scheme for the Stefanchik Program, with authority to control its key components, and they benefitted significantly from the sales induced by material misrepresentations.<sup>238</sup>

The Ninth Circuit has lost sight of the fact that its jurisdiction for awarding remedies lies in implied jurisdiction to award ancillary remedies to injunctive relief; its jurisdiction is not based on the entire FTC Act. The Ninth Circuit's alarming holding in *Stefanchik* does not represent a solitary leap in logic or legal reasoning, but rather the next "logical" step in a body of case opinions that are founded on fundamental error and weak research. The case law has progressed to the point that the flaws and errors are not apparent until the legal analyst has "drilled down" two or three levels of case opinions. Given the high pressure environment that accompanies the FTC tactics of motions for summary judgment, motions in limine,<sup>239</sup> and minimal standards for causation, it is understandable that inexperienced

---

235. *Id.* at 926.

236. *Id.*

237. *Id.* at 927.

238. *Id.* at 931–32; *but see* Fed. Trade Comm'n v. Verity Int'l, Ltd., 443 F.3d 48, 67 (2d Cir. 2006) ("The appropriate measure of restitution is the benefit unjustly received by the defendants. . . . [R]estitution is measured by the defendant's gain.").

239. *See* Fed. Trade Comm'n v. Bronson Partners, L.L.C., 2006 U.S. Dist. LEXIS 3315, at \*2–13 (D. Conn. 2006) (discussing motions to strike and affirmative defenses).

defense counsel and many jurists fail to undertake the burden of proving in detail where and how the FTC's paradigm departs from traditional understanding and violates accepted boundaries.<sup>240</sup> In some cases, definitions of key terms get so twisted that orders for gross disgorgement are found to comply with the *Grupo* standard because the Second Circuit held that equitable restitution applies and gross disgorgement is a form of equitable restitution without considering how the FTC would measure them.<sup>241</sup> Such opinions are either unaware or neglect to mention that gross disgorgement is only an acceptable award of restitution when the defendant is found in contempt or the defendant fails to prove her claim for counter-restitution.<sup>242</sup>

The *Stefanchik* opinion demonstrates three of the key pillars to the FTC's ability to secure disgorgement orders that breach the traditional boundaries for monetary remedies in equity and, therefore, exceed the federal court's jurisdiction. First, the Ninth Circuit and other courts are invested in the belief that they have the authority to order consumer redress or reimbursement, which is generally based on the prior Ninth Circuit opinion in *Federal Trade Commission v. Figgie International, Inc.*,<sup>243</sup> which related to a claim under an alternative section of the FTC Act for jurisdiction.<sup>244</sup> Second, the Ninth Circuit believes that the FTC's claims allow for what Justice Scalia might call omnipotent authority to render justice as required.<sup>245</sup> Third, the Ninth Circuit and other circuits have held that equitable remedies can be punitive or exemplary.<sup>246</sup>

While it is still unusual to see disgorgement awards in excess of the defendant's revenues, awards of the defendant's revenues are common and

---

240. See *supra* notes 218–19, 222, 227 and accompanying text (discussing *Tull* and *McCaskey*).

241. See *Bronson Partners*, 2006 U.S. Dist. LEXIS 3315, at \*12 ("Restitution and disgorgement of profits are equitable in nature."); see also *id.* (holding that with respect to restitution and disgorgement, "the court is not awarding damages to which plaintiff is legally entitled but is exercising the chancellor's discretion to prevent unjust enrichment").

242. The author is unaware of any agency case opinions that attempt to justify gross disgorgement for a federal agency on the basis of the property law exceptions, as discussed in Section VIII.

243. See *Fed. Trade Comm'n v. Figgie Intern., Inc.*, 994 F.2d 595, 607–08 (9th Cir. 1993) (holding *inter alia* that the seller had liability for misrepresentations, and that part of the district courts damages were punitive and therefore prohibited).

244. See *id.*

245. See *Fed. Trade Comm'n v. H. N. Singer, Inc.*, 668 F.2d 1107, 1113 (9th Cir. 1982) (stating that the court has broad equitable jurisdiction, which includes the ability to make a freeze order).

246. See *supra* notes 218–19 and accompanying text (discussing *Tull*).



also outside the court's jurisdiction. The aberrant result in *Stefanchik* and unfounded rationale cannot be brushed aside as a solitary outlier. In less than two years, the opinion has been cited or quoted favorably in more than eleven cases, including three cases outside of the Ninth Circuit.<sup>247</sup> Therefore, it seems unlikely that *Stefanchik* will remain an extreme or solitary FTC opinion for very long.

Since at least 1982, the FTC has asserted that its mandate from Congress to fight consumer fraud expands a court's jurisdiction to award remedies in equity especially suited for the FTC's mandate. Inferring this special mandate from a provision that merely provides statutory jurisdiction to seek injunctive relief is unwarranted, especially in comparison with remedies awarded for agencies with similar implied statutory jurisdiction. Such an inference would also run counter to the Supreme Court's majority opinion in *Tull*,<sup>248</sup> which found that the EPA had overstepped its jurisdiction in seeking penalties as an ancillary remedy to injunctive relief, and *Cavanagh*,<sup>249</sup> which held that a remedy awarded under implied jurisdiction must meet the standard handed down in *Grupo*.

The Ninth Circuit's opinion in *Singer*, however, can be read to be compatible with the limitations set down by *Tull* and *Grupo*.<sup>250</sup> But *Singer*'s pronouncement has progressed and is now frequently repeated without any reference to traditional restrictions on the court's jurisdiction to

---

247. See Fed. Trade Comm'n v. Network Servs. Depot, Inc., 617 F.3d 1127, 1141 (9th Cir. 2010); Fed. Trade Comm'n v. MacGregor, 360 Fed. Appx. 891, 893 (9th Cir. 2009); Fed. Trade Comm'n v. Trudeau, 579 F.3d 754, 771 (7th Cir. 2009); Fed. Trade Comm'n v. INC21.com Corp., 2010 U.S. Dist. LEXIS 98944, at \*\*55 (N.D. Cal. 2010); Fed. Trade Comm'n v. Dinamica Financiera LLC, 2010 U.S. Dist. LEXIS 88000, at \*37 (C.D. Cal. 2010); Fed. Trade Comm'n v. Swish Mktg., 2010 U.S. Dist. LEXIS 47948, at \*9 (N.D. Cal. 2010); Fed. Trade Comm'n v. Publishers Bus. Servs., 2010 U.S. Dist. LEXIS 34336, at \*44 (D. Nev. 2010); Fed. Trade Comm'n v. Medlab, Inc., 615 F. Supp. 2d 1068, 1083 (N.D. Cal. 2009); Fed. Trade Comm'n v. Home Assure, LLC, 2009 U.S. Dist. LEXIS 32055, at \*10 (M.D. Fla. 2009); Fed. Trade Comm'n v. Med. Billers Network, Inc., 543 F. Supp. 2d 283, 310 (S.D.N.Y. 2008).

248. See *Tull v. United States*, 481 U.S. 412, 424–25 (1987) (arguing that a court in equity may award monetary relief as an adjunct to injunctive relief, but it may not enforce civil penalties by characterizing the legal claim as incidental to the equitable relief).

249. See *Secs. & Exch. Comm'n v. Cavanagh*, 445 F.3d 105, 121 (2d Cir. 2006) (stating that "federal courts possess authority under the Constitution and Judiciary Act to impose equitable remedy of disgorgement").

250. See *Fed. Trade Comm'n v. H.N. Singer, Inc.*, 668 F.2d 1107, 1113 (9th Cir. 1982) (stating that the FTC's objective is to obtain restitution "of moneys fraudulently obtained"); see also *Fed. Trade Comm'n v. Sw. Sunsites, Inc.*, 665 F.2d 711, 717–19 (5th Cir. 1982), *cert. denied*, 456 U.S. 973 (1982) (discussing the available equitable remedies).

order remedies.<sup>251</sup> The abbreviated caption from *Singer* has been cited or quoted in more than twenty-five FTC cases since 1982.<sup>252</sup>

Relatively few in number, FDA opinions agree with the FTC's view of consumer redress. The FDA has secured the Sixth Circuit's approval for the proposition that statutory authority for injunctive relief includes consumer redress, as that remedy complies with the overarching FDA

---

251. See Fed. Trade Comm'n v. Network Servs. Depot, Inc., 617 F.3d 1127, 1141 (9th Cir. 2010) ("The FTC Act endows the district court with broad authority to 'grant any ancillary relief necessary to accomplish complete justice,' including the power to compel the payment of restitution to injured consumers."); Fed. Trade Comm'n v. Stefanchik, 559 F.3d 924, 931 (9th Cir. 2009) ("[B]ecause the FTC Act is designed to protect consumers from economic injuries, courts have often awarded the full amount lost by consumers rather than limiting damages to a defendant's profits."); Fed. Trade Comm'n v. Pantron I Corp., 33 F.3d 1088, 1102 (9th Cir. 1994) ("[T]he authority granted by Section 13(b) is not limited to the power to issue an injunction; rather, it includes the 'authority to grant any ancillary relief necessary to accomplish complete justice.' This power includes the power to order restitution.") (citing *Singer*, 668 F.2d at 1113); Fed. Trade Comm'n v. RCA Credit Servs., LLC, 2010 U.S. Dist. LEXIS 73461, at \*\*36–40 (M.D. Fla. 2010) (discussing restitution amounts paid by customers).

252. Fed. Trade Comm'n v. Network Servs. Depot, Inc., 617 F.3d 1127, 1141 (9th Cir. 2010); Northwest Envtl. Def. Ctr. v. Bonneville Power Admin., 477 F.3d 668, 680 (9th Cir. 2007); Fed. Trade Comm'n v. MTK Mktg., 149 F.3d 1036, 1041 (9th Cir. 1998); Fed. Trade Comm'n v. Pantron I Corp., 33 F.3d 1088, 1102 (9th Cir. 1994); Fed. Trade Comm'n v. Sec. Rare Coin & Bullion Corp., 931 F.2d 1312, 1314 (8th Cir. 1991); Fed. Trade Comm'n v. Amy Travel Serv., Inc., 875 F.2d 564, 571 (7th Cir. 1989); Fed. Trade Comm'n v. World Travel Vacation Brokers, Inc., 861 F.2d 1020, 1025 (7th Cir. 1988); Fed. Trade Comm'n v. U.S. Oil & Gas Corp., 748 F.2d 1431, 1434 (11th Cir. 1984); Fed. Trade Comm'n v. INC21.com Corp., 2010 U.S. Dist. LEXIS 98944, at \*\*82 (N.D. Cal. 2010); Fed. Trade Comm'n v. Direct Mktg. Concepts, Inc., 648 F. Supp. 2d 202, 212 (D. Mass. 2009); Fed. Trade Comm'n v. J.K. Publs., Inc., 2009 U.S. Dist. LEXIS 36885, at \*14 (C.D. Cal. 2009); Fed. Trade Comm'n v. Direct Mktg. Concepts, Inc., 569 F. Supp. 2d 285, 307–8 (D. Mass. 2008); Fed. Trade Comm'n v. Med. Billers Network, Inc., 543 F. Supp. 2d 283, 323 (S.D.N.Y. 2008); Fed. Trade Comm'n v. Natural Solution, Inc., 2007 U.S. Dist. LEXIS 60783, at \*18 (C.D. Cal. 2007); Fed. Trade Comm'n v. Connelly, 2006 U.S. Dist. LEXIS 98263, at \*47 (C.D. Cal. 2006); Fed. Trade Comm'n v. Verity Int'l, Ltd., 335 F. Supp. 2d 479, 501 (S.D.N.Y. 2004); Fed. Trade Comm'n v. Consumer Alliance, Inc., 2003 U.S. Dist. LEXIS 17423, at \*22 (N.D. Ill. 2003); Fed. Trade Comm'n v. Crescent Publ'g Grp., Inc., 129 F. Supp. 2d 311, 325 (S.D.N.Y. 2001); Fed. Trade Comm'n v. Five-Star Auto Club, Inc., 97 F. Supp. 2d 502, 533 (S.D.N.Y. 2000); Fed. Trade Comm'n v. Arlington Press, Inc., 1999 U.S. Dist. LEXIS 2055, at \*25 (C.D. Cal. 1999); *In re* National Credit Mgmt. Group, LLC, 21 F. Supp. 2d 424, 429 n.3 (D.N.J. 1998); Fed. Trade Comm'n v. Hang-Ups Art Enters., 1995 U.S. Dist. LEXIS 21444, at \*6 (C.D. Cal. 1995); Fed. Trade Comm'n v. Silueta Distribs., 1995 U.S. Dist. LEXIS 22254, at \*23 (N.D. Cal. 1995); Fed. Trade Comm'n v. ENGAGE-A-CAR SERVS., 1986 U.S. Dist. LEXIS 16357, \*6 (D.N.J. 1986); Fed. Trade Comm'n v. Kitco of Nevada, Inc., 612 F. Supp. 1280, 1281 (D. Minn. 1985); Fed. Trade Comm'n v. Int'l Diamond Corp./Full Serv. Import Brokers, Inc., 1983 U.S. Dist. LEXIS 15504, at \*4 (N.D. Cal. 1983).

statutory scheme because "it serves goals of the FDC that are encompassed within the section the FDA charges Appellants violated."<sup>253</sup>

The analysis of FTC gross disgorgement claims is complicated by the fact that the FTC's statutes include two key applicable provisions that have been used to justify monetary remedies in equity. Section 13(b) of the FTC Act provides the FTC with authority for injunctive relief,<sup>254</sup> while Section 19 authorizes the FTC to make more specific remedial claims, including claims based on damages to the victims or customers of the defendants.<sup>255</sup> Peter Ward points out that claims under Section 13(b) are easier to make than claims under Section 19 because Section 19 requires the FTC to complete administrative proceedings before initiating civil litigation.<sup>256</sup> Of course, the result has been for the FTC to prefer litigation under Section 13(b) rather than a combination of administrative law and litigation under Section 19. According to a statement on the FTC website, most of the FTC's consumer protection enforcement activities are now conducted in litigation rather than administrative proceedings.<sup>257</sup>

Over time, the FTC has sought and been awarded monetary remedies based on customer redress. The Ninth Circuit opinion in *Figgie* is often cited in opinions that award customer redress under Section 13, although generally without any specific acknowledgement that *Figgie* was based on Section 19.<sup>258</sup> The FTC is securing special remedies provided in Section 19

---

253. *United States v. Universal Mgmt. Servs., Inc.*, 191 F.3d 750, 763 (6th Cir. 1999).

254. *See* FTC Act § 13(b), 15 U.S.C. § 53(a) (2006) ("Upon properly showing a temporary injunction or restraining order shall be granted . . .").

255. *See id.* § 19, 15 U.S.C. § 57b(b) (2006) ("Such relief may include, but shall not be limited to, rescission or reformation of contracts, the refund of money or return of property, the payment of damages, and public notification respecting the rule violation or the unfair or deceptive act or practice . . .").

256. *See* Peter C. Ward, *Restitution for Consumers Under the Federal Trade Commission Act: Good Intentions or Congressional Intentions?*, 41 AM. U. L. REV. 1139, 1191-92 (1992).

257. *See supra* note 232 and accompanying text (discussing the FTC's 2010 annual report).

258. Inexplicably, a number of opinions about the FTC's claims under Section 13(b) are justified in part by citing the Ninth Circuit's opinion in *Federal Trade Commission v. Figgie International*, 994 F.2d 595 (9th Cir. 1993), which was a case based on jurisdiction under Section 19. *See* *Fed. Trade Comm'n v. Munoz*, 17 Fed. App'x 624, 626-27 (9th Cir. 2001); *Fed. Trade Comm'n v. Bay Area Bus. Council, Inc.*, 2004 U.S. Dist. LEXIS 6192, at \*38 (N.D. Ill. 2004); *Fed. Trade Comm'n v. AmeriDebt, Inc.*, 373 F. Supp. 2d 558, 564 n.6 (D. Md. 2005); *Fed. Trade Comm'n v. Think Achievement Corp.*, 144 F. Supp. 2d 1013, 1019 (N.D. Ind. 2000); *Fed. Trade Comm'n v. Commonwealth Mktg. Grp., Inc.*, 72 F. Supp. 2d 530, 544 (W.D. Pa. 1999); *Fed. Trade Comm'n v. Cyberspace.com, L.L.C.*, 2002 U.S. Dist. LEXIS 25565, at \*13 n.5 (W.D. Wash. 2002); *Fed. Trade Comm'n v. 1263523 Ont.*,

but with the procedural ease of Section 13. At a minimum, the award of consumer redress, based on compensating the plaintiffs' losses, violates the holdings in *Grupo* and *Tull* as outside of traditional remedies in equity and as a punitive remedy, respectively. In addition, a recent opinion from the Federal Circuit rejected such a practice in relation to the award of a disgorgement remedy awarded under the Racketeer Influences and Corrupt Organizations (RICO) statute:

Congress' intent when it drafted RICO's remedies would be circumvented by the Government's broad reading of its § 1964(a) remedies. The disgorgement requested here is similar in effect to the relief mandated under the criminal forfeiture provision, § 1963(a), without requiring the inconvenience of meeting the additional procedural safeguards that attend criminal charges, including a five-year statute of limitations, 18 U.S.C. § 3282, notice requirements, 18 U.S.C. § 1963(l), and general criminal procedural protections including proof beyond a reasonable doubt. Further, on the Government's view it can collect sums paralleling—perhaps exactly—the damages available to individual victims under § 1964(c).<sup>259</sup>

It would be impossible to definitively prove that the failure in court opinions to acknowledge the distinction between Sections 13 and 19 had a significant impact on the exact nature of the holding. According to my count, in about half of the FTC cases that cite *Figgie* and that address Section 13 of the FTC Act (twenty-nine out of fifty-three cases), Section 19 was not mentioned.<sup>260</sup> Over time, the problem gets to be sheer numbers of

---

Inc., 205 F. Supp. 2d 205, 210 (S.D.N.Y. 2002) ("Under the FTC Act, the Court has the power to 'grant such relief as the court finds necessary to redress injury to consumers' resulting from deceptive acts or practices." (quoting Fed. Trade Comm'n v. *Figgie Int'l, Inc.*, 994 F.2d 595, 605 (9th Cir. 1993))); Fed. Trade Comm'n v. *Think All Publ'g, LLC*, 2008 U.S. Dist. LEXIS 18623, at \*6 (E.D. Tex. 2008).

259. *United States v. Philip Morris USA, Inc.*, 396 F.3d 1190, 1200–01 (D.C. Cir. 2005).

260. Cases that cited *Figgie* without referring to Section 19 of the FTC Act include: Fed. Trade Comm'n v. *Stefanchik*, 559 F.3d 924 (9th Cir. 2009); Fed. Trade Comm'n v. *Cyberspace.com, LLC*, 453 F.3d 1196 (9th Cir. 2006); Fed. Trade Comm'n v. *Freecomm Commc'ns, Inc.*, 401 F.3d 1192 (10th Cir. 2005); Fed. Trade Comm'n v. *Munoz*, 17 Fed. Appx. 624 (9th Cir. 2001); Fed. Trade Comm'n v. *Trudeau*, 606 F.3d 382 (7th Cir. 2010); Fed. Trade Comm'n v. *Dinamica Financiera LLC*, 2010 U.S. Dist. LEXIS 88000 (C.D. Cal. 2010); Fed. Trade Comm'n v. *RCA Credit Servs., LLC*, 2010 U.S. Dist. LEXIS 73461 (M.D. Fl. 2010); Fed. Trade Comm'n v. *Trudeau*, 2010 U.S. Dist. LEXIS 37924 (N.D. Ill. 2010); Fed. Trade Comm'n v. *Bronson Partners, LLC*, 674 F. Supp. 2d 373 (D. Conn. 2009); Fed. Trade Comm'n v. *Home Assure, LLC*, 2009 U.S. Dist. LEXIS 32053 (M.D. Fla. 2009); Fed. Trade Comm'n v. *City West Advantage, Inc.*, 2008 U.S. Dist. LEXIS 71608 (D. Nev. 2008); Fed. Trade Comm'n v. *Nat'l Urological Grp., Inc.*, 645 F. Supp. 2d 1167 (N.D. Ga. 2008); Fed. Trade Comm'n v. *Natural Solution, Inc.*, 2007 U.S. Dist. LEXIS 60783 (C.D.

similar cases with a similar mistake and the fact that a reader of the third generation of mistakes has no idea of the omission.

Recently, the Tenth Circuit overturned an award of sanctions against the FTC, finding that the FTC claims were colorable and did not warrant sanctions.<sup>261</sup> As part of that opinion, the Tenth Circuit stated that the FTC was free to seek consumer redress based on the following rationale:

Section 13(b), 15 U.S.C. § 53(b), provides the remedy for a § 5 violation. Although § 13(b) does not expressly authorize a court to grant consumer redress (i.e., refund, restitution, rescission, or other equitable monetary relief), § 13(b)'s grant of authority to provide injunctive relief carries with it the full range of equitable remedies, including the power to grant consumer redress. In cases where the FTC seeks injunctive relief, courts deem any monetary relief sought as incidental to injunctive relief.<sup>262</sup>

---

Cal. 2007); *Commodity Futures Trading Comm'n v. Emerald Worldwide Holdings, Inc.*, 2007 U.S. Dist. LEXIS 67947 (C.D. Cal. 2007); *Commodity Futures Trading Comm'n v. White Pine Trust Corp.*, 2007 U.S. Dist. LEXIS 27218 (S.D. Cal. 2007); *Fed. Trade Comm'n v. Stefanchik*, 2007 U.S. Dist. LEXIS 25173 (D. Wash. 2007); *United States v. Prochnow*, 2006 U.S. Dist. LEXIS 92895 (N.D. Ga. 2006); *Fed. Trade Comm'n v. Connelly*, 2006 U.S. Dist. LEXIS 98263 (C.D. Cal. 2006); *Fed. Trade Comm'n v. Voc. Guides, Inc.*, 2006 U.S. Dist. LEXIS 82308 (M.D. Tenn. 2006); *Fed. Trade Comm'n v. Bronson Partners, LLC*, 2006 U.S. Dist. LEXIS 3315 (D. Conn. 2006); *Fed. Trade Comm'n v. Peoples Credit First, LLC*, 2005 U.S. Dist. LEXIS 38545 (M.D. Fla. 2005); *Commodity Futures Trading Comm'n v. Wilshire Inv. Mgmt. Corp.*, 407 F. Supp. 2d 1304 (S.D. Fla. 2005), *aff'd in part, vacated in part, remanded by* *Commodity Futures Trading Comm'n v. Wilshire Inv. Mgmt. Corp.*, 531 F.3d 1339 (11th Cir. 2008); *Fed. Trade Comm'n v. AmeriDebt, Inc.*, 373 F. Supp. 2d 558 (D. Md. 2005); *Fed. Trade Comm'n v. Accent Mktg., Inc.*, 2002 U.S. Dist. LEXIS 12545 (D. Ala. 2002); *Fed. Trade Comm'n v. Gill*, 183 F. Supp. 2d 1171 (C.D. Cal. 2001); *Fed. Trade Comm'n v. Para-Link Int'l, Inc.*, 2000 U.S. Dist. LEXIS 21509 (M.D. Fla. 2000); *Fed. Trade Comm'n v. Think Achievement Corp.*, 144 F. Supp. 2d 1013 (N.D. Ind. 2000); *Fed. Trade Comm'n v. Five-Star Auto Club, Inc.*, 97 F. Supp. 2d 502 (S.D.N.Y. 2000); *Fed. Trade Comm'n v. Solomon Trading Co.*, 1994 U.S. Dist. LEXIS 19696 (D. Az. 1994); *Samson v. Schmersey (In re Schmersey)*, 2005 Bankr. LEXIS 3089 (Bankr. Mont. 2005); *Mishkin v. Ensminger (In re Adler, Coleman Clearing Corp.)*, 1998 Bankr. LEXIS 404 (Bankr. S.D.N.Y. 1998).

261. *See* *Fed. Trade Comm'n v. Freecom Commc'ns, Inc.*, 401 F.3d 1192, 1207–08 (10th Cir. 2005) (stating that the FTC could have reasonably concluded that facts might be established to justify both injunctive relief and consumer redress and holding that the district court abused its discretion by finding the allegations to be frivolous and groundless).

262. *See id.* at 1202 n.6 (10th Cir. 2005) (citing *Fed. Trade Comm'n v. Gem Merch. Corp.*, 87 F.3d 466, 468–69 (11th Cir. 1996); *Fed. Trade Comm'n v. Pantron I Corp.*, 33 F.3d 1088, 1102 (9th Cir. 1994). *See also* *Fed. Trade Comm'n v. Kuykendall*, 371 F.3d 745, 767 (10th Cir. 2004) (stating the three-part formula for calculating redress for consumer injury); *Fed. Trade Comm'n v. Bronson Partners, LLC*, 674 F. Supp. 2d 373, 384 (D. Conn. 2009) ("Payments the defendants made to third parties are not allowable offsets as a matter of law, nor are net profits the appropriate measure of restitution."); *Fed. Trade Comm'n v.*

The Tenth Circuit overlooked its own opinion, issued one year earlier in *Callery v. United States Insurance Co.*,<sup>263</sup> that "though the issue is close, we must adhere to the Supreme Court's rather emphatic guidance and therefore conclude that in a suit by a beneficiary against a fiduciary, the beneficiary may not be awarded compensatory damages as 'appropriate equitable relief' under § 502(a)(3) of ERISA."<sup>264</sup>

Despite an impressive list of precedents to the contrary,<sup>265</sup> two circuit opinions state that punitive remedies for FTC claims do not exceed a court's authority under Section 13(b).<sup>266</sup> To be sure, punitive remedies under Section 13 are not in violation of Section 19, but they are in violation of *Grupo* and several other Supreme Court precedents. The Second Circuit opinion in *Texas Gulf Sulphur*, which is the foundation for most federal agency claims under implied jurisdiction, clearly acknowledged this limitation.<sup>267</sup>

Section 4 of the Third Restatement provides some frank acknowledgments of the fact that terms like restitution, among others, have been twisted and contorted to justify a remedy that a traditional court in

---

Nat'l Urological Group, Inc., 645 F. Supp. 2d 1167, 1215 (N.D. Ga. 2008) (arguing that injunctive relief may be broader than the violations alleged so long as the relief is reasonably related to the FTC Act violations that occurred); Fed. Trade Comm'n v. Seismic Entm't Prods., 441 F. Supp. 2d 349, 353 (D.N.H. 2006) ("The appropriate measure for restitution is the benefit unjustly received by the defendants.' That amount need not be reduced to the amount of a defendant's profits from the illegal activities.") (citations omitted); Fed. Trade Comm'n v. Atlantex Assocs., 1987 U.S. Dist. LEXIS 10911, at \*36-37 (S.D. Fla. 1987) ("It is an appropriate remedy authorized by this Court's equitable powers to require the individual and corporate Defendants to pay consumer redress in the form of a cash refund measured by amounts previously paid less any amounts returned to consumers . . .").

263. See *Callery v. U.S. Life Ins. Co.*, 392 F.3d 401, 409 (10th Cir. 2004) (holding *inter alia* that ERISA provision barred claim for payment of proceeds of life insurance policy covering employee's former husband, that the employee could not seek relief under ERISA in the form of equitable estoppel, and that ERISA's limitation did not foreclose all remedies to employee).

264. *Id.*

265. See *supra* notes 118-22, 160 and accompanying text (discussing punitive damages).

266. See Fed. Trade Comm'n v. *Febre*, 128 F.3d 530, 537 (7th Cir. 1997) ("Additionally, *Febre* and *Ace* argue that such disgorgement amounts to a penalty that exceeds the authority of the court as provided by Section 13(b) of the Fed. Trade Comm'n. They cite the Ninth Circuit's opinion in [*Figgie*] in support of this assertion."); see also Fed. Trade Comm'n v. *Gem Merch. Corp.*, 87 F.3d 466, 470 (11th Cir. 1996).

267. See *Sec. & Exch. Comm'n v. Texas Gulf Sulphur Co.*, 446 F.2d 1301, 1308 (2d Cir. 1971) ("Thus we hold that the SEC may seek other than injunctive relief in order to effectuate the purposes of the Act, so long as such relief is remedial relief and is not a penalty assessment.").

equity could not recognize.<sup>268</sup> The misuse of terms, knowing or otherwise, like "restitution" is part of the high art of rationalizing a remedy that stands out in comparison to remedy measures for other federal agency or IP claims. Whether the remedy is labeled as restitution,<sup>269</sup> disgorgement,<sup>270</sup> consumer redress,<sup>271</sup> refund,<sup>272</sup> or reimbursement,<sup>273</sup> the remedy awarded amounts to gross disgorgement. At most, the cases in this area recite that disgorgement or restitution is an equitable remedy and fail to look beneath the label.<sup>274</sup> For example, the opinion in *Federal Trade Commission v. Febre*<sup>275</sup> is frequently cited to support gross disgorgement<sup>276</sup> yet the holding

268. See RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 4 cmt. a (2011) ("The chameleon-like qualities of the term 'restitution' permit its invocation in a variety of circumstances where the legal and equitable nature of a given remedy may not be apparent.").

269. See *Fed. Trade Comm'n v. Think Achievement Corp.*, 144 F. Supp. 2d 1013, 1021 (N.D. Ind. 2000) (referring to the damages awarded as "restitution").

270. See *Fed. Trade Comm'n v. Medicor, L.L.C.*, 217 F. Supp. 2d 1048, 1058 (C.D. Cal. 2002) ("Section 13(b) of the FTC Act permits the Court to order disgorgement regardless of the amount of the defendant's profits. The full amount lost by consumers is an appropriate measure of damages." (citations omitted)).

271. See *Fed. Trade Comm'n v. Atlantex Assocs.*, 1987 U.S. Dist. LEXIS 10911, at \*36 (S.D. Fla. 1987) ("The court . . . finds that sufficient facts have been presented to warrant granting relief for consumer redress which resulted from the defendants' violations of the Act.").

272. See *Fed. Trade Comm'n v. Int'l Diamond Corp.*, 1983 U.S. Dist. LEXIS 15504, at \*5 (N.D. Cal. 1983) (referring to the remedy for commercial redress as a "refund").

273. See *United States v. Lane Labs-USA, Inc.*, 427 F.3d 219, 231 (3d Cir. 2005) ("[T]he restitution sought by the government here is reimbursement . . .").

274. See *Fed. Trade Comm'n v. Bronson Partners, LLC*, 674 F. Supp. 2d 373, 378 (D. Conn. 2009) (stating that in *Verity* "the Second Circuit assumed without deciding that restitution is available as ancillary equitable relief under Section 13(b) of the FTC Act and held that the availability of ancillary equitable relief under Section 13(b) derives from the district court's equitable jurisdiction").

275. See *Fed. Trade Comm'n v. Febre*, 128 F.3d 530, 537 (7th Cir. 1997) (holding *inter alia* that the FTC could use defendant's database data to calculate damages, which could be awarded based on consumer losses rather than defendant's profits, and disgorgement of illegally obtained funds was justified).

276. See *Fed. Trade Comm'n v. Stefanchik*, 559 F.3d 924, 931 (9th Cir. 2009) (citing *Febre* and stating that "because the FTC Act is designed to protect consumers from economic injuries, courts have often awarded the full amount lost by consumers rather than limiting damages to a defendant's profits"); *Fed. Trade Comm'n v. INC21.com Corp.*, 745 F. Supp. 2d 975, 1101 (N.D. Cal. 2010) ("The FTC Act was designed to protect consumers from economic injuries. As such, courts have often awarded restitution in the full amount of funds lost by consumers rather than limiting restitution solely to a defendant's profits."); *Bronson Partners*, 674 F. at 384 (citing *Febre* and stating that "the amount of actual profit that the defendants may realize is not relevant, and if the defendants lose money engaging in prohibited conduct there is no bar to restitution"); *Fed. Trade Comm'n v. Davison Assocs.*,

in *Febre* for the award of gross disgorgement is specifically justified on the defendants' failure to present significant evidence of counter-restitution.<sup>277</sup>

The U.S. Court of Appeals for the Sixth Circuit opinion in *United States v. Universal Management Services, Inc.*<sup>278</sup> also relies on profit disgorgement cases to justify gross disgorgement. Note how the Sixth Circuit avoids defining a punitive remedy and then resorts to sympathy for the consumer:

Appellants also claim that restitution is punitive because, unlike disgorgement which removes ill-gotten gain by forcing surrender of profits, restitution requires a return of the entire purchase price, included in which are costs and profits. *See Sec. Exch. Comm'n v. Blatt*, 583 F.2d 1325, 1335 (5th Cir. 1978) ("The purpose of disgorgement is not to compensate the victims of the fraud, but to deprive the wrongdoer of his ill-gotten gain."). *See also SEC v. Commonwealth Chem. Sec., Inc.*, 574 F.2d 90, 102 (2d Cir. 1978). Simply because disgorgement and restitution are different, however, does not make restitution punitive. *See SEC v. World Gambling Corp.*, 555 F. Supp. 930, 934 (S.D.N.Y.), *aff'd*, 742 F.2d 1440 (2d Cir. 1983) ("[W]hile disgorgement has been said to serve more important interests than the compensation of investors, that principle is a far cry from the proposition that restitution is an improper end." (internal citation omitted)). Appellants, who disobeyed the law, should not have his expenses covered by consumers. To say that restitution is unavailable is to say that consumers must cover the costs of Appellants' production, advertising, and illegal distribution. Instead, the district court should have the discretion in a case such as

---

431 F. Supp. 2d 548, 560 (W.D. Pa. 2006) (citing *Febre* and stating that "the authority to grant permanent injunction includes the authority to order any other ancillary equitable relief necessary to effectuate the exercise of powers granted under [S]ection 13(b) [of the FTC ACT]"); *Fed. Trade Comm'n v. Seismic Entm't Prods.*, 441 F. Supp. 2d 349, 353 (D.N.H. 2006) ("The appropriate measure for restitution is the benefit unjustly received by the defendants. That amount need not be reduced to the amount of defendant's profits from illegal activities.") (citations omitted); *Fed. Trade Comm'n v. Medicor, L.L.C.*, 217 F. Supp. 2d 1048, 1057–58 (C.D. Cal. 2002) (citing *Febre* and stating that "Section 13(b) of the FTC Act permits the Court to order disgorgement regardless of the amount of the defendant's profits. . . . The full amount lost by consumers is an appropriate measure of damages."); *Fed. Trade Comm'n v. Five-Star Auto Club, Inc.*, 97 F. Supp. 2d 502, 534 (S.D.N.Y. 2000) (citing *Febre* and stating that "the proper amount of relief is the full amount lost by consumers").

277. *See Febre*, 128 F.3d at 536 ("[T]here was no abuse of discretion in awarding \$16,096,345 in damages where the amount was properly supported in the record and defendants failed to dispute the facts in a timely and appropriate manner.")

278. *See United States v. Universal Mgmt. Servs., Inc.*, 191 F.3d 750, 764 (6th Cir. 1999) (holding *inter alia* that in the Food, Drug, and Cosmetic Act precludes a court to sit in equity from ordering restitution in appropriate cases and the order was appropriate in this case).



this to make the consumers whole rather than allow the illegal activities to stand uncorrected to the consumer's detriment.<sup>279</sup>

Each of the three cases cited within is briefly quoted to show that whoever wrote the opinion should have been aware that he or she was justifying oranges with apples. Furthermore, in at least two of the cited cases, the opinion advised that disgorgement orders are not intended to compensate the plaintiff or provide consumer redress. Apparently the Court must have believed that it could order the disgorgement of profits or restitution of revenues but not disgorgement of revenues.<sup>280</sup>

The FTC is not the only plaintiff that faces "outlaws." Some of the defendants in these cases are bad actors: Not as bad as Bernie Madoff or Blake, but serious fraud-feasors. For example, the product being marketed in *Universal Management* was a treatment device for arthritis.<sup>281</sup> The patient was told to apply the device against her bare skin and pull the trigger to administer a light shock.<sup>282</sup> The devices were sold for \$88.30 and were totally ineffective. The defendant paid about \$1 for each device as they were surplus charcoal grill starters.<sup>283</sup> On the other hand, there was an equally bad actor who was the target of a disgorgement order for selling defective prosthetic devices that broke easily after insertion.<sup>284</sup> The latter was a trademark case in which the defendant's right to counter-restitution was not in dispute.<sup>285</sup>

---

279. *Universal Mgmt.*, 191 F.3d at 764–65.

280. *See* Secs. & Exch. Comm'n v. Commonwealth Chem. Sec., Inc., 574 F.2d 90, 102 (2d Cir. 1978) ("Defendants complain that the court's computation of profits and losses ended on . . . the last trading day before the SEC suspended trading in BL securities; that they still held substantial amounts of such securities at that time; and that losses after trading was resumed wiped out any profits."); Secs. & Exch. Comm'n v. Blatt, 583 F.2d 1325, 1335 (5th Cir. 1978) ("The court's power to order disgorgement extends only to the amount with interest by which the defendant profited from his wrongdoing. Any further sum would constitute a penalty assessment."); Secs. & Exch. Comm'n v. World Gambling Corp., 555 F. Supp. 930, 935 (S.D.N.Y.), *aff'd*, 742 F.2d 1440 (2d Cir. 1983) ("Under the circumstances of this case, however, Norbay should not be required to disgorge any more than the profit it made . . .").

281. *Universal Mgmt.*, 191 F.3d at 764.

282. *Id.* at 755.

283. *Id.*

284. *See* World Wide Prosthetic Supply, Inc. v. Mikulsky, 640 N.W.2d 764, 765–66 (Wis. 2002) (stating that although the business relationship ceased due to manufacturing defects, the manufacturer continued to sell the prosthetic components without making changes to their appearance or design).

285. *See id.* (providing the underlying facts of the case).

The FTC does not limit its claims to fraud or misrepresentation. The FTC's mandate is so broad and its causation standard so low that it can make claims for damaged consumers alleging negligence, an unintentional tort.<sup>286</sup> The remedies for these defendants are no different from the other FTC cases. Consider a recent Ninth Circuit opinion relating to a failed company that tried to provide a service for delivering checks by e-mail.<sup>287</sup> The system did not work well and, in hindsight, it proved to be a target-rich environment for third-party fraud.<sup>288</sup> Third parties gained access to the system and sent unauthorized checks on accounts registered on the system.<sup>289</sup> The e-mail service did not work and security was undoubtedly weak, but there is no indication that the defendants were parties to the fraud.<sup>290</sup> The Ninth Circuit advises that neither deceptive intent nor knowledge of the harm from a third party's acts is required for a successful FTC claim:

These cases illustrate that businesses can cause direct consumer harm as contemplated by the FTC Act in a variety of ways. In assessing that harm, we look of course to the deceptive nature of the practice, but the absence of deceit is not dispositive. Nor is actual knowledge of the harm a requirement under the Act. Courts have long held that consumers are injured for purposes of the Act not solely through the machinations of those with ill intentions, but also through the actions of those whose practices facilitate, or contribute to, ill intentioned schemes if the injury was a predictable consequence of those actions.<sup>291</sup>

---

286. See Robert Pitofsky, *Beyond Nader: Consumer Protection and the Regulation of Advertising*, 90 HARV. L. REV. 661, 676-77 (1977) ("[I]ssues of . . . causality relating to whether consumers were influenced in purchasing decisions by the false claim are largely avoided by the Commission rules that it need show only capacity to deceive rather than actual deception, and capacity to affect purchasing decisions rather than actual effects.")

287. See Fed. Trade Comm'n v. Neovi, Inc., 604 F.3d 1150, 1153 (9th Cir. 2010) (stating that the software allowed registered user to create and send checks by post or email); see also *id.* at 1156 (discussing Fed. Trade Comm'n v. Windward Mktg., Ltd., 1997 WL 33642380 (N.D. Ga. 1997), and stating that the court found defendant liable because it "facilitated and provided substantial assistance to [a] . . . deceptive scheme," resulting in substantial injury to consumers).

288. See *id.* at 1154 ("The . . . system was highly vulnerable to con artists and fraudsters.")

289. *Id.*

290. *Id.*

291. *Id.* at 1159; see also *id.* at 1157 ("[Defendant] engaged in behavior that was, *itself*, injurious to consumers. [Defendant's] business practices might have served to assist others in illicit or deceptive schemes, but the liability under the FTC Act that attaches to [defendant] is not mediated by the actions of those third parties.")

The Ninth Circuit affirmed the district court's denial of the defendant's right to present evidence of counter-restitution:

Analogizing to securities law, the district court concluded that the appropriate measure of equitable disgorgement was Neovi's total revenue. See *SEC v. JT Wallenbrock & Assocs.*, 440 F.3d 1109, 1113 (9th Cir. 2006) (explaining that "the district court has broad equity powers to order the disgorgement of 'ill-gotten gains' obtained through the violation of federal securities laws") (internal citations omitted). An evidentiary hearing was unnecessary because there were no "genuine issues of material fact remaining in the case." [Defendant] argues that this conclusion was error in that "the FTC did not put forth admissible evidence demonstrating that Neovi realized \$535,358 in 'ill gotten gains.'" The district court derived this specific figure from the gross receipts on Neovi's tax return, the details of which were not disputed. [Defendant] argues that the figure is invalid because [defendant's] revenues were exceeded by developing, maintenance, and operating costs for the software and website.<sup>292</sup>

The upshot of the Ninth Circuit's holdings in *Neovi* is that defendants are being assessed disgorgement awards that are more severe than the remedies provided in Section 51 of the Third Restatement even though many of these defendants do not constitute willful infringers. The FTC does not have to prove the defendant's intent or even her knowledge of the harmful impact. Under such circumstances, Section 51 would not justify even the disgorgement of profits let alone the disgorgement of revenues.<sup>293</sup>

A case opinion in 2008 from the Eleventh Circuit provides mixed indications of the ability of the federal circuit courts to resolve this problem by themselves.<sup>294</sup> The case is unusual because it directly acknowledges the fact that claims for the CFTC and FTC are based on exactly the same jurisdiction and rationale in *Porter*.<sup>295</sup> Next, it held that the district court's

---

292. *Id.* at 1159–60; see also *id.* at 1160 ("It is unclear what facts could be uncovered at an evidentiary hearing that [defendant] did not have the opportunity to present to the district court. In any case, as the FTC points out, the disputed points appear to be questions of law, not of fact.").

293. See RESTATEMENT (THIRD) OF RESTITUTION & UNJUST ENRICHMENT § 51 (2011) (defining "conscious wrongdoer" and providing that conscious wrongdoers are liable for net profits attributable to the underlying wrong).

294. See *Commodity Futures Trading Comm'n v. Wilshire Inv. Mgmt. Corp.*, 531 F.3d 1339, 1347 (11th Cir. 2008) (vacating the award of restitution and remanding this case to reduce the amount of restitution granted for the defendant's misrepresentation and affirming the awarding of civil penalties and injunctive relief).

295. *Id.* at 1343–44.

order for restitution in the amount of customer losses was outside its equitable powers:

The equitable remedy of restitution does not take into consideration the plaintiff's losses, but only focuses on the defendant's unjust enrichment. . . . Accordingly, we conclude that the district court abused its discretion in awarding the full amount of customer losses. The proper measurement is the amount that Appellants wrongfully gained by their misrepresentations.<sup>296</sup>

However, two subsequent opinions from district courts in the Eleventh Circuit acknowledged the opinion but rejected the defendants' claim that the Eleventh Circuit opinion precludes consumer redress. The U.S. District Court for the Middle District of Florida chose to interpret the Eleventh Circuit opinion as similar to the Second Circuit opinion in *Verity*, which rejected measuring a monetary remedy against a wholesaler as the retail revenues, as opposed to the Ninth Circuit opinion in *Stepanchik*.<sup>297</sup> It seems difficult to misunderstand the Eleventh Circuit's intent, although it would have been helpful if that opinion had reversed the parts of its prior opinion that endorsed punitive damages and awarded consumer redress.<sup>298</sup> A second district court opinion in Florida, however, avers that the opinion does not "unambiguously demonstrate an intent to alter the available equitable remedy in a statutory enforcement action."<sup>299</sup>

The ability of the FTC and FDA in particular to secure measures of disgorgement that are significantly outside the mainstream of unjust enrichment in equity is disquieting. This is especially true for decisions that hold or imply that reimbursement or disgorgement of revenues or gross proceeds is a remedy in equity that is appropriate, traditional, or both. Equally disturbing is the ease with which federal courts ignore the boundaries set by the Supreme Court on remedies in equity and the authoritative discussion available in the Restatements.<sup>300</sup>

---

296. *Id.* (citations omitted); *see also id.* at 1345 ("The Third Circuit has concluded that an award of restitution under § 13a-1 measured in the amount of customer losses is generally improper.").

297. *See* Fed. Trade Comm'n v. RCA Credit Servs., LLC, 2010 U.S. Dist. LEXIS 73461, at \*37–40 (M.D. Fla. 2010) (discussing relief under Section 13(b) of the FTC Act).

298. *See generally* Fed. Trade Comm'n v. Gem Merch. Corp., 87 F.3d 466 (11th Cir. 1996).

299. *See* Fed. Trade Comm'n v. Home Assure, LLC, 2009 U.S. Dist. LEXIS 32055, at \*11 n.9 (M.D. Fla. 2009); *see also id.* at \*12 ("Additionally, an unmistakable (although imperfect) resemblance exists between (i) consumer redress in the amount of gross revenues and (ii) traditional money damages.").

300. *See* Great-West Life & Annuity Ins. Co. v. Knudson, 534 U.S. 204, 217 (2002)

Advocates for the federal courts might claim that the semantics of restitution are confusing and difficult to master and that courts are easily misled about how the terms should be applied. However, simple word searches in electronic databases indicate that published FTC case opinions make almost no mention of the First or Third Restatement.

Consider the following search results: (1) In the last twenty years the Federal Trade Commission was named as a party in 869 federal cases and the Commodities Futures Trading Commission was named in 655 federal cases; (2) For the agency subgroups of 869 and 655 cases, the First or Third Restatements were cited in only one case in each subgroup (by contrast, the First or Third Restatements were cited in a total of 966 federal cases in the last twenty years.); and (3) Dan Dobbs' authoritative treatise on remedies and Palmers treatise on restitution also had only one cite each for the Federal Trade Commission subgroup.<sup>301</sup> While the contrast in numbers is stark, it may not justify the conclusion that the courts are willfully ignoring the Supreme Court's boundaries or the counsel of the Restatements. However, it does suggest that the courts are disconnected and unwilling to seek out persuasive authority on their own.

In the meantime, the FTC and FDA approach is being applied to a wider area of the substantive law. A few cases outside of federal agency litigation already cite agency cases on restitution.<sup>302</sup> The FTC and FDA also aim to apply their disgorgement remedies beyond fraud. The FTC has announced plans to initiate disgorgement remedies in anti-trust cases,<sup>303</sup> and the FDA has already secured a number of huge settlements from

---

("Rarely will there be need for any more 'antiquarian inquiry' . . . than consulting, as we have done, standard current works such as Dobbs, Palmer, Corbin, and the Restatements, which make the answer clear."); *see also* *Sereboff v. Mid Atl. Med. Servs., Inc.*, 547 U.S. 356, 362 (2006) (discussing *Knudson*); *Grupo Mexicano de Desarrollo, S.A. v. Alliance Bond Fund, Inc.*, 527 U.S. 308, 318 (1999) (debating whether a preliminary injunction was relied traditionally accorded by courts of equity).

301. The data were the result of an informal and somewhat unsophisticated case search conducted on the LEXIS database. Agency subgroups were identified by searching for all cases in which the agency was included as a named party.

302. So far, this happens only on rare occasions. *See* *MJAC Consulting, Inc. v. Barrett*, 2006 U.S. Dist. LEXIS 49944, at \*11 (S.D.N.Y. 2006); *Consumer Prot. Div. v. Morgan*, 874 A.2d 919, 947-48 (Md. 2005) (citing an FTC case); *Dixon v. Ford Motor Credit Co.*, 1998 U.S. Dist. LEXIS 11992, at \*10 n.19 (E.D. La. 1998) (citing *Febre*).

303. *See* Stephen Calkins, *Civil Monetary Remedies Available to Federal Antitrust Enforcers*, 40 U.S.F. L. REV. 567, 569 (2006) (discussing the FTC's use of Section 13(b) of the FTC Act to obtain civil monetary antitrust remedies).

pharmaceutical manufacturers by avoiding disgorgement claims based on the manufacturer's alleged failure to follow FDA production standards.<sup>304</sup>

### X. Conclusion

Courts in equity, as well as the law of restitution and unjust enrichment, have the potential to keep pace with massive changes in the business and government environment for the purposes of offering advantageous and even unique remedies to corporate litigation. Technological change and the increasing importance of exotic forms of intangible wealth will only make monetary remedies in equity more relevant and applicable in the future. We are now prepared to respond to any interloping doctor at our next bar convention!

The case law from the nineteenth century is useful because it provides a snapshot of principles in equity before the federal government altered them in IP legislation. As a comparison for agency remedies, it also provides a useful reference for remedies awarded on the same basis of implied jurisdiction. With some exceptions, the snapshot reveals that key principles for the measure of monetary remedies in equity have not significantly changed even though the rationale may have been mislaid.

Similar to many of the points raised by Professor Rounds' article, this Article provides examples of the influence of trust law on the law of restitution and unjust enrichment.<sup>305</sup> The rationale for some of the applicable trust law warrants more attention, if only to improve our understanding of the underlying rationale for parts of the law of restitution and unjust enrichment and to state and define that law more accurately. Identifying this connection would be integral to promoting greater awareness of the commonality of monetary remedies in equity to many areas of substantive law that otherwise may have been thought to be independent.

---

304. See Eric M. Blumberg, *Universal Management, Abbot, Wyeth, Schering-Plough, and . . . : Restitution and Disgorgement Find Another Home at the Food and Drug Administration*, 58 FOOD & DRUG L.J. 169, 170 (2003) (discussing the FDA's plans to make claims for restitution against defendants that offer unapproved products as well as seek claims against established pharmaceutical companies for "significant violations of current good manufacturing practice (CGMP) requirements"). According to this article, the FDA has already secured significant results in substantial consent decrees (*Abbott*, \$100 million; *Wyeth*, \$30 million; *Schering-Plough*, \$500 million) for violation of CGMP. *Id.* at 170–71.

305. See, e.g., Rounds, *supra* note 36, at 336–51 (discussing trust law's influence on IP infringement mediation).

The defendant to a claim for unjust enrichment deserves an opportunity to prove her counter-restitution. Such a due process right is fully supported by existing case law and authoritative treatises. Aside from limited property cases, gross disgorgement as a matter of law is relatively rare and most of those cases can be explained public policy or equitable discretion. Agency cases flout the proposed rule with seeming impunity at least in the Ninth Circuit. Even when plaintiffs are entitled to gross disgorgement as a matter of fact or based on the defendant's default, almost half of the courts provide for some form of counter-restitution.

The standard for measuring indemnity for a trustee in default, assessing the benefit of the proposed counter-restitution, is already applied in a significant portion of cases relating to willful defendants and appears to be the modern standard for considering the services or labor of the defendant. Combined with exceptions for infringing expenses and other counter-restitution considered prejudicial to public policy, the benefit standard is simpler to understand and could prove sufficiently flexible to permit many of the fact patterns in the past that have demanded gross disgorgement as a matter of fact.

The FTC's mandate includes some reprehensible defendants. The sympathy of a court is unmistakable when it justifies gross disgorgement as a matter of law by asking why it would be fair or right for the court to allow the defendant counter-restitution for business expenses when the plaintiff was cheated.<sup>306</sup> The short answer is that the court only has jurisdiction to award equitable remedies—not remedies that necessarily seem "fair" or "right." The long answer is that when counter-restitution is not necessarily excluded, it is unlikely that very much counter-restitution will escape elimination after discounting the plaintiff's counter-restitution for the benefit to the plaintiff and eliminating all expenses that offend public policy. The FTC also has other choices: it can pursue the claim under Section 19 or Congress can provide statutory authority for what is a remedy at law. Punitive damage remedies awarded to government "prosecutors" in a process that denies counter-restitution as a matter of law better resemble remedies at law and therefore violate the spirit of the Seventh Amendment to the U.S Constitution.

---

306. See *Secs. Exch. Comm'n v. World Gambling Corp.*, 555 F. Supp. 930, 934 (S.D.N.Y.), *aff'd*, 742 F.2d 1440 (2d Cir. 1983) ("In any event, however limited the SEC's prior use of disgorgement, it is a remedy that gives courts flexibility to adjust the punishment for securities violations to fit the wrongful conduct and to accomplish Congress' objectives.").

This Article does not suggest that perfectly clear definitions or simple statements of the law would prevent the current state of FTC case law. The FTC does not seek simplicity or clarity and the courts neglect the source of their jurisdiction and the need for third-party authority like the Restatements. The FTC is currently pursuing Section 13 as a short-cut to avoid the more burdensome alternative of Section 19. Absent a firm reversal in the Supreme Court or legislative action in Congress, however, the gross disgorgement agency cases may remain unchecked and thereby add confusion and contradiction to a body of law that already has a sufficient inventory of both.



